4-1-2001

Rollins College Endowment Fund Pool: Evaluation and Proposed Changes [2001]

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April 2001

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Table of Contents

Table of Exhibits

EXECUTIVE SUMMARY

This report provides recommendations for the Rollins College Endowment Fund Pool investments in the coming year. The report is divided into three major sections. First, a general economic outlook is provided. The existing portfolio is then analyzed in detail. Finally, recommendations are made for changes to the portfolio.

The general economic outlook reports on historical trends in inflation, interest rates, and the stock market. Projections are forecasts are also made. In addition, the components of the existing portfolio are evaluated in detail, both on the basis of historical performance as well as projected performance. For the equity component, each industry represented is discussed, and then each equity in that category is evaluated.

The existing portfolio had a value of approximately $180,000 at the end of the first quarter 2001. Due to changes in market value over the last year, the proportions of money markets, fixed-income securities, and equities shifted away from the guidelines provided in the Fund Policy, as did the proportion of various industries and specific equities within the equities component.

A sum of $100,000 will be added to the portfolio prior to the implementation of recommendations. Our recommendations take this into account, as well as the shifting proportions held in the portfolio. Our objectives were to restore the appropriate proportions to the portfolio, eliminate those securities that were over-priced and had poor outlooks, and to add securities we felt were under-priced and had positive outlooks. In addition, we made recommendations to add both small- and mid-cap representation to the portfolio. The portfolio that results from the changes we recommend achieves these objectives.

The new portfolio has an asset allocation of 5% money markets, 20% fixed-income securities, and 75% equities. In the fixed-income component, we recommended that 5-year Treasury Notes be added, in addition to a position in a corporate bond fund. Within the equity component, we have evened out the industry representation and refined the specific equity holdings. Eliminations include Dow Chemical, GM, Bausch & Lomb, Coca-Cola, HCA Healthcare, Mattel, Black and Decker, AT&T, and Montgomery Emerging Markets. Additions include DuPont, International Paper, FuelCell Energy, Williams Companies, AOL-Time Warner, Sony Corporation, the Vanguard Utility Fund, the Federated International Fund, the FMI Focus Fund, and the Artisan Mid-Cap Fund. Each of these additions is discussed in detail.

FUND OVERVIEW

The Rollins College Endowment Fund Pool is governed by the Statement of Investment Objectives and Policies. This statement summarizes the guidelines for investment within the fund and provides the frame for all of the recommendations presented in this report.

The goal for average annual total return for the fund is 10.5%; this includes a 6% average annual distribution and a 4.5% average annual growth in principal. It is also anticipated that there will be a 1% average in additions to the fund, creating a total annual principal growth of 5.5%. The asset allocation policy for the fund is clearly spelled out. Equities should comprise 70%, with 25% in fixed income and 5% in cash (money markets).

Equities should provide appreciation of principal that offsets inflation and provides a growing stream of current income. Equities should include value stocks, large cap stocks, small/medium cap stocks, and international equities. The equities held in a single industry sector should not exceed 20% of the market value of the portfolio. Similarly, equities in a single company should not exceed 10% of the market value. The total equity fund should achieve returns (net of fees) at least equal to the S&P 500 Stock Index. No options, financial futures, non-marketable securities, selling on margin, or short selling should be used without explicit permission from the Committee.

Fixed income investments should be used to hedge against deflation to reduce the overall volatility of the fund's returns. Fixed income returns should be at least equal to an average of the three major bond indices (Merrill Lynch Corporate/Government Master Index, Lehman Brothers Government/Corporate Index, and Salomon Brothers Broad Investment Grade Index). At least 80% of the fixed income fund is to be invested in call-protected treasuries or agencies with a portfolio duration range averaging between four and ten years. Corporate bonds for a single issuer may not be held in excess of 25% of the bond portfolio. Tax-exempt issues cannot be held without explicit permission from the Committee.

At the close of 2000, the portfolio contained the following asset allocation: 2% in money markets, 17% in fixed income securities, and 81% in equities. The industry sectors are represented as follows in Exhibit 1:

Exhibit 1. Proportions of Industry Sectors Represented in the Fund (3/31/01)

Industry Sector	Percent of Total Portfolio
Basic Industries	2.71%
Capital Goods/Construction	8.53%
Consumer Staples	27.7%
Consumer Cyclicals	22.29%
Energy	2.43%
Transportation	3.31%
Utilities	1.30%
Financial	8.85%
International	17.48%
Technology	6.75%

The equity with the highest proportion of the portfolio was the NASDAQ 100, at 8.40%. The equity with the lowest proportion was News Corp Lyd ADR, at 0.90%.

At year-end 2000, the fund looked a bit different. The proportions at this time are presented below:

Exhibit 2. Proportions of Industry Sectors Represented in the Fund (12/31/00)

Industry Sector	Percent of Total Portfolio
Basic Industries	2.89%
Capital Goods/Construction	6.35%
Consumer Staples	20.77%
Consumer Cyclicals	6.00%
Energy	3.20%
Transportation	3.52%
Utilities	1.10%
Financial	9.70%
International	19.76%
Technology	9.25%

It is evident that changes in the first quarter 2001 altered the proportions in the portfolio. Therefore, it is important that, when making recommendations to the portfolio, allocation is considered.

During the last year, the market has suffered setbacks; as a result, the performance of the fund was not as high as was expected. The March 2001 amount in the fund was $181,542.80, while the year began with $200,000, showing a slightly negative overall return. A more detailed analysis will be provided in Section 3 of this report, Existing Portfolio Analysis.

GENERAL ECONOMIC OUTLOOK

INFLATION

Inflation has recently been increased because of a rise in energy prices. A further rise in energy prices would increase inflation relative to that growth (see Exhibit 3). However, prices seem to stabilize and the general economic slow down is very likely to put more pressure on the supply side to lower prices (see Exhibit 4).

Exhibit 3. Consumer Price Index 12-month changes in % (Inflation) [1]

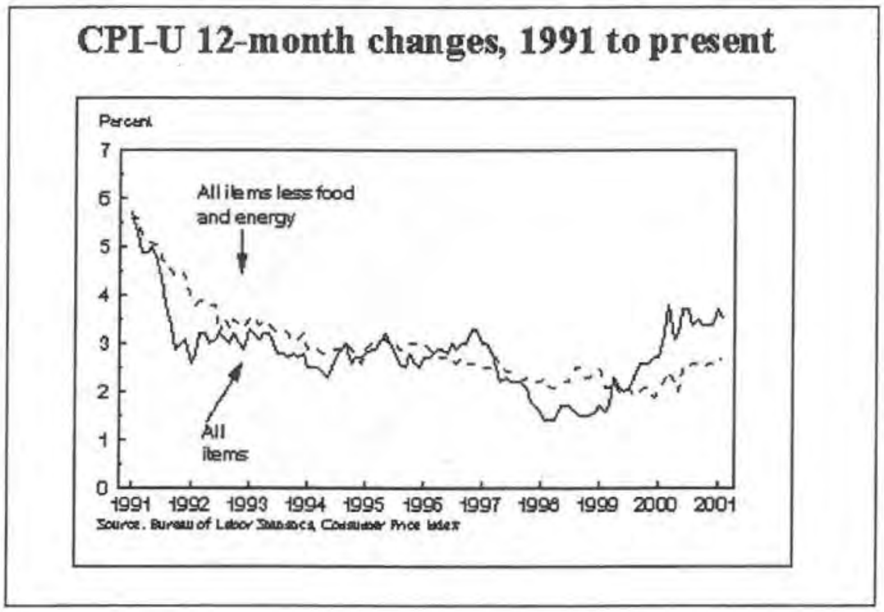
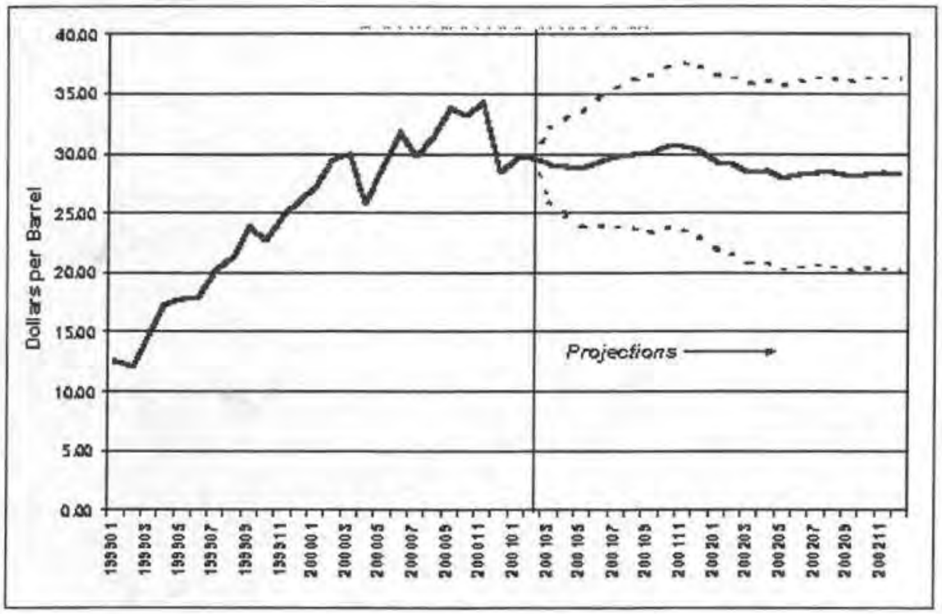


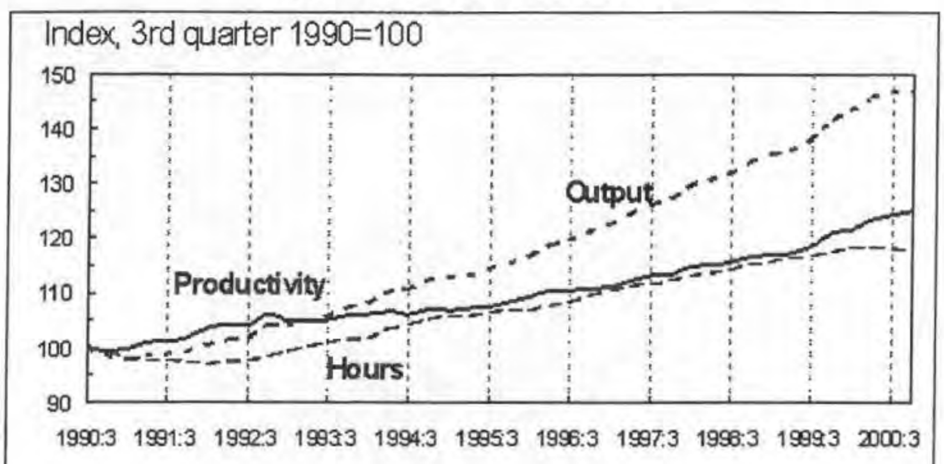
Exhibit 4. Price of Crude Oil and Forecast with 95% Confidence Interval[2]



In addition, several factors lead us to believe that inflation will fall relative to growth:

(1) Productivity increases due to the adoption of new technologies will continue aver the next few years. In fact, in spite of the slowdown of the economy that occurred over the past 9 months, productivity is still significantly higher than the same period in 1999 (see Exhibit 5).

Exhibit 5. Quarterly Productivity, Output, and Hours of All Persons in the Non-Farm Business Sector[3]



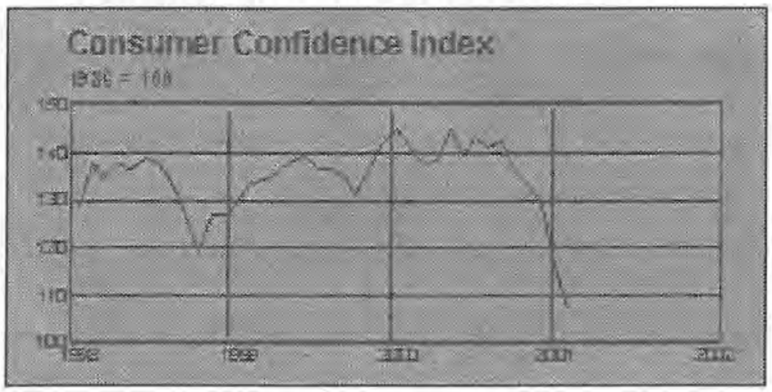
Note: Labor productivity is output per hour worked
Source: Bureau of Labor Statistics, March 6, 2001

(2) Monetary policy is still going in an anti-inflation direction. Federal reserve Chairman Alan Greenspan has a long history of acting to keep inflation under control and reaffirmed it in his recent testimony in front of the US congress[4].

(3) The continuing trend toward globalization has produced intense pricing pressures. This trend is still strong and will most likely continue to create anti-inflation forces at the international level.

(4) Finally, as more companies are announcing layoffs and consumer confidence is decreasing, it is very likely that inflation pressures will be reduced (see Exhibit 6).

Exhibit 6. Consumer Confidence Index[5]



INTEREST RATES

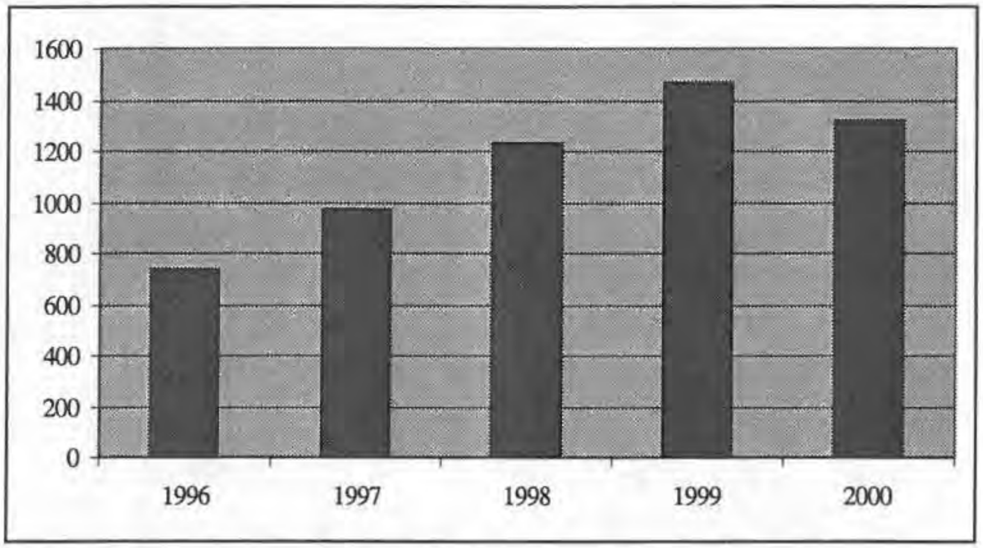
The American Federal Reserve has been using monetary policy when the US economy was booming to contain inflationary pressures and guide growth towards more sustainable values. This has been true throughout the year 2000 with interest rates reaching their high level of 6.5% in December 2000. After the signs of economic slowdown during the second half of 2000, the Federal Reserve first decided to stop the increase in interest rates. Later, when the economic slowdown seemed to intensify, the Fed quickly reacted by lowering the interest rates by 50 basis points on January 3, 2001, and then again at the end of January, bringing the Fed rate down to 5.5%. On March 20, 2001, the Fed decided to further cut the interest rates by 50 basis points[6].

Analysts at Merrill Lynch were expecting a cut of 75 basis points considering the recent Consumer Confidence data releases. Many analysts agree on a target of a 4 to 4.5% rate by mid-year and expect a rebound of the US economy by the end of 2001[7].

STOCK MARKET

The stock market returns, as estimated using the S&P 500 index, were rising steadily from 1995 to 1999. The S&P figure peaked at the end of the year in 1999, then went down in 2000 (see Exhibit 7). During the first quarter 2001, the S&P plunged dramatically; the March 31, 2001 figure was 1160.3, as compared to the end of year 2000 figure of 1320.3. The market dropped 13.8% in one quarter.

Exhibit 7. End-of-Year S&P 500 Figures 1996 – 2000

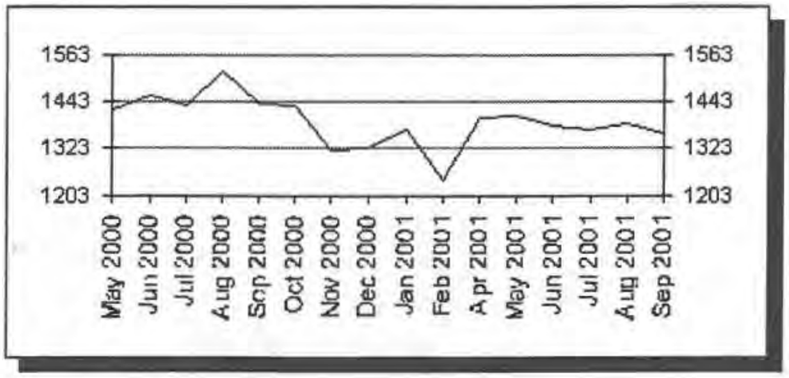


S&P 500 forecasts for the next 6 months are presented in Exhibit 8. Estimates reveal that analysts believe the downturn was most severe in February 2001, and that the market will stabilize in the coming months. While the astronomic jumps that were seen in the late 1990s are not predicted, neither is another sharp downturn (see Exhibit 9).

Exhibit 8. Market Forecasts for the Next Six Months

	Apr 2001	May 2001	Jun 2001	Jul 2001	Aug 2001	Sep 2001
Value	**1,398**	**1,407**	**1,381**	**1,370**	**1,383**	**1,357**
Standard Deviation	25.6	27.6	28.9	30.4	32.5	33.7
Correlation Coefficient	0.95	0.95	0.95	0.95	0.95	0.95

Exhibit 9. Market History and Forecasts



When the market suffers a downturn such as the recent trend, investors typically flock toward fixed-income securities. This tends to exaggerate the existing downturn in the market, which is what we are currently seeing. As the market stabilizes, this effect should be less pronounced.

Currently, we are in one of the most difficult kind of markets in which to stake a claim. The market has been adjusting to paying lower multiples for quite some time, and the fear of lower economic activity, particularly in the technology sector has been destructive as lower future estimates and lower multiples illustrate the definition of market risk.

Advance indicators suggest a slight GDP decline for the latest three-month period. The NAPM manufacturing index has been under 50 since August. The NAPM service index has stalled at very close to 50. Both of these indicate that the possibility of a negative GDP number for the latest quarter is very real. Thus, the chances of already being in a recession are likely.

If the best time to invest is when everyone is most pessimistic about the economy and there is little or no good new, then history would suggest that the current environment may be one of those times. Investing during a recession and looking to the future, not to what is occurring right now, may prove to be quite rewarding to those willing to take the risk.

As long as the US in not entering into a depression-like era, stocks will start to discount a more positive earnings outlook well before the economy starts to rebound. That time may come very soon. And if the market is fortunate to avoid a recession, it would be prudent to get back in before everyone else climbs aboard.

EXISTING PORTFOLIO ANALYSIS

Each of the ten industry sectors represented in the portfolio will be discussed in turn. The specific companies for which equities are held in these industries will be analyzed as well. A discussion of the money markets and fixed income securities will follow.

BASIC INDUSTRIES

The basic industries component of the portfolio consists of equity in Dow Chemical Company. The US chemical industry comprises a huge component of the US economy and is America's largest exporting sector; in 1998, more than $68 billion were generated in export sales. Chemical exports far exceeded agricultural exports ($51 billion) and aircraft and parts exports ($50 billion). The US chemical companies produce over 2% of US GDP and employ more than 1 million Americans[8].

The recent economic slowdown, however, is expected to impact the chemical industry. Demand is slowing and several firms are experiencing serious overcapacity issues. The cost of some raw materials such as polycarbonate (used to make CDs) has risen, thereby constraining one of the highest growth areas in the industry. These economic factors have led to several big mergers and acquisitions; for example, Dow Chemical is attempting to acquire Union Carbide US for over $9 billion. Consolidation in the industry is expected to continue[9].

A recent Supreme Court decision has also created a potential threat for the chemical industry; the EPA no longer has to consider implementation costs when creating national air quality standards. The Mercatus Center at George Mason University submitted a brief asking the court to consider balancing costs and public health issues; however, environmentalists viewed this decision as critical for environmental protection. One Supreme Court justice pointed out that many people objected to the 1970's act requiring a 90% reduction in auto emissions based on the same cost argument. In this case, the justice pointed out, the requirement drove the development of advanced technologies (e.g., the catalytic converter) that helped achieve the required reductions without the feared financial impact. Nevertheless, industry experts fear there may be some cost impact of this decision[10].

Costs in the industry are actually being reduced, however, through the use of businesses like ChemConnect, the world's largest online B-to-B chemical trading exchange. ChemConnect's charter members account for over half of worldwide chemical sales. As a result, price efficiencies are helping to reduce the bottom line for chemical companies[11].

The basic industries represent 2.71% of the overall portfolio and 3.38% of the equities component with a total of $4,924.92. All of the stock in this category is held in the Dow Chemical Company, which is analyzed next.

Dow Chemical Company (DOW)

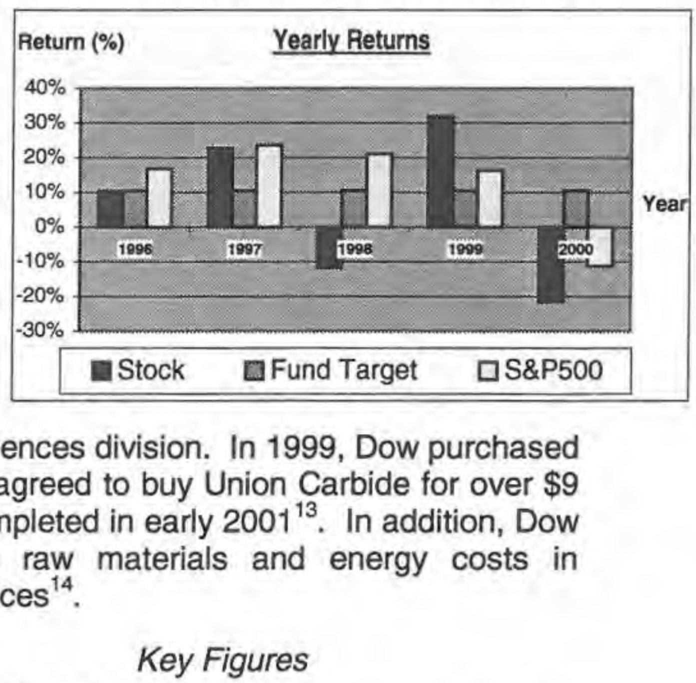
Company Overview

The Dow Chemical Company produces Styrofoam brand insulation, insecticides, and other chemicals and plastics. Some of these other products include performance-plastic products (adhesives, sealants) used in everything from footwear to car interiors, performance chemicals (acrylic acid), commodity chemicals (chlorine, caustic soda), and crude-oil based products. Dow Chemical is the number two chemical company in the US; the coveted number one slot is held by DuPont. The company has nearly 40,000 employees and reported an employee growth rate of less than 1% for 2000. Dow Chemical is headquartered in Minnesota, and operates in more than 120 plants in more than 30 countries around the world[12].

Fundamentals

Historical Returns

The returns for Dow Chemical Company stock met the fund target only three of the past five years. In 1996, the stock met the fund target return but fell below the S&P return. In 1998, the one-year holding period return was negative, while the S&P return was over 20%. In 1999, the company's stock took a large jump and ended the year with a return exceeding 30%; however, returns were down again in the next year, falling below that of the negative S&P return. These returns reflect the multitude of acquisitions and selling of units that Dow Chemical undertook in the late 1990's. In 1998, Dow sold its DowBrands unit as well as the Radian engineering unit; in addition, Mycogen was acquired as part of the Dow Agrosciences division. In 1999, Dow purchased ANGUS Chemical for $600 million and agreed to buy Union Carbide for over $9 billion. The Union Carbide deal was completed in early 2001[13]. In addition, Dow Chemical was confronted with rising raw materials and energy costs in combination with decreases in selling prices[14].



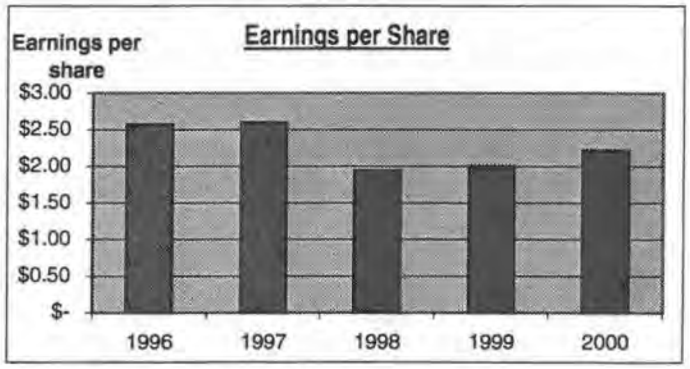
Key Figures

[illegible]	17.04	[illegible]	10.60%
[illegible]	NA	[illegible]	5.90%
[illegible]	14.43%	[illegible]	0.80
[illegible]	5.02%		

The price/earnings ratio is 17.04, compared to the industry average of 20.64 and sector average of 20.79. The low ratio for Dow is in line with the fact that its growth is very flat.

Dow's ROE of 14.43% is directly in line with the industry and sector averages of 14.5% and 15.17%, respectively. The ROA of 5.02% is similarly aligned (industry 5.12% and sector 5.81%). The operating margin for Dow (10.60%) is slightly (but not significantly) lower than the industry (11.26%) and sector averages (11.47%), as is the net profit margin. The debt-equity ratio is also slightly lower than the industry average (0.87) and the sector average (0.94)[15].

Earnings history



Earnings growth was consistently high for 1996 and 1997. In 1998, earnings dipped more than $0.50. The years 1999 and 2000 saw earnings begin to rise again; however, in 2000, earnings were still significantly below the 1997 high. Earnings were negatively impacted by high raw material and energy costs combined with lower selling prices[16].

Looking Forward

Dow Chemical had a 15.5% increase in sales and a 13.7% increase in net income for 2000. The acquisition of Union Carbide bolsters Dow's polyethylene business and creates a company big enough to rival top competitor DuPont[17]. However, profits for Dow Chemical, like others in the industry, are held in check by the high cost of materials and low selling prices. The stock price at year-end 2000 was over $36; however, by the end of January 2001 it had dropped to $32. The one-year target is listed at $37, not a significant increase from the year-end price in 2000. Earnings are expected to decrease slightly in 2001 and the increase in 2002[18].

CAPITAL GOODS/CONSTRUCTION

The capital goods/construction industry is comprised of a diverse set of sectors. The sectors that are represented in the current portfolio are the automotive and construction sectors.

One of the biggest factors that may impact the automotive industry is the rising price of gasoline. Although the impact has not been seen in the number of oversized vehicles purchased in North America, the introduction of electric cars is a sure indication that sustained high gas prices, political conflict in the Middle East, and environmental concerns are impacting the industry. Both Toyota and Honda have introduced electric cars, and both are losing money on the sales due to the incredible manufacturing expense. General Motors spent $350 million on the electric EV-1 but sales were extremely low and the company decided to stop making them. Ford is currently working on a fuel cell car that is supposed to hit the market in 2002, but is suffering from high costs as well. The industry argues that, barring a sudden breakthrough in electrochemistry, the electric car may be unattainable. Environmental regulations require that emissions be reduced (California law requires that 10% of all cars sold in the state must be all-electric or zero-emission by 2003), but industry leaders are lobbying for extensions due to the unattractively high cost of implementation[19].

The automotive industry saw both record sales and huge drops in sales in the year 2000. In 2001, it is predicted that sales will drop an additional 3% or more. Many companies, including the US Big Three (GM, Ford, and Chrysler), have entered significant restructuring plans and layoffs. Greater efficiency has also been sought through consolidation; GM now owns or has stake in 25% of the world's automotive output. In addition, the shorter production cycle that once gave the Japanese a competitive edge has been reached by other manufacturers[20].

The construction industry is one of the largest in the US, at an estimated $845 billion. Accordingly, "...construction activity [is] highly dependent on the health of the US economy, and in turn [has] a great impact. When the economy is strong, building activity typically rises, and in turn, employment rises. If employment overheats, inflation often kicks in. To ward off inflation, central bankers often raise interest rates. When interest rates rise, building activity tends to fall[21]." The recent slowdown in the economy has definitely impacted the construction industry. The Fed has been lowering interest rates in an effort to stimulate the economy, and as a result, construction companies may see an increase in business in the next year.

Like many industries, the construction industry may also be able to find greater efficiencies through the use of emerging technologies. One estimate states that the on-site use of Internet and networking technologies can cut delivery time in half. Most of these technologies are used for communication, then research, bidding for jobs, and project management/collaboration. It is projected that the use of technology for e-commerce will increase, especially in the B-to-B arena[22].

General Electric (GE) is also a company whose stock is included in the capital goods/construction portion of the portfolio. GE is involved in a diverse set of businesses; in fact, it is one of the largest and most diversified industrial corporations in the world, with literally dozens of subsidiaries. Business segments include aircraft engines, appliances, industrial products and systems, plastics, power systems, technical products and services, and consumer services. GE also owns the NBC television network[23]. The company is therefore considered a conglomerate, not operating in any specific industry or sector. Therefore, while the trends in the capital goods/construction industry are relevant to some GE segments, they are not expected to impact the company as strongly as they would companies operating solely in this industry.

The capital goods/construction industry represents 8.53% of the overall portfolio and 10.60% of the equities component with a total of $15,490.90. The stock in this category is held in Caterpillar, General Electric, and General Motors, which are analyzed next.

Caterpillar (CAT)

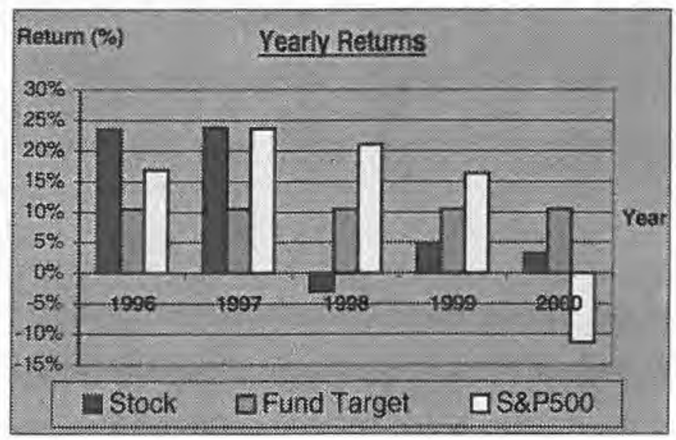
Company Overview

Caterpillar Inc, is the world's number one maker of earthmoving machinery. The company divides its business in three operating areas: Machinery, Engines and Financial Products. The company plants around the world and manages a global network of more than 200 dealers in more than 170 countries. Caterpillar also distributes boots, caps, and jeans under the brand CAT.

Fundamentals

Historical Returns

Caterpillar has brought annual returns of heterogeneous standing over the past five years. In 1996 and 1997, the company has outperformed the S&P 500. However, 1998 marks a turning point in the returns generated by CAT. In fact, the company spent enormous amounts of money on several acquisitions in 1998 including Perkins Engines, Veratech Holdings, Material Handling Crane Systems and Wrightech. In 1999, the company saw a slowdown in the agricultural, mining and oil exploitation industries and had to cut back its workforce and production substantially. At this time, investment in Caterpillar did not look as attractive as many other investments to many investors. However, during 2000, when the market was collapsing, Caterpillar maintained a positive return (boosted by a $1.33 dividend distribution). Overall, over the past three years, Caterpillar's returns have not met the fund's target.

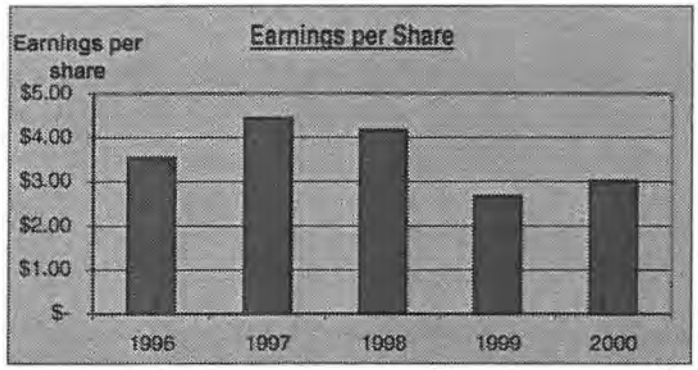


Key Figures

[illegible]	14.72	[illegible]	8.6%
[illegible]	0.78	[illegible]	5.4%
[illegible]	19.10%	[illegible]	2.69
[illegible]	3.92%		

The P/E ratio of Caterpillar is lower than the sector (16.75[24]) and the industry (15.35[25]) averages; as well as much lower than the S&P 500 average. The company also presents a low Beta, in line with its Sector (0.66[26]) and Industry (0.73[27]), which characterizes its low level of risk. The company is also standing well in terms of use of Equity with a higher than average ROE (compared to 14.92% for the sector and 16.34% for the industry[28]). In addition, ROA is slightly higher than the industry average (3.69%[29]) and much lower than the Sector average (5.36%[30]). The level of debt of the company is also much higher than the sector average (1.00[31])

Earnings history



Caterpillar earnings history has been quite irregular in the past five years. However, the level of earnings has remained high over this period and consistently led to higher dividend payments (form $0.6 in 1995 to $1.33 in 2000[32]).

Looking Forward

During the fourth quarter of 2000, the Company reached an agreement with Daimler-Chrysler to create a global engine alliance. The alliance will create a medium-duty engine joint venture, a fuel systems joint venture, research and engineering cooperation and combined purchasing volume focused on procurement synergies. The alliance is expected to take effect in the fourth quarter of 2001 and should bring more revenue in the company while increasing the overall profitability of the business. Also, Donald Fites, former Chairman and CEO of the company retired in 1999 and was replaced by VC Glen Barton. Today, we can affirm that the transition has been successful and that Barton is leading Caterpillar in a promising direction.

General Electric (GE)

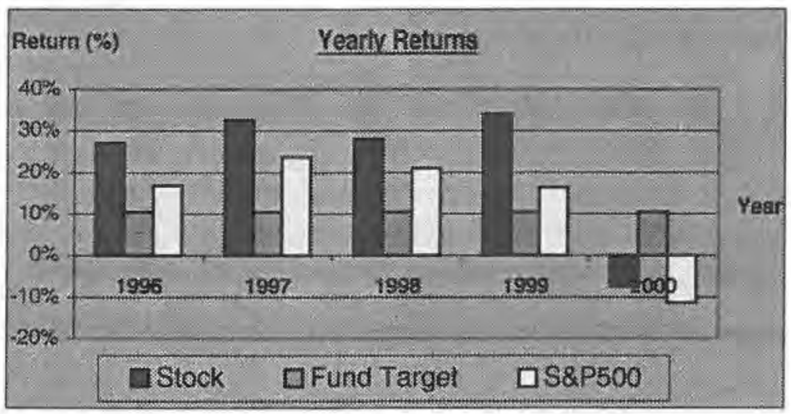
Company Overview

General Electric (GE) is one of the companies with the highest sales in the US. The company is a conglomerate that operates in several segments such as aircraft engines, appliances, industrial products and systems, plastics, power systems, and technical products and services. GE also owns the National Broadcasting Company (NBC). GE is also involved in financial services for businesses and consumers through its GE Capital operation. GE Capital accounted for approximately half of GE total sales in year 2000[33].

Fundamentals

Historical Returns

General Electric has had higher returns than the S&P 500 for four of the past 5 years. The company met the fund target in each of these four years. GE is known to deliver higher than average returns and has consistently delivered one-year holding period returns of more than 20% from 1996 to 1999. In 2000, the company one-year holding period return was negative while the S&P 500 was down more than 10%. GE's price has been falling in 2000 as a consequence of the overall market downturn in spite of results that do not seem affected by the slowing economy.



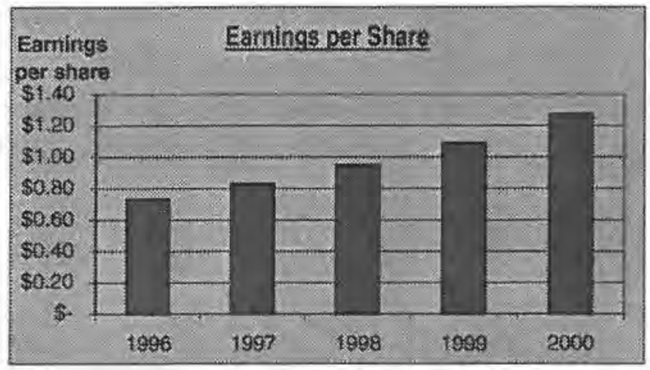
Key Figures

[illegible]	32.99	[illegible]	14.20%
[illegible]	1.13	[illegible]	9.80%
[illegible]	27.54%	[illegible]	3.99
[illegible]	3.00%		

With a price to earnings ratio of 32.99, GE is slightly more expensive than the average company in its industry (27.35[34]). GE also has a higher ratio than the S&P 500 (28.28[35]). This can be attributed to the general perception of GE as a solid company that is among the best prepared to face an economic slowdown. The company has a low Beta of 1.13, which is higher than the industry average of 1.02[36]; this implies higher returns than average and a higher underlying level of risk. Profitability indicators place GE in a very good position for Return on Equity (compared to industry average of 26.12%[37]) and at a relatively low standing in terms of Return on Assets (Industry average of 4.46%[38]). Operating and Net Profit Margins are in line with the industry average (14.33% and 10.03%[39] respectively) and lower than the S&P 500 averages (18.34% and 12.49% respectively[40]). As far as debt is concerned, GE is more leveraged than the Industry average (2.72[41] debt to equity ratio) and much more than the S&P 500 average (0.89[42])

Earnings history

The General Electric Company has shown an exemplary record of earnings over the past five years with an average 14% yearly increase in Earnings per Share value. This has been the result of the good operating results of the company combined with a well-managed stock repurchase program.



Looking Forward

In October 2000, GE announced the acquisition of Honeywell (HON) for $45 billion in stock and will assume $3.4 billion in Honeywell debt[43]. This acquisition introduces a lot of uncertainty in GE because Honeywell is a large company that has not been performing as expected in the past years. GE's ability to integrate and control Honeywell efficiently will be critical to its future success. However, we believe that the Honeywell acquisition will provide GE with the opportunity to bring Honeywell's under managed operations to the level of other GE divisions, thus greatly increasing profitability.

Another point of uncertainty in GE future is the November announcement that CEO and Chairman of the Board Jack Welsh would retire and be replaced by Jeff Immelt. Since a lot of the success of GE over the past decade has been directly attributed to Jack Welsh, this change introduces uncertainty in the future of the company. However, Jeff Immelt has been with GE for 18 years and has been president of on of the company's most profitable divisions: Medical Systems. In addition, the two leaders will co-exist at the top of the organization for one year before power is fully transferred to Immelt; this should lead to great results for the future of GE.

General Motors (GM)

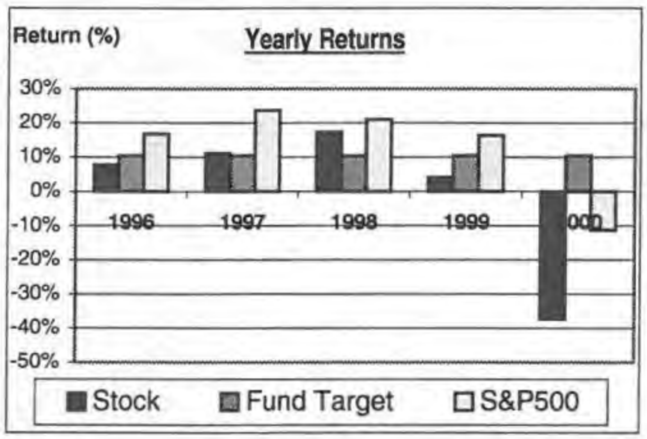
Company Overview

The General Motors Corporation designs, manufactures and markets automobiles, trucks and related parts, designs and manufactures locomotives and heavy-duty transmissions, and operates a financial services and insurance company. For the fiscal year ended in December 2000, revenues rose 5% to $184.63 billion. Net income from continuing operations fell 21% to $4.34 billion. Results reflect increased truck unit sales, offset by Oldsmobile phase-out and capacity reduction costs.

Fundamentals

Historical Returns

During the past five years, one-year returns have rarely met the Fund target and the stock performance has been consistently outperformed by the S&P500 index. Year 2000 was disastrous for the GM shares due mainly to a slowing economy and the uncertainty surrounding the GM, Ford DaimlerChrysler jointly owned internet portal operation that was expected to improve supply-chain efficiency. However, the shares have rebounded from their recent lows as the company enters a long awaited industry slowdown. Better than expected fourth quarter results at the Hughes Electronics subsidiary has also helped the shares.



Key Figures

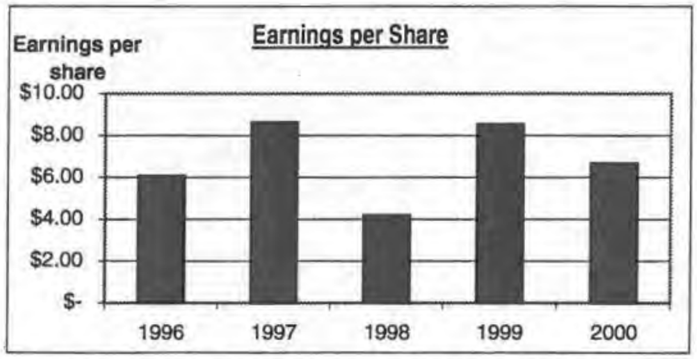
General Motors has a relatively low Price to Earnings ratio compared to the Industry average and the Sector average. The company also has a Beta lower than the Industry average but higher than the Sector average. Return on Equity as well as Return on Assets is lower than the Sector average but in line with the Industry average. Operating Margin is lower than the Industry and the Sector whereas Net Profit Margin is much lower than both the Industry and the Sector. The Debt to Equity ratio of the company is also higher than the Industry average and much higher than the Sector average.

[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	8.18	16.87	21.99
[redacted]	1.05	0.96	1.11
[redacted]	14.8%	16.8%	13.6%
[redacted]	1.6%	5.3%	1.9%
[redacted]	3.9%	6.6%	4.2%
[redacted]	0.97%	6.63%	4.52%
[redacted]	4.79	2.13	4.37

Earnings history

General Motors has a good earnings history despite a low in 1998, mainly due to a slight drop in sales. However the outlook for 2001 is a source of concern considering the firm's dependence on the state of the overall economy and the amount of accumulated inventory.. Consensus estimates for the year ending December 2001 are $3.16 per share[44], reflecting the negative outlook for the company.

Looking Forward



Following record volume of 17.4 million units in 2000, U.S. sales of cars and light trucks could fall more than 8% in 2001. GM should see a larger than average decline, as Asian and European automobile makers continue to gain market share and the company discontinues the Oldsmobile brand. Revenues in 2001 should decline, as a better product mix should only partially offset reduced volume. Margins will suffer as bloated dealer inventories force GM to lower production.

CONSUMER STAPLES

The consumer staples component of the portfolio is comprised of stocks in companies in the food and beverage industry as well as the healthcare industry. The US food and beverage industry has yearly revenues of nearly $500 billion, $430 billion of which comes from sales of processed foods and food products[45]. The healthcare industry is one of the largest in the US, with close to $1 trillion in revenues each year (this figure includes medical services not provided by the companies that provide related healthcare goods, such as Pfizer)[46]. These industries are both highly regulated by the government and constantly face changing standards and intense public scrutiny. The healthcare industry additionally faces accounting and pricing complications due to government legislation and insurance policies.

The food and beverage industry has been characterized by stagnation in both sales growth and price increases. In addition, food and beverage processors cannot pad their margins because of increasing competition with private label manufacturers. Customers are providing an increasing demand for these products, which are often less expensive than brand name products (e.g., Publix cola versus Coca-Cola). Distributors like supermarkets are behind these private labels, and so are both customer and competitor to food and beverage processors. This financial pressure has resulted to a common industry strategy: consolidation. Many processors are attempting to increase their size and relative power by acquiring small and medium-sized competitors. This trend characterizes many industries today as industries mature and growth must be squeezed out through cost cutting and acquisitions.

Another trend crossing industry boundaries is that of Internet business. While consumers frequently talk of grocery shopping online, many food and beverage processors are reluctant to sell online because they fear their distributors may feel antagonized and retaliate. Especially in the food and beverage industry, this is undesirable because of the high competition for shelf space. In addition, few people actually do purchase groceries on the Internet; the biggest provider of online grocery shopping, Priceline licensee WebHouse, folded suddenly in late 2000. It is likely that the online component of the food and beverage industry will remain in the business-to-business arena for the immediate future. It is here that some of the necessary cost efficiencies for food and beverage processors will be found. The Grocery Manufacturers of America Trade Organization is a single electronic marketplace sponsored by several big companies, including Proctor and Gamble, Coca-Cola, and Kraft Foods. In addition, General Mills, Pillsbury, and Land O'Lakes are creating an Internet-based logistics service that will allow them to enhance efficiency by sharing truck space[47].

Like the food and beverage industry, the healthcare industry's entry into e-commerce will most likely focus on the business-to-business component rather than business-to-consumer. Rapid increases in healthcare costs have occurred in the last two years, and 2001 is expected to bring the biggest surge in medical inflation in the last decade. Those in the healthcare industry are hoping the

Internet will be the savior. Companies are flocking to the Internet for record management, transactions, information services, and even remote health monitoring.

The healthcare industry is experiencing higher growth than the food and beverage industry, due in large part to the "graying of America," or the increasing population of aging baby-boomers in the US. These consumers are requiring an increasing level of medicines and medical care and therefore provide an enormous customer base for healthcare firms. In addition, the healthcare industry is characterized by the same consolidation trend that is hitting the food and beverage industry and many other industries as well[48].

The consumer staples industry represents 22.29% of the overall portfolio and 27.70% of the equities component with a total of $40,485.17. The stock in this category is held in Anheuser Busch, Bausch Lomb, Coca-Cola, HCA Healthcare, Johnson and Johnson, McKesson HBOC, Pfizer, and Proctor and Gamble, which are analyzed next.

Anheuser Busch (BUD)

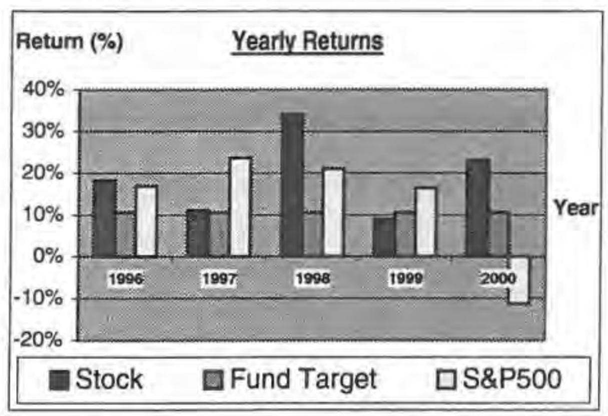
Company Overview

The Anheuser-Busch Companies includes the world's largest brewer, one of the largest theme park operators and manufacturers of aluminum cans in the world, and the largest recycler of aluminum cans in the world. The company makes over 30 different beers, and its Budweiser brand is the top ranked beer in the US. Anheuser-Busch has a licensing agreement with a Japanese brewer and owns over 50% of Mexico's Grupo Modelo (Corona). The company also runs breweries in the UK and China. Anheuser-Busch also makes labels and cans, runs grain elevators and malt plants, grows hops, mills rice, and develops real estate. The company has several theme parks, including Busch Gardens, Discovery Cove, and Sea World. Anheuser-Busch has over 23,000 employees and reported an employee growth rate of just over 1% in 2000. The company is headquartered in St. Louis, Missouri, and has breweries in all over the US as well as in 11 other countries[49].

Fundamentals

Historical Returns

The Anheuser-Busch stock outperformed both the fund target and the market in 1996, 1998, and 2000. In 1997, the return fell below the market return, and in 1999, the return fell below the fund target and the market return. In 1997, Anheuser-Busch faced scrutiny from the US Department of Justice for its strategies for maintaining distributor loyalty. Also in 1997, the company made a significant investment in brewing and selling specialty beers. In 1999, a failed test-market attempt at plastic beer bottles and wide-scale criticism for its advertising's appeal to kids both contributed to the company's slow performance. However, it is important to note that the BUD stock did not suffer a negative one-year holding period return in any of the last five years. Even in 2000, a year the market suffered a return of -11%, the BUD stock enjoyed a one-year return in excess of 20%. The stock's volatility relative to the market is extremely low; this point is discussed further in the next section[50].



Key Figures

The price-to-earnings ratio is 27.03, compared to an average P/E of 28.28 in the S&P 500, an industry average of 25.58, and a sector average of 28.66. The P/E ratio is directly in line with the market and industry averages. The beta for

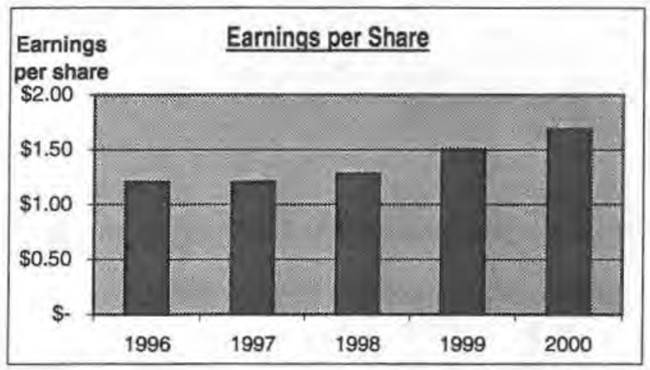
Anheuser-Busch is an extremely low 0.27, indicating far less volatility than is seen in the market.

P/E	27.03	Operating Margin	20.35%
Beta	0.27	Net Profit Margin	11.02%
ROE	40.15%	Debt Equity Ratio	1.30
ROA	10.46%		

Anheuser-Busch's ROE of 40.15% is much higher than that of the S&P (22.44%), and is slightly higher than the industry average of 35.80%. The ROA of 10.46% is slightly higher than the S&P average (8.81%) but in line with the industry average (10.15%). The operating margin of 20.35% is slightly higher than both the market average (18.28%) and the industry average (19.01%). The net profit margin of 11.02% is consistent with the industry and market averages. These ratios indicate that Anheuser-Busch is as profitable as comparable companies in the industry as well as the market average. The debt-to-equity ratio of 1.30 is slightly higher than both the industry and market averages and may reflect the recent common stock buyback, discussed in the Looking Forward section below[51].

Earnings history

Earnings growth was consistently high for the last five years. The ending value of $1.69 in 2000 is just over 40% higher than the value of $1.20 in 1996[52].



Looking Forward

Anheuser-Busch's performance has been consistently high across the board. The outlook for this company is very good. Both revenue and earnings per share are expected to continue increasing throughout 2001 and 2002[53]. While the beer market is mature, Anheuser-Busch has diverse interests and is also expanding into other international markets. Early in 2001, the company purchased some of a Chilean-based brewer to expand Anheuser-Busch's presence in Latin America. Anheuser-Busch stock also has very low volatility as compared to the stock market and can therefore be expected to continue providing reasonable returns over the coming year[54]. Another indication of the company's financial health is the February, 2001 approval from the Board of Directors to buyback 50 million shares of the company's common stock (about 11%)[55].

Bausch & Lomb (BOL)

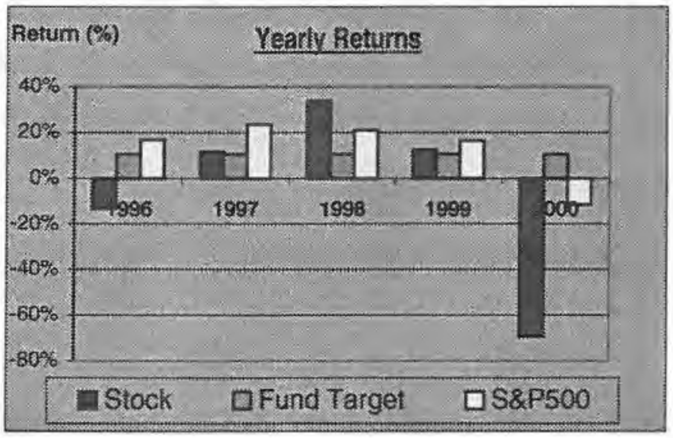
Company Overview

Bausch and Lomb, Incorporated develops, manufactures and markets healthcare products for the eye. The company is organized in three business segments: vision care, pharmaceuticals, and surgical.

Fundamentals

Historical Returns

In four of the past five years, Bausch and Lomb Incorporated had a one-year holding period return below the S&P 500. 1996 and 2000 generated returns that were well below the fund target return. 1996 was a very bad year for the company stock since the SEC opened an investigation (which was subsequently closed without fines nor penalty in 1997[56]) and a lawsuit was filed by shareholders (which resulted in a $42 million settlement in 1997[57]). In 1998 and 1999, the company went through a series of restructuring that consolidated its operations and reduced its workforce, entered the cataract and refractive surgery market and sold its sunglasses unit. In 2000, the company missed earnings estimates due to weakness in sales of surgical equipment, and announced more layoffs, thus driving the share price significantly down.



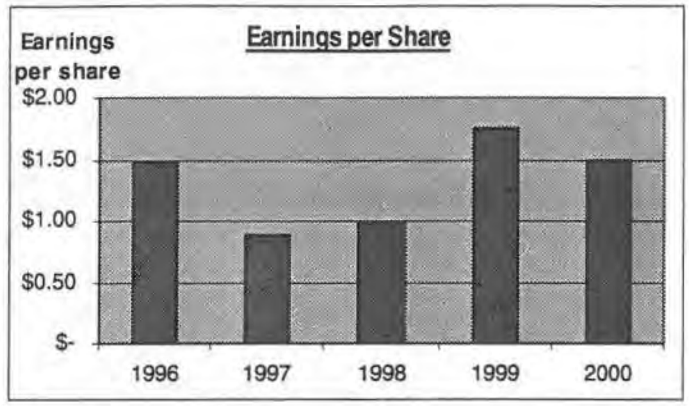
[P/E]	27.32	[Operating Profit Margin]	8.0%
[Beta]	0.27	[Net Profit Margin]	5.4%
[ROE]	7.66%	[Debt/Equity Ratio]	0.96
[ROA]	3.06%	[illegible]	

Key Figures

Bausch and Lomb Incorporated has a low P/E ratio compared to its peers in the same Industry (37.89[58] average) and the same Sector (41.81[59] average). Its Beta is much lower than the Industry average (0.66[60]) and the Sector average (0.55[61]). Return on Equity and Return on Assets are both much lower than the Industry average (20.77% and 11.03% respectively[62]) and the Sector Average (24.67% and 11.55% respectively). Operating and Net profit margin are much lower than the Industry average (21.10% and 13.40%[63] respectively) and the Sector average (18.63% and 13.48%[64] respectively). The company has a very high Debt to Equity ratio compared to the Industry (0.48[65]) and the Sector (0.40[66]) and could benefit form the easing on interest rates for the next few quarters.

Earnings history

Bausch and Lomb Incorporated has had very irregular earnings over the past five years. Earnings have stayed under $2.00 per share for each of the past five years. The consensus estimate is currently $2.35 per share[67] for the fiscal year ending December 31, 2001; this estimate capitalizes on the expected benefits of restructuring decision made in the past few years.



Looking Forward

In their comments on fourth quarter earnings, Bausch and Lomb warned that it expected to miss analysts' estimates for the following year due to poor sales of surgical equipment[68]. Considering the current slowdown in the global economy, the company could be severely impacted by a drop in capital spending over the next few months. In spite of the possible benefits of past restructuring efforts, the company is still very dependent upon the future state of the economy.

Coca-Cola Company (KO)

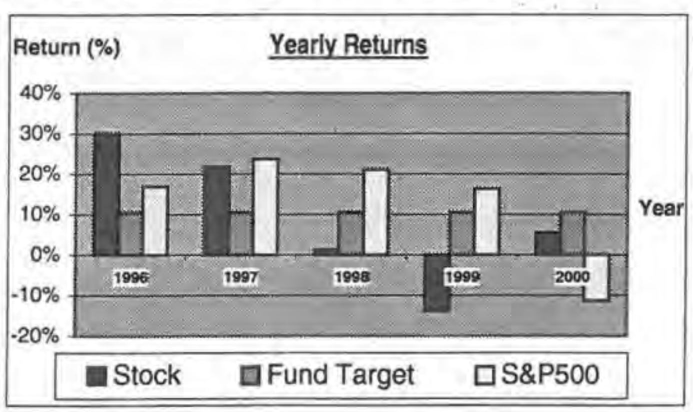
Company Overview

The Coca-Cola Company manufactures, distributes, and markets soft drink concentrates and syrups and markets and distributes juice and juice-drink products. More than 230 finished beverage products with the Coca-Cola label are sold in almost 200 countries. The company is the world's largest when it comes to soft drinks; its closest competitor is PepsiCo. Coca-Cola labels include Minute Maid juices, Dasani bottled water, POWERaDE, Sprite, Canada Dry, Dr. Pepper, Mello Yello, Fruitopia, Surge, Citra, and Schweppes. Coca-Cola also has both non-controlling ownership interests and controlling ownership interests in multiple bottling companies[69]. The company has over 37,000 employees and reported an employee growth rate of 30.8% for 2000. Coca-Cola is headquartered in Atlanta, Georgia and operates in North America, the Middle and Far East, Greater Europe, Latin America, and Africa[70].

Fundamentals

Historical Returns

The Coca-Cola Company stock was only able to outperform the fund target for 1996 and 1997. In 1998 through 2000, the company's one-year holding period return was below the fund target return of 10.5%. In 1998 and 1999, the return was also significantly below that of the S&P 500 return. In 2000, the return for Coca-Cola stock was back up, beating the market but still falling below the fund target return. In 1997, the company's problems began when the chairman died; soon after, the French government blocked the company's bid to buy Orangina. In 1998, more antitrust scrutiny resulted from Coca-Cola's agreement to buy Cadbury Schweppes brands. In 1999, the company really took a hit when products bottled in Europe were contaminated, and there was a ban or recall on all Coca-Cola products in some European countries for two weeks. The European Commission also investigated Coca-Cola for antitrust actions this year. In early 2000, the new chairman resigned. Later that year, the company eliminated nearly 5,000 jobs and agreed to pay nearly $193 million to settle a race discrimination suit[71].



Key Figures

The price-to-earnings ratio is 55.6, compared to an average P/E of 28.1 in the S&P 500, an industry average of 45.45, and a sector average of 29.47. Earnings growth for Coca-Cola was 9.2% in 2000 and is expected to be 25.9% in

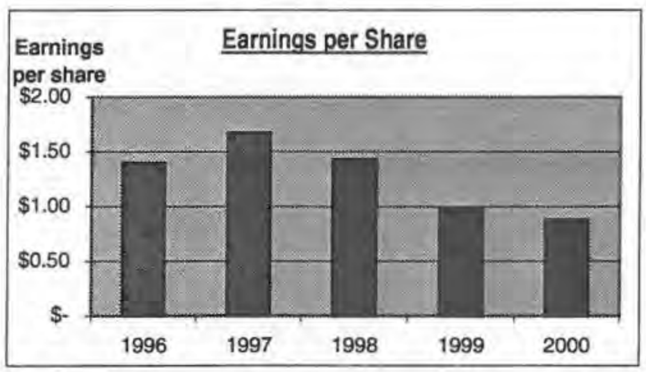
2001, according to Merrill Lynch[72]. That the P/E ratio far exceeds that of the expected growth in earnings suggests that the Coca-Cola stock may be overpriced. However, a higher P/E ratio may indicate that the company's stock is less risky than the industry average. Similarly, the beta for Coca-Cola is 0.7, indicating the stock has lower volatility than the market.

P/E	55.60	Operating Margin	18.04%
Beta	0.70	Net Profit Margin	10.64%
ROE	23.28%	Debt/Equity Ratio	0.61
ROA	9.80%%		

Coca-Cola's ROE of 23.28% is slightly higher than that of the S&P (22.44%), but is slightly lower than the industry average of 24.13%. The ROA of 9.8% is also a little higher than the S&P average (8.81%) and the industry average (9.63%). The operating margin of 18.04% is slightly lower than the market (18.28%) and slightly higher than the industry average (16.1%), as is the net profit margin of 10.64%, indicating slightly lower profitability than the market and slightly higher profitability than the industry average. The debt-to-equity ratio of 0.61 indicates that Coca-Cola is slightly better positioned than others in the industry in terms of ability to pay off debt[73].

Earnings history

Earnings growth was consistently high for 1996 through 1998, with a peak in 1997. In 1999 and 2000, the antitrust violations, contamination in Europe, and race discrimination lawsuit all contributed to a slight decline in earnings per share.



Looking Forward

Coca-Cola's performance has lagged over the past couple of years. There were many complications due to one-time factors, such as the race discrimination lawsuit and the contamination problem in Europe. Earnings growth rate is predicted to be much higher for 2001 than 2000; it is expected to increase from 9.2% to 25.9%. Coca-Cola management remains optimistic about 2001, claiming a solid expectation of 6-7% worldwide volume growth. The 12-month price objective for the stock is to increase it from $57.91 to $78.00 (a 34.7% increase)[74]. Coca-Cola is also planning a joint venture with Proctor and Gamble that would leverage both companies' immense resources to create a new company that is expected to have first year sales in excess of $4 billion[75].

HCA Healthcare (HCA)

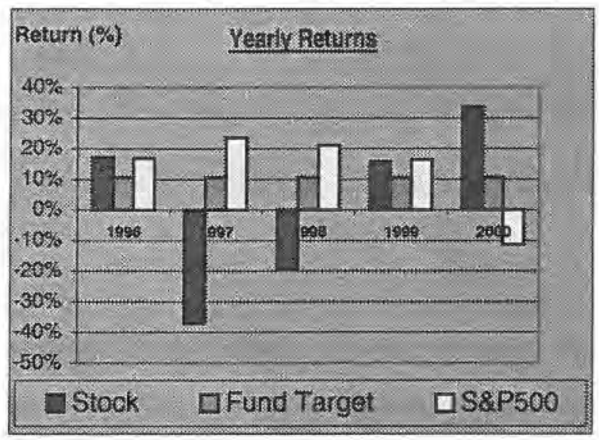
Company Overview

The Hospital Corporation of America recently became HCA – The Healthcare Company in 2000 after buying out several companies. The company is a leading health care services company that operates 207 hospitals and 83 surgery centers in 24 states, England and Switzerland. The company is US' number one hospital operator[76].

Fundamentals

Historical Returns

HCA has had a very troubled history, which is reflected in its historical return figures. In 1996, the company was at the peak of a series of acquisitions (150) and seemed ready to continue its rapid expansion. This year the one-year holding period return comparable to the S&P 500. In 1997 and 1998, however, the company delivered high negative returns due to an investigation from the US government for fraud. The CEO was changed and the company stopped its aggressive expansion and started to sell off large portions of its business. In 1999, the company continued to sell some un profitable operations as well as 120 medical buildings[77]. The long series of sales started to show a consistency and the sales of the building brought in a substantial profit, pushing the share price up and leading to a one-year return comparable to the S&P 500. The year 2000 was a very good year for HCA stock since it generated a one-year return in excess of 30% while the S&P 500 was below 10%. In fact, this year marked the end of HCA's troubles with the government (following a $750 million settlement[78]). At the same time the company started a series of acquisitions and changed its name from Columbia/ HCA healthcare to its present name.



[redacted]	109.06	[redacted]	3.6%
[redacted]	0.69	[redacted]	1.3%
[redacted]	4.13%	[redacted]	1.53
[redacted]	1.27%	[redacted]	

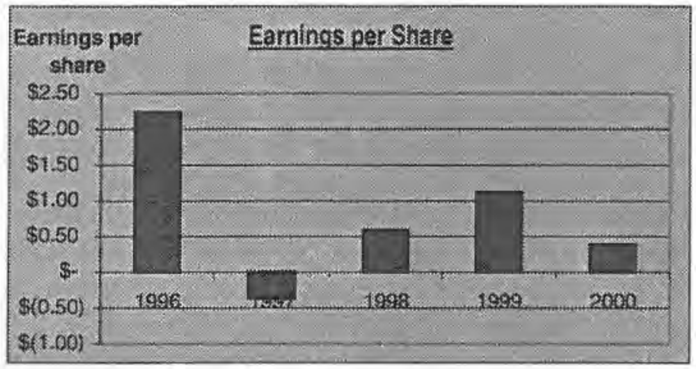
Key Figures

HCA - The Healthcare Company has very high P/E ratio compared to its peers in the same Industry (34.25[79] average) and the same sector (41.81[80] average). Its Beta is in line with the Industry average (0.63[81]) and slightly higher than the sector average (0.55[82]). Return on Equity and Return on

Assets are both much lower than the industry average (9.29% and 4.15% respectively[83]) and the sector Average (24.67% and 11.55% respectively). The same is true of Operating and Net profit margin that stand lower than the Industry (8.65% and 3.84%[84] respectively) and the sector (18.63% and 13.48%[85] respectively). The company also has high levels of debt relative to equity compared to the industry (1.09[86]) and the sector (0.40[87]).

Earnings history

Earnings have reflected the company's tumultuous history with high numbers in 1996 and 1999, and negative earnings in 1997. 2000 had brought a modest $0.39; even if the company beat earnings estimates every quarter[88] while most of the market was doing the opposite. The consensus estimate for 2001 is currently an optimistic $1.85 per share[89].



Looking Forward

In 2001, HCA and HEALTHSOUTH Corporation have announced their intention to complete during the first quarter, the sale of HEALTHSOUTH medical center in Richmond, Virginia to HCA. HCA has confirmed its strategy of focus on its existing facilities by making significant investments throughout the year 2000. However, it appears that the current price of the company already reflects a very optimistic view of the potential future benefits of this strategy.

Johnson and Johnson (JNJ)

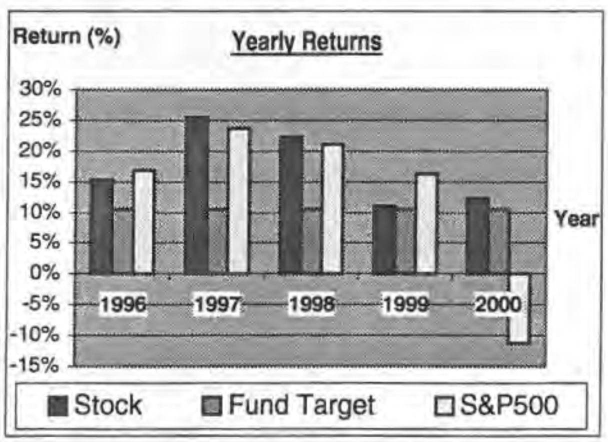
Company Overview

Johnson & Johnson is one of the largest health care products and drug manufacturers in the world. The company manufactures and sells a wide variety of healthcare products in three business segments, consumer, pharmaceutical, and professional. Consumer products include Band-Aids, Neutrogena skin care products, Tylenol, and Motrin. Pharmaceutical products include anti-infective, cardiovascular, contraceptive, gastrointestinal, oncology, and other treatments. Professional products include surgical tools, wound management products, diagnostic equipment, and disposable contact lenses. Lately, Johnson & Johnson has become more interested in biotechnology. Biotech drugs contributed more than 10% of sales for the company in 2000. The company has nearly 98,000 employees and reported an employee growth rate of 5% for 2000. Johnson & Johnson is headquartered in New Jersey and operates in more than 50 countries. Its products are sold in more than 175 countries worldwide[90].

Fundamentals

Historical Returns

The Johnson & Johnson stock exceeded the fund target return as well as the S&P return in all of the past five years except for 1999. The stock's return peaked in 1997, with a one-year holding period return of just over 25%. The most significant event in 1997 was the acquisition of the over-the-counter brand Motrin. In 1999, the Johnson & Johnson stock return fell below the market and just made the fund target. The 1999 performance lagged due to several factors. First, the impact of several negative events in 1998 was seen in 1999, including the loss of several drugs in the late development phase, the loss of rights to an anemia drug, and loss of market share for coronary stents.



In 1999, more negative events further impacted the return, including three patent-infringement suits. In 2000, however, the company's stock performed very well, providing a return in excess of 10% while the market showed a return of less than negative 10%[91]. The strong return in 2000 was due both to strong performance, especially in the skin care franchise, increasing pharmaceutical sales, and decreased selling, marketing, and administrative expenses[92].

Key Figures

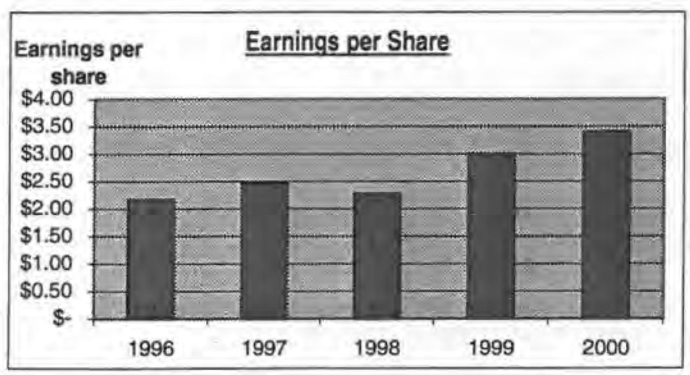
The price-to-earnings ratio is 25.74, compared to an average P/E of 28.28 in the S&P 500, an industry average of 42.43, and a sector average of 41.81. The P/E ratio is directly in line with the market average but is significantly lower than the averages for the industry and sector, indicating that Johnson & Johnson is considered less risky than its peers. In line with this indicator, the beta for Johnson & Johnson is a low 0.55, indicating far less volatility than is seen in the market.

[illegible]	25.74	[illegible]	22.16%
[illegible]	0.55	[illegible]	16.47%
[illegible]	27.08%	[illegible]	0.19
[illegible]	15.84%	[illegible]	

Johnson & Johnson's ROE of 27.08% is slightly higher than that of the S&P (22.44%), and is slightly lower than the industry average of 31.92%. The ROA of 15.84% is higher than the S&P average (8.81%) but in line with the industry average (15.53%). The operating margin of 22.16% is slightly higher than the market average (18.28%) but slightly lower than the industry average (22.36%). The net profit margin of 16.47% is higher than the market average (12.49%) but consistent with the industry average (16.33%). These ratios indicate that Johnson & Johnson is as profitable as comparable companies in the industry as well as the market average. The debt-to-equity ratio of 0.19 is extremely low, both as compared to the industry (0.34) and as compared to the market (0.89), indicating a very healthy ability for covering debt.

<ins>Earnings history</ins>

Earnings growth was consistently high for the last five years, with the exception of a small dip in 1998. The ending value of $3.40 in 2000 is just over 56% higher than the value of $2.17 in 1996[93].



Looking Forward

Johnson & Johnson's performance has been consistently high across the board. The outlook for this company is very good. Both revenue and earnings per share are expected to continue increasing throughout 2001 and 2002[94]. The healthcare industry is growing at a fast pace and can be expected to continue doing so due to the "graying of America" and the introduction of drugs to developing nations. Johnson & Johnson has demonstrated an ability to capture this market and be a market leader. Johnson & Johnson stock also has very low volatility as compared to the stock market and can therefore be expected to continue providing reasonable returns over the coming year[95].

McKesson HBOC (MCK)

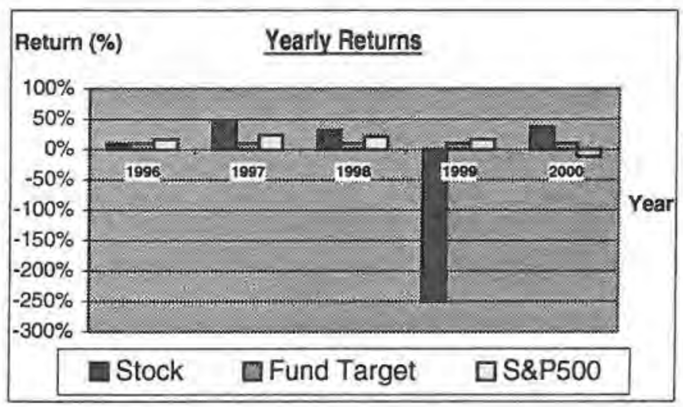
Company Overview

McKesson HBOC is a healthcare services company operating in three segments. The Health Care Supply Management segment is a wholesale distributor of ethical and proprietary drugs, medical-surgical supplies and health and beauty care products in the US and Canada. The Health Care Information Technology segment operates internationally, delivering enterprise-wide patient care, clinical, financial, managed care, strategic management software solutions and other services to healthcare organizations. The e-Health segment provides Internet-based clinical services[96]. In 1999, McKesson acquired HBO & Company, a healthcare information technology services provider, forming McKesson HBOC. McKesson HBOC is now the largest distributor of pharmaceuticals in the US. The company has 21,000 employees and reported an employee growth rate of 14.6% in 2000. McKesson HBOC is headquartered in San Francisco, California[97].

Fundamentals

Historical Returns

The McKesson stock met the fund target return in 1996 but fell short of the average market return. Through 1997 and 1998, the stock performed well, exceeding the fund target return as well as the average market return. In early 1998, a stock split reduced the year-end 1997 price of $108 by half. By year-end 1998, the price was back up to $79.06. In 1999, the stock plunged to $22.58, showing a one-year return of –250% (adjusted for the split). In 2000, the one-year return was 37%; the stock price had increased over the year but still lagged behind its previously high values[98]. In 1999, the company was faced with accounting inconsistencies related to its acquisition of HBO & Company; as a result, fourth-quarter 1999 results were revised twice, prompting several shareholder lawsuits and the dismissal of several top executives. In 2000, exorbitant executive severance packages prevented the company from regaining its former strength[99]. However, it is notable that, in 2000, the company's stock did show a positive one-year holding period return, while the market return was negative, indicating that McKesson is still improving.



Key Figures

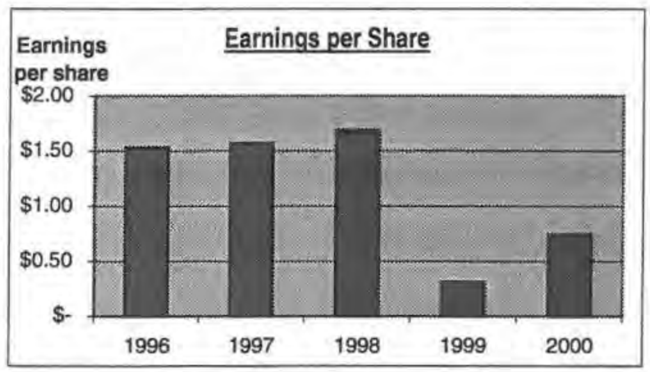
The price-to-earnings ratio is a staggering 185.76, compared to an average P/E of 28.1 in the S&P 500, an industry average of 27.66, and a sector average of 28.66. While earnings are expected to grow, the projected rate of growth does not come near 185%; that the P/E ratio is so much higher than the growth rate indicates the stock may be overpriced. However, a higher P/E ratio may indicate that the company's stock is less risky than the industry average. The beta for McKesson is 0.25, indicating the stock has much lower volatility than the market. The P/E ratio is also expected to return to a more normal value in 2001 and 2002[100].

[illegible]	185.76	[illegible]	0.45%
[illegible]	0.25	[illegible]	0.13%
[illegible]	1.26%	[illegible]	0.33
[illegible]	0.48%	[illegible]	

McKesson's ROE of 1.26% is much lower than that of the S&P (22.44%), as well as the industry average of 36.49%. The ROA of 0.48% is similarly lower than the S&P average of 8.81% and the industry average of 9.87%. The operating margin of 0.45% is also significantly lower than both the industry (14.04%) and market (18.34%) averages, as is the net profit margin of 0.13%, indicating very poor profitability relative to the market and industry. The debt-to-equity ratio of 0.33 indicates McKesson has far more equity than debt financing[101].

Earnings history

Earnings growth was consistently high for 1996 through 1998; in 1999, earnings suffered a serious setback, and increased only slightly in 2000. This setback can be primarily attributed to the serious accounting errors and associated chaos related to the acquisition of HBO & Company in 1999[102].



Looking Forward

McKesson HBOC suffered serious setbacks in 1999 and 2000. However, McKesson is a formidable competitor in an industry that is enjoying tremendous growth, and the McKesson stock and earnings figures indicate recovery is forthcoming[103].

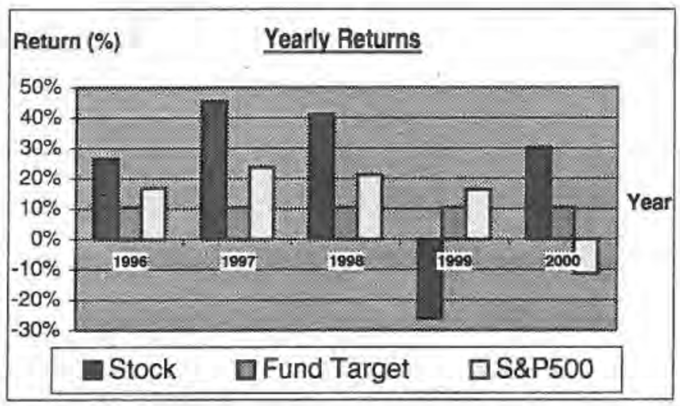
Pfizer, Inc. (PFE)

Company Overview

Pfizer, Inc. was formed in June 2000 when Pfizer and the Warner-Lambert Company merged; it is currently one of the largest pharmaceutical and consumer healthcare companies in the world. The company discovers, develops, manufactures, and markets medicines for humans and animals through four main operating units: Pfizer Pharmaceuticals Group, Warner-Lambert Consumer Division, Pfizer Animal Health Group, and Pfizer Global Research and Development[104]. Pfizer, Inc. is behind many well-known brands such as Halls, Tetra, Benadryl, Sudafed, Listerine, Desitin, Rolaids, Neosporin, Schick, Visine, Ben Gay, Lubriderm, Zantac 75, and Cortizone. The company has almost 51,000 employees, with a one-year employee growth rate of 9.7%. Pfizer, Inc. is headquartered in New York City and has operations in Africa, Asia and the Pacific Rim, Europe, North America, and South America[105].

Fundamentals

Historical Returns



The Pfizer, Inc. stock was able to outperform both the market and the fund target for 1996-1998 and again in 2000. In 1999, the stock showed surprisingly poor performance; a return of –26.2% was reported, while the S&P return was 16%. This slump in performance can be primarily attributed to Pfizer's difficulties with its agricultural products in 1999; sales were already down when the European Union banned Pfizer's animal feed antibiotics. Also in this year, Pfizer faced labeling restrictions on an already approved antibiotic, Trovan[106]. In 2000, stock performance was again satisfactory, beating the S&P by a wide margin.

Key Figures

The price-to-earnings ratio is 62.81, compared to an average P/E of 28.1 in the S&P 500, an industry average of 39.29, and a sector average of 39.31. Earnings growth from 1999 to 2000 was –29%; that the P/E ratio is so much higher than the growth rate indicates the stock may be overpriced. However, a higher P/E ratio may indicate that the company's stock is less risky than the industry average. The beta for Pfizer is 0.63, indicating the stock has lower volatility than the market. This lower volatility, coupled with the Pfizer returns that were higher

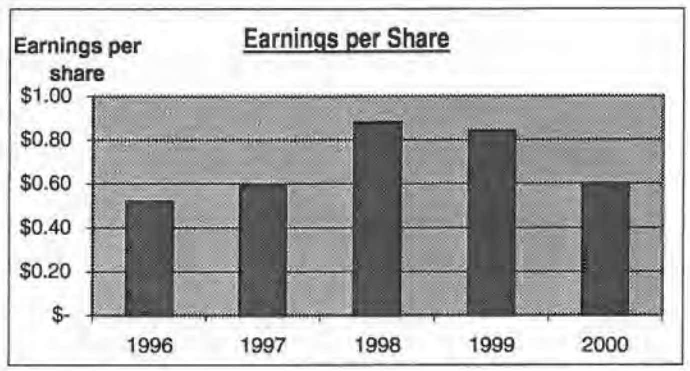
P/E	62.81	Operating Margin	20.3%
Beta	0.63	Net Profit Margin	13.1%
ROE	26.60%	Debt/Equity Ratio	0.45
ROA	11.83%		

than S&P returns in 2000, makes Pfizer an attractive stock to have in the portfolio.

Pfizer's ROE of 26.6% is higher than that of the S&P (22.44%), but is lower than the industry average of 32.91%. The ROA of 11.83% is similarly ahead of the S&P (8.81%) and lower than the industry average of 15.9%. The operating margin of 20.3% is also slightly higher than the market and slightly lower than the industry average, as is the net profit margin of 13.1%, indicating slightly higher profitability than the market and slightly lower profitability than the industry average. The debt-to-equity ratio of 0.45 indicates Pfizer is like others in the industry in terms of ability to pay off debt[107].

Earnings history

Earnings growth was consistently high for 1996 through 1999; in 2000, earnings suffered a 28% setback, due primarily to the $3.26 billion in merger-related costs in 2000.



Looking Forward

The merger that resulted in Pfizer, Inc. also resulted in one of the world's top five drug makers. Management has predicted that growth will reach 25% over the next several years[108]. In the US, the baby-boomer generation is aging and providing a sharp increase in the demand for Pfizer's products. The industry as a whole is expected to have continued growth, and Pfizer is well positioned as one of the market leaders to capture this growth. While some of Pfizer's financial ratios have lagged just behind the industry in the past year, the stock is trading at a slight premium relative to its peers in 2002 estimates[109]. In addition, the company is expected to announce an arrangement with Microsoft and IBM to sell software and services to doctors. This joint venture should enhance future returns as Pfizer maintains its long-term objectives of cost-cutting and entry into new markets.

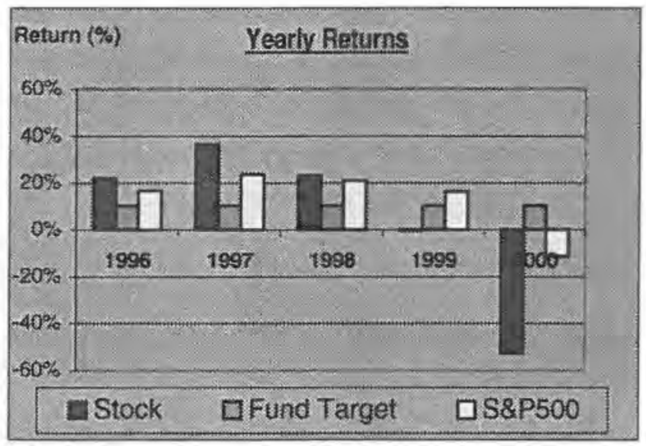
Proctor and Gamble (PG)

Company Overview

Procter & Gamble is the US's largest maker of household product. The Company's products fall into five business segments: Fabric and Home Care (Tide laundry detergent), Paper (Bounty paper towels, Charmin toilet tissue), Beauty Care (Cover Girl, Hugo Boss, Oil of Olay), Health Care (Crest, Pepto-Bismol, Vicks), and Food and Beverage (Crisco, Pringles, Sunny Delight).

Fundamentals

Historical Returns

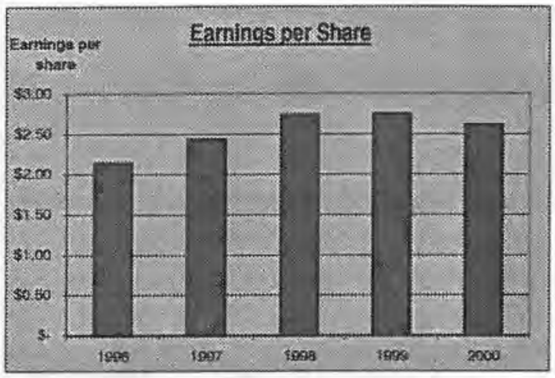


Procter & Gamble's yearly returns have been above 20% historically. However, since 1998 returns have been decreasing very sharply. This can be mainly attributed to the restructurings the company went through in order to meet its ambitious sales target of $70 billion by 2006, including two changes of CEO over the past three years. This placed the company in a very uncertain position that reflected negatively on the value of the company. In the year 2000, the company announced results that were disappointing compared to analysts expectations. The company explains its decrease in revenue by the effect of currency fluctuations on its operations, especially the weakness of the Euro.

Key Figures

The P/E ratio of Procter & Gamble is lower than the sector (28.66[110]) and the industry (27.66[111]). PG also exhibits a very low Beta even compared to the industry average (0.66[112]) and the sector average (0.56[113]), which implies a low level of risk. Return on Assets and Return on equity are in line with the industry and sector averages but are much higher than the S&P 500 averages (ROA of 8.75%[114] and ROE of 22.26%[115]). Operating margin is comparable to PG peer group while Net profit margin is higher than the sector (8.52[116]) and the industry (8.80[117]) average. The debt level of Procter & Gamble relative to its equity is slightly lower than the industry average (1.37[118]) and the sector average (1.28[119]) but remains higher than the S&P500 average (0.89[120])

P/E	25.8	Operating Margin	14.5%
Beta	0.34	Net Profit Margin	9.1%
ROE	32.2%	Debt/Equity Ratio	1.10
ROA	10.2%		



Earnings history

Procter and Gamble has had a strong history of earnings in the past five years. However, in 2000 earnings per share have been declining form \$2.75 to \$2.61. This constitutes a tangible evidence of the company's poor results over the past two years.

Looking Forward

In February 2001 the company announced the formation of a new joint venture with Coca-Cola. The new company will focus on beverage and snacks and would benefit from Coca-Cola's worldwide distribution system as well as from Procter & Gamble's research and development capabilities. The company will also benefit from a broad range of product offering. The new company, yet to be named, expects first year sales in excess of \$4 billion. This new venture creates a great potential for expansion for Procter & Gamble and may improve the company's results.

In addition, P&G recently announced job cuts for 9,600 employees (9% of its workforce) as part of its ongoing effort to reduce costs. This decision adds to the long list of mass corporate layoffs in the US but should improve the cost structure of the company and generate more profits in the future.

CONSUMER CYCLICALS

The consumer products sector as a whole is currently up 1.4%. The auto manufacturers/makers industry is up 15.7%, while the entertainment and leisure industry is up 0.6%. The home construction and furnishing industry is also up, by 1.1%, but the advertising and media industry is down by negative 2.6%. The retail industry is up slightly (0.3%). The textiles and apparel industry is down by negative 8%, and the travel industry is down by negative 10.9%[121].

This consumer cyclicals industry remains an investment arena for the patient investor. Industry fundamentals remain under duress, with little or no major positive news on the horizon. Investment performance in this area will probably continue to be determined by the overall macroeconomic conditions as well as the level of consolidation within the individual companies.

Secular trends such as demographics seem to be changing the way consumers view their preferences. Growth may trend toward the companies that can deliver the best value going forward. Consumers appear to be demanding the most innovative new products, and manufacturers understand that delivering the consumer value proposition is what will lead to increased market share.

The consumer cyclicals industry represents 6.00% of the overall portfolio and 7.30% of the equities component with a total of $11,853.54. The stock in this category is held in Black and Decker, Mattel, News Corp Lyd ADR, and Wal-Mart, which are analyzed next.

Black and Decker (BDK)

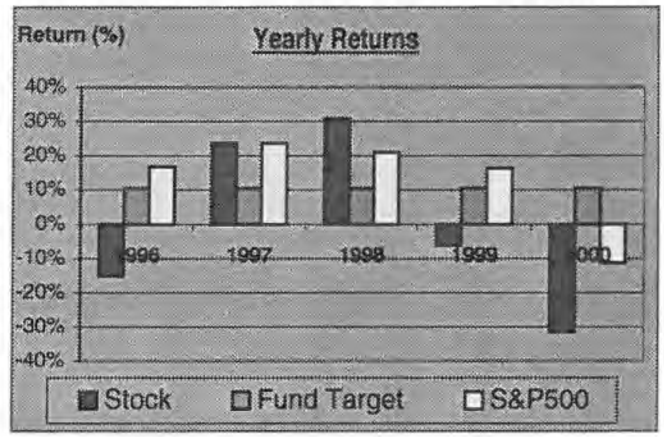
Company Overview

The Black and Decker Corporation manufactures and markets power tools, hardware and home improvement products, and technology-based fastening systems worldwide. The company manufactures power tools under the DeWALT and Black & Decker brand names.

Fundamentals

Historical Returns

The Black and Decker Corporation has been a relatively poor performer over the past five years in terms of one-year return. However, in 1997 and 1998, the company's stock price produced returns in excess of the S&P500 index. In 1999, the company went through important restructuring in order to turn around the substantial loss that market year 1998. The stock price suffered from the uncertainty surround this restructuring and the departure of EVP and heir apparent Joseph Galli. Year 2000 has seen sales stagnate for second consecutive year and prospects for the future become more uncertain. In the fourth quarter of 2000, Black and Decker took a $39.1 million restructuring charge. The company expects the charge, related to the realignment of manufacturing operations in Europe and North America, to generate about $20 million in savings by 2002.



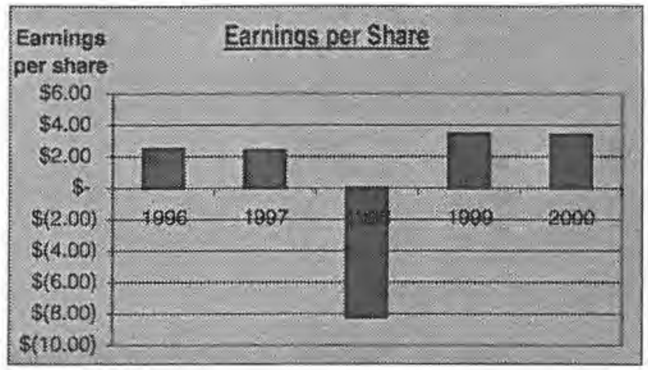
Key Figures

Black and Decker has a low Price to Earnings ratio compared to the Industry average and the Sector average. The company also has a much higher Beta than the Industry and the Sector, showing a higher volatility of share price. However, the company's Return on Equity is much higher than the Industry average and the Sector average. Return on Assets is higher than the Sector average but lower than the Industry average. Operating and Net Profit Margins are in line with the Industry average and higher than the Sector average. Black and Decker also has a high debt to equity ratio compared to the Industry average, but relatively low compared to the Sector average.

	[illegible]	[illegible]	[illegible]
[illegible]	11.0	17.1	16.6
[illegible]	1.34	0.96	1.02
[illegible]	37.5%	16.8%	28.5%
[illegible]	6.9%	5.3%	7.8%
[illegible]	11.0%	6.5%	11.4%
[illegible]	6.2%	3.5%	6.5%
[illegible]	1.80	2.12	0.80

Earnings history

BDK has long-term goals of average annual sales growth of 4% to 7%, EPS increases of 15%, and average annual free cash flow of $150 million. It has found it difficult to maintain those targets. Furthermore, the hardware and tools industry has under performed the broader market and the outlook for the industry remains weak. At December 31, 2000, BDK had remaining authorization to repurchase approximately 3 million shares as part of its active share buyback program. The consensus estimate for the year ending December 2001 is of $3.59 per share[122], slightly increasing form last year's figures.



Looking Forward

Sales in 2001 should largely reflect general U.S. economic activity; revenues should be flat to modestly lower in the first half of the year, but strengthen in the second half as the economy is expected to rebound. New product introductions, recent reductions in interest rates and the potential for retroactive federal tax cuts could stimulate second half demand. Sales volumes have weakened as major customers in the U.S. and Europe are experiencing softening sales and are continuing to adjust inventory downward. European sales continue to struggle from both an economic and currency perspective. Black and Decker operates in a highly competitive pricing environment which exerts pressure on margins. The company will need to introduce new products and contain costs to improve profitability. As tool sales are sustained for repairs and renovations, Black and Decker should perform similarly to its peers.

Mattel (MAT)

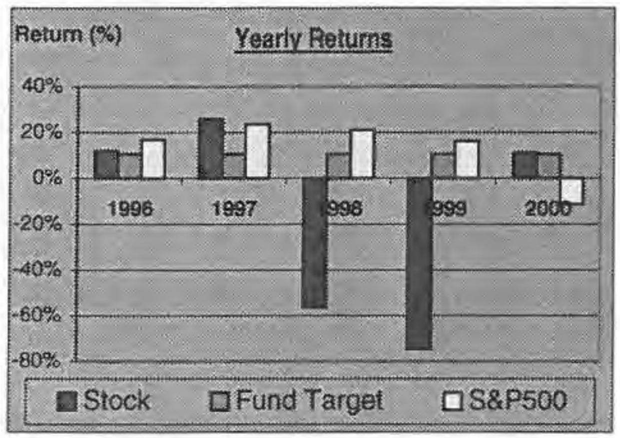
Company Overview

Mattel Inc. designs, makes, and sells Barbie fashion dolls and doll clothing and accessories, Fisher-Price toys and juvenile products, die-cast Hot Wheels, vehicles and play sets, Cabbage Patch Kids dolls and other large dolls, Scrabble, card games, pre-school toys and Disney-licensed toys.

Fundamentals

Historical Returns

Mattel has been meeting the fund target in terms of return for three of the five past years. However, 1998 and 1999 have provided large negative annual returns (over –50%). This situation was mainly due to large restructuring efforts undertaken after the departure of CEO and Chairman John Amerman, and the company's unsuccessful venture in the video game business (purchase of The Learning Company in 1999). After substantial losses incurred as part of The Learning Company fiasco, CEO Jill Barad was replaced by Bob Eckert (from Kraft Foods). The Learning Company was sold in 2000 and several job cuts were announced. The stock price seemed to have slightly recovered towards the end of 2000, outperforming the S&P500 by 20 points. Through mid-march 2001, the company's shares have greatly outperformed the index.



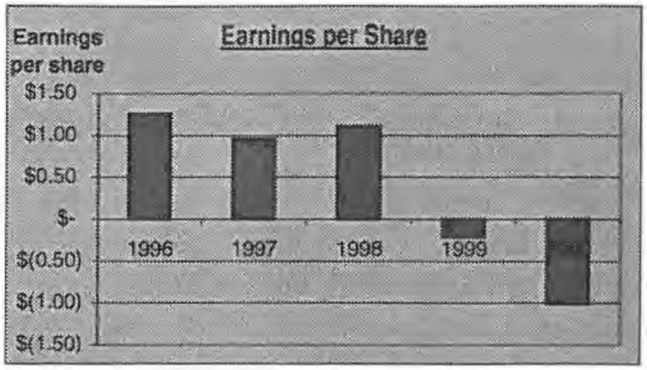
Key Figures

Mattel has a much higher P/E ratio than the Industry and Sector averages, due to a recent raise in future prospects. The Beta of the company is also much lower than the Industry and the Sector averages, indicating low volatility of the company's share price. Return on Equity and Return on Assets are still low compared to the industry and the Sector, but could benefit from recent restructuring. Operating margin and net profit margin are also low compared to the industry and the Sector. The company's Debt to Equity ratio is higher than the Industry average but lower than the Sector average.

	MAT	Sector	Industry
P/E	44.7	17.1	30.5
Beta	0.20	0.80	0.96
ROE	10.5%	16.8%	17.3%
ROA	3.7%	5.2%	9.2%
Operating Margin	4.8%	6.5%	11.3%
Net Profit Margin	3.6%	3.5%	7.3%
Debt/Equity	1.07	2.12	0.56

Earnings history

Net sales growth at MAT has appeared to stabilize over the recent past. In fact, 2000 revenues were below 1997 and 1998 revenues. EPS has started to show a decline recently as net income has declined. Actual earnings have been reported below or at expectations with few upside surprises.



Looking Forward

Mattel shares have recently appealed to investors as the brand name company has eliminated weaker lines and products. Also, cost-cutting measures and the prospects for a turnaround under new management has created enthusiasm for the stock. Having almost completed its restructuring, Mattel will need to focus on new products and improving it sales and profit growth. Analysts expect the company's sales from continuing operations to increase modestly in 2001 from 2000's $4.7 billion. Profitability could improve due to savings related to restructuring activities. With a Harry Potter movie expected in early 2001, Mattel's licensing rights on certain of the property's products should give business a short-term boost, but a hit movie is not a guarantee of merchandise success. Overall, Mattel may have rebounded, but still faces a daunting retail environment. The company's challenges in the market remain the same - it needs to create products that get retailers' attention (last year did not bring any "hot toys" to the market).

News Corp Lyd ADR (NWS)

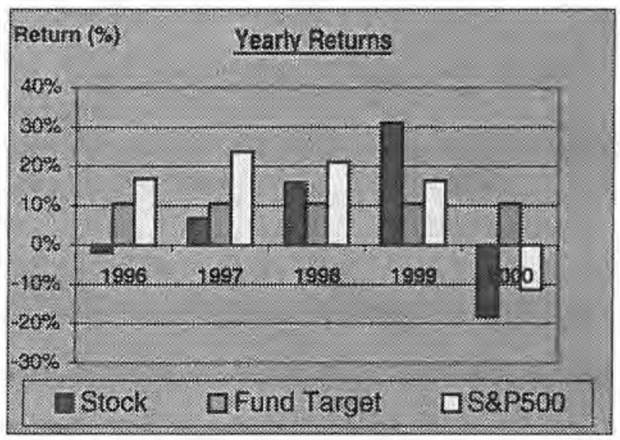
Company Overview

The News Corporation (News Corp) is a diversified international communications company engaged in the production and distribution of motion pictures, television broadcasting, publication of newspapers, magazines and books. The company is based in Sydney and owed at 30% by Rupert Murdoch and his family.

Fundamentals

Historical Returns

In 3 of the past five years, News Corp had a one-year holding period return below the fund target of 10.5%. 1996 and 1997 produced returns that were well below the S&P 500 as well as the fund target. Despite good results, the company growth has not been meeting the expectations of the market thus adversely affecting the share price of the company. 1998 and 1999 yield much better results due to the combination of several good operations for the company. In 1998, the acquisition of the Los Angeles Dodgers, the sale of 19% of Fox Entertainment in one the largest IPOs in history, the sales of TV Guide against a 21.5% interest in Gemstar-TV Guide International, the purchase of the remaining 50% of the Fox sports Network it did not already own, and the acquisition of 24% of Kirch PayTV in Germany. In 1999, the purchase of 11% of WebMD and 10% of OmniSky. 2000 has resulted in poor stock performance due in part to the major restructuring initiated by the company thorugh a spin-off of all its satellite holdings under the name Sky Global.



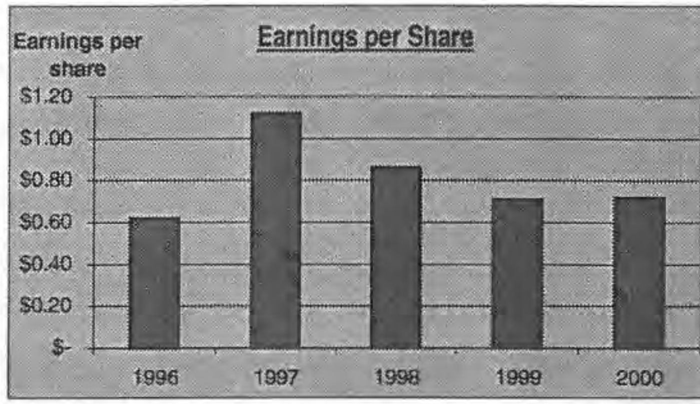
[illegible]	511.48	[illegible]	12.5%
[illegible]	0.88	[illegible]	6.3%
[illegible]	0.44%	[illegible]	0.44
[illegible]	2.32%		

Key Figures

The News Corporation has very high P/E ratio compared to its peers in the same Industry (24.51[123] average) and the same Sector (26.80[124] average). Its Beta is higher than the Industry average (0.68[125]) and in line with the Sector average (0.90[126]). Return on Equity and Return on Assets are both much lower than the Industry average (15.36% and 6.12% respectively[127]) and the Sector Average (5.26% and 13.49% respectively). Operating and Net profit margin are lower than the Industry average (19.18% and 8.73%[128] respectively) but slightly higher than the Sector average (11.22% and 7.65%[129] respectively). The company has a low Debt to Equity ratio compared to the Industry (0.86[130]) and the Sector (0.90[131]).

Earnings history

News Corp earnings have been quite irregular over the past five years. Since relatively high earnings in 1997, the company's earnings have declined and leveled off in the $0.70 range. The consensus estimate is currently $0.66 per share[132] for the fiscal year ending June 01, 2001.



Looking Forward

In 2001, News Corp announced it would cut several hundred jobs in its web operations. This shows that the company is affected by the general adjustment that the web industry has been going through for several months. In addition the company has purchased a stake in Netcom, China's state owned Telecom company. Also, OmniSky International, the joint venture between News Corp and spin-off Omnisky Corporation has launched the first integrated wireless e-mail and Internet service on mobile devices in Europe[133]. Finally, Hughes Electronics Corporation has rejected News Corporation's offer to acquire Hughes[134]. The future for News Corporation is promising in many areas, but many areas of uncertainties remain that could impair the company's ability to generate substantial gains in a sluggish economic environment.

Wal-Mart (WMT)

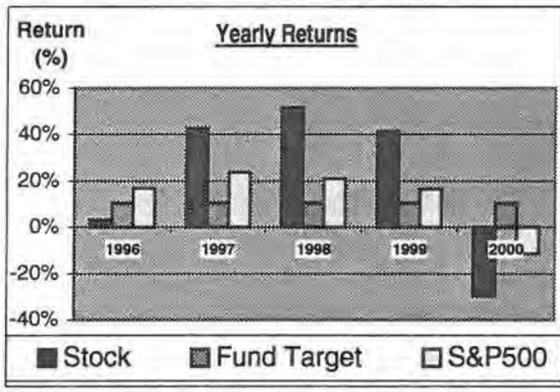
Company Overview

WMT operates discount department stores (Wal-Mart), warehouse membership clubs (Sam's Clubs) and a combination full-line supermarket & discount department store (Wal-Mart Supercenters) in the U.S., Puerto Rico, Mexico, Indonesia, Canada, Argentina, China and Brazil. Wal-Mart is now the largest retailer in North America and is focusing its efforts on the rest of the world.

FUNDAMENTALS

Historical Returns

Wal-Mart has produced yearly returns in excess of the S&P 500 and the fund target in three of the five past years. From 1997 to 1999, Wal-Mart expansion has fuelled the company's stock price, providing annual returns in excess of 40%. The year 2000 saw the share price of Wal-Mart fall along with the market. This was due to the problems the firm encountered in its efforts to expand in Europe and the replacement of CEO David Glass by former COO Lee Scott. In 2001, the share price was down about 20% from its early 2000 high. Operating profit increased 1.5% at Wal-Mart stores, and 10.8% at Sam's Clubs, and soared 36.1% in the international division. Discount stores and Supercenters account for about 68% of total revenues. Capital spending for fiscal year 2000 was $6.2 billion, before $10.4 billion for the acquisition of ASDS Group PLC. In fiscal year 2001, the company planned to add 165 centers, 40 discount stores and 25 Sam's Clubs in the U.S., and to develop and relocate about 100 stores internationally.



Key Figures

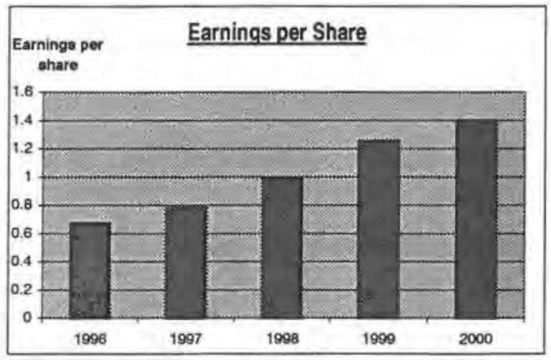
	WMT	Industry	Sector
[illegible]	35.89	26.80	33.98
[illegible]	0.95	0.90	0.93
[illegible]	22.8%	13.5%	20.6%
[illegible]	8.6%	5.3%	7.8%
[illegible]	5.36%	11.2%	5.64%
[illegible]	3.29%	7.65%	3.34%
[illegible]	0.76	0.90	0.84

Wal-Mart has a P/E ratio that is much higher than the Industry average and the Sector average. The company also has a Beta that is in line with the Industry and the Sector. Return and Equity and Return on Assets are both higher than the Industry average and the Sector average. Operating Margin and

Net Profit Margin are in line with the Sector average, but lower than the Industry average. Wal-Mart has a lower debt to equity ratio than both the Industry and the Sector.

Earnings History

Fourth quarter earnings were in line with expectations. Wal-Mart benefits from a shift of retail spending toward sellers of low priced products. Revenue and EPS growth has been convincingly strong due to successful expansion efforts, competitively priced merchandise, and a technologically enhanced infrastructure, which minimizes operating costs.



LOOKING FORWARD

Wall-Mart has been a leader in the development and implementation of retail information technology for years. The company's goals of increasing productivity, providing a complete assortment of merchandise, and passing cost reductions to customers through a low price strategy continue to set it apart from its peers. For instance, Wal-Mart has formed a joint venture with Accel Partners to expand the development of the company's website, Wal-Mart.com. Future domestic growth depends on the success of the Supercenter concept, and international prospects will continue to be the main driver of long-term growth.

ENERGY

Fourth-quarter earnings for the Energy sector are looking excellent once again. While only thirteen companies have reported so far, nine of them have reported a positive surprise, with aggregate surprise for the whole sector measuring 15.6%. While the performance has been amazing from the perspective of reported earnings, future uncertainties regarding production output have many believing that oil prices will continue their retracement of 2000's gains. Nonetheless, earnings were revised upward 1.6% and 2.7% for FY1 and FY2, respectively. *Chevron (CHV), Texaco (TX),* and *Exxon Mobil (XOM)* reported very strong earnings results. Exxon set a new record with reported annual profit of $17 billion.

In the Energy sector, the effects of crude oil prices on the economy have been well documented. However, in recent months the focus has shifted to natural gas as supply has fallen far short of demand. In fact, Natural-gas production has actually declined despite clear warning that this would be a cold winter. There appears to be no quick fix to the problem either, as many feel that demand will exceed supply for at least another year or two. Even though liquid petroleum gas offers more energy per unit of volume than natural gas, this substance is much more harmful to the environment.

One alternative energy source that is gaining support is coal. Earnings were revised upward 5.7% for the industry for FY2. Earlier this month prices for companies like *Arch Coal (ACI)* and *Consol Energy (CNX)* reached new 52-week highs. The drawback remains that coal is regarded as the most environmentally harmful of all the energy sources. In fact, it is considered safer to live near a nuclear powered plant than a coal-powered plant. However, efforts are underway to improve the coal burning process.

Whether it is crude oil, natural gas, or even coal, this sector has consistently been surprising on the upside, driving earnings estimates for the year ahead continually higher. Feelings are mixed as to whether or not that this year will be the year that prices return to a "normal level".

The energy industry represents 2.43% of the overall portfolio and 3.00% of the equities component with a total of $4,415.60. All of the stock in this category is held in Enron, which is analyzed next.

Enron (ENE)

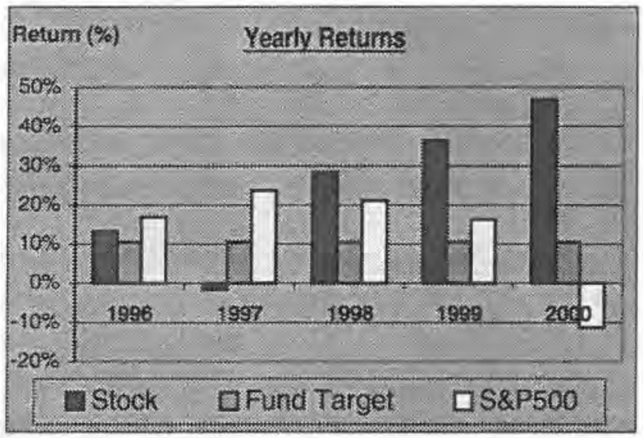
Company Overview

Enron Corporation delivers physical commodities, financial and risk management services; develops and operates energy facilities; produces electricity and natural gas; offers broadband services; and is developing a network platform to facilitate online business. The company is the US's largest buyer and seller of natural gas and operates a 32,000 miles gas pipeline system that spans 21 states[135].

Fundamentals

Historical Returns

Enron Corporation has been a very good performer over the past five years in terms of one-year return. However, in 1997, the company's stock price produced a negative one-year holding period return, due mainly to the uncertainty surrounding the purchase of the utility Portland General Electric. Through 1998 and 1999, the company pursued its international expansion and successfully completed the sale of several operations. During this period, sales nearly doubled and the stock price of the company reflected its good results. 2000 was a great year for Enron Corporation, with sales of more than $100 billion[136], more than doubling form 1999. Fourth quarter results were 17% above analyst estimates; the core Wholesale Services division continued to post substantially higher volumes, largely as a result of the highly successful Enron Online.



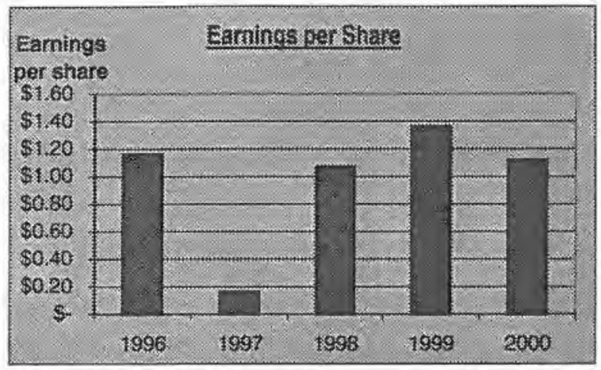
Key Figures

Enron Corporation has a high price to earnings ratio compared to the Industry average and the Sector average, this reflects the company's outstanding results. However, the company's Beta is much higher than the Sector average and the Industry average. Return on Equity and Return on Assets are both lower than the Industry and the Sector averages. The same is true of the company's Operating and Net Profit Margins. Also the company has a lower Debt to Equity ratio than the Industry and the Sector.

	[illegible]	[illegible]	[illegible]
[illegible]	51.97	25.46	34.04
[illegible]	0.67	0.18	0.42
[illegible]	9.8%	14.1%	11.7%
ROA	2.3%	3.3%	2.9%
Operating Margin	2.1%	14.8%	9.4%
Net Profit Margin	0.97%	6.63%	4.52%
[illegible]	1.22	1.76	1.54

Earnings history

Enron has a good history of earnings despite a poor year 1997 when the company suffered from the purchase of the utility Portland General Electric. The consensus estimates for the year ending December 2001 is $1.74 per share[137], with very good prospects for the company's future.



Looking Forward

Enron has been investing more than $100 million per year over the last two years to develop a national energy-service business for large commercial and industrial customers. For the longer-term volume growth and margins will be aided by the recent deregulation of European energy markets, in which Enron already has a strong presence. Enron operates in some of the largest and fastest growing markets in the world and, at this point, we believe that the Company will show continued strong earnings growth.

TRANSPORTATION

In terms of freight transport, the transportation industry is seeing enormous leaps in efficiency due to several factors. First, the standardization of containers has gone a long way toward making freight transport more efficient. These containers use common handling procedures and equipment, and can fit on multiple platforms, such as rail cars, ships, and trucks. Other factors include the technological advances that enable satellite tracking and automated handling. In addition, there is a strong trend toward outsourcing logistics; manufacturers no longer wish to manage the transportation component of their business. Part of this push is due to the adoption of just-in-time inventory management practices. Third-party logistics providers specialize in consolidating across several manufacturers to increase the efficiency of transport even more[138].

Another technology trend that is impacting transportation is e-tailing, or Internet retail sales. UPS and FedEx together control 80% of the delivery of goods purchased on-line. Although Internet business has taken a big hit recently, the transportation providers managed to minimize the impact they received. Air freight has been growing at a rate faster than the global economy and shippers like UPS and FedEx are pushing for increased supply chain efficiencies. The introduction of transportation exchanges on the Internet, where companies bid for deliveries, also helps to increase efficiency[139].

In the airline industry, a strong trend toward alliances is creating greater efficiency. These alliances usually involve code sharing (booking flights for partner lines as if they were a carrier's own lines); other benefits include sharing of resources like route maps and marketing strategies. Especially with increasing fuel costs and other economic impacts on operating costs, these efficiency gains are crucial to survival in the industry. The biggest alliance is Star, comprised of United Air Lines and Lufthansa; Star flies to 815 destinations in 130 countries. Star is working on a centralized management system. Other alliances include OneWorld (British Airways and American Airlines) and SkyTeam (Delta and Air France). The SkyTeam alliance is quickly becoming a major player; they have consolidated cargo as well as passenger services. British Airways has also been talking to SkyTeam. Inclusion of BA would provide a crucial European hub for SkyTeam and would break up the BA-American Airlines partnership that is threatening to break monopoly regulations. Although some airlines have attempted alliances without much success, alliances are clearly the way for the future in the airline industry[140].

The transportation industry represents 3.31% of the overall portfolio and 4.10% of the equities component with a total of $6,022.40. The stock in this category is held in Delta Air Lines and UPS (Class B), which are analyzed next.

Delta Air Lines (DAL)

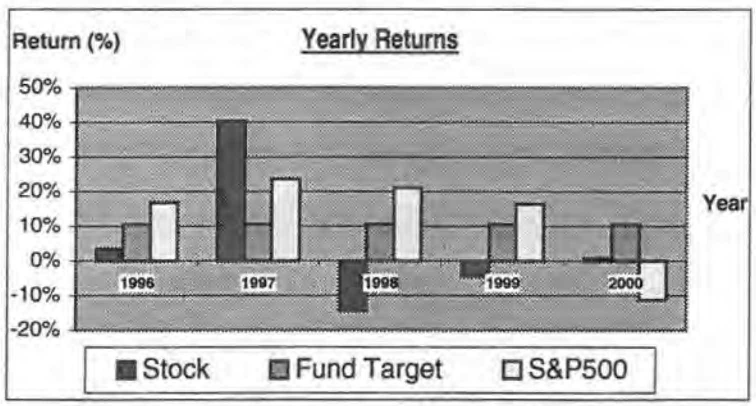
Company Overview

Delta Air Lines provides passenger and freight air transportation. The company is the third largest airline in the US in terms of operating revenues, and largest in the US in terms of aircraft departures and passengers enplaned[141]. Delta is based in Atlanta, Georgia, and also operates in hubs in Dallas/Fort Worth, Salt Lake City, Cincinnati, and New York City (Kennedy). With a fleet of about 800 aircraft, Delta serves over 200 US cities and flies to about 45 international destinations. Recent code-sharing agreements have expanded this reach to 220 US cities and 120 international destinations. The company also offers service through its low fare carrier Delta Express. Delta Air Lines has approximately 81,000 employees and reported an employee growth rate of 9.5% in 2000[142].

Fundamentals

Historical Returns

The Delta Air Lines stock return has been less than satisfactory over the past five years. In only one of these years, 1997, did the stock return exceed the fund target return. Similarly, the stock return exceeded the market return in 1997 and, while negative in 2000, did not reach the negative return that the market reached. In 1998, Delta had a 2:1 stock split, causing the apparent drop in return. In December 1997, each share was worth $119. After the split, in December 1998, each share was worth $52. Even while accounting for the split, the stock's value declined from that of the previous year (119/2=$59.50>$52). In December 1999, share prices were down again to $49.81, again producing a negative return. In December 2000, the share price was $50.19, still not regaining the pre-split price[143].



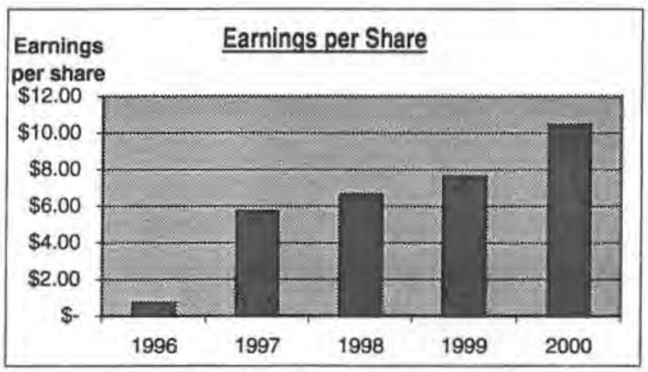
Key Figures

The price-to-earnings ratio is 5.62, compared to an average P/E of 28.1 in the S&P 500, an industry average of 14.80, and a sector average of 20.82. The low P/E ratio reflects both an expectation of decreased earnings growth for Delta (likely to be related to fuel prices) as well as a higher level of risk for the stock. Although the stock's beta of 0.78 indicates less volatility than the market, the specific problem of high operating costs that is impacting the transportation industry translates into a higher assessment of risk for the stock. This is consistent with the less than adequate returns provided by the stock over the past three years.

P/E	5.62	Operating Margin	9.78%
Beta	0.78	Net Profit Margin	5.54%
ROE	17.49%	Debt/Equity Ratio	1.08
ROA	4.33%		

Delta Air Line's ROE of 17.49% is slightly lower than that of the S&P (22.44%), but is slightly higher than the industry average of 16.95%. The ROA of 4.33% is lower than the industry average of 5.97, but both are lower than the S&P average of 8.81%, indicating a particularly low return on assets for the industry. This is not surprising when considering the huge operating costs associated with airline industry assets. The operating margin of 9.78% is similarly consistent with the industry average while both are lower than the market (18.28%). The net profit margin of 5.54% is also in line with the industry average (6.35%) and lower than the market average, indicating this industry is generally less profitable than the market as a whole. The debt-to-equity ratio of 1.08 indicates that Delta Air Lines is slightly better positioned than others in the industry in terms of ability to pay off debt[144].

Earnings history



Earnings growth has been consistently high over the last few years. In 1996, earnings per share were below $1, and then jumped to nearly $6 in 1997. Since this sharp increase, earnings have been consistently increasing. However, it is important to note that, prior to 1996, Delta's EPS was negative for at least five years. The positive value in 1996 was the first of its kind in years; the company has been able to maintain this drastically improved performance since then[145].

Looking Forward

Delta Air Lines has demonstrated long-term viability as it attempts to operate in an environment fraught with fierce competition and steadily increasing operating costs. Although recent increases in fuel prices have offset profits, Delta is well positioned to weather the economic storm. Earnings have been consistent since the turnaround in 1996 and are expected to experience mild setbacks in the coming two years. However, revenues are expected to increase, indicating that high operating costs are likely to be the root of any problems[146]. Because this symptom will be felt by all industry players, price increases are likely to result in order to maintain profit margins. In addition, the code-sharing agreements and SkyTeam alliance are expanding Delta's presence both domestically and internationally and are offering opportunities for efficiency gains that may help battle the high operating costs.

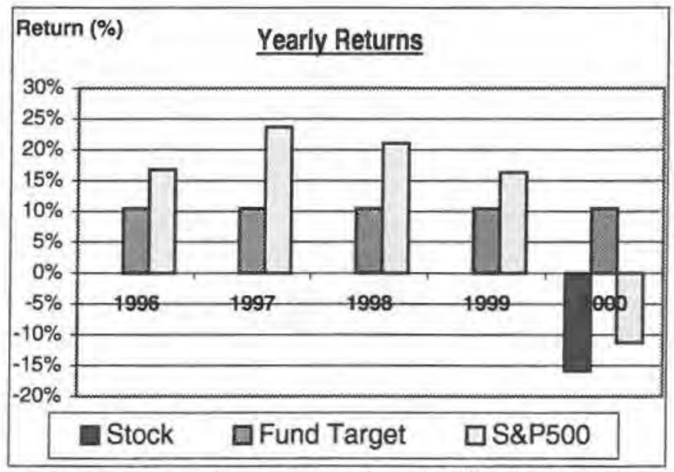
UPS (UPS, Class B)

Company Overview

United Parcel Service is primarily engaged in the delivery of packages and documents throughout the United States and in over 200 other countries and territories. UPS also provides logistics services, including supply chain management. For the FY ended 12/31/00, revenue rose 10% to $29.77B[147]. Net income totaled $2.93B, up from $883M[148].

Fundamentals

Return History



United Parcel Service has been privately owned until 1999 when the company sold 9% of its stock in a public offering valued at more than $5 billion. Consequently, return figures are only available for the year 2000. In 2000, UPS was hit hard by the slowing economy. Harsh winter weather conditions, continuing weakness in the value of the euro, softening cargo revenues and high utility costs also cut into the company's income. UPS' domestic volume has slowed to about 1% during the past two months, despite international export package volume growth of 15%. The company's logistics and international business are showing strong growth and it plans to continue expanding its global supply chain design and execution capabilities.

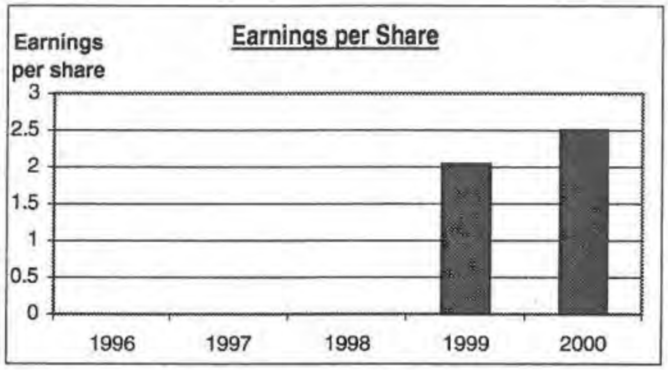
	UPS	Sector	Industry
P/E	22.7	20.8	21.8
Beta	NA	0.73	0.74
ROE	29.5%	18.6%	27.6%
ROA	13.6%	7.7%	12.8%
Operating Margin	15.5%	13.1%	14.4%
Net Profit Margin	9.9%	7.3%	9.1%
Debt/Equity	0.35	0.79	0.37

Key Figures

United Parcel Service has a higher P/E ratio than both the Industry and the Sector average. Beta calculation is not yet statistically significant. Return on Equity and Return on Assets are both higher than the average of the Industry and the Sector. The same is true of Operating and Net profit margins. The company also has a lower debt to equity ratio than its peers in the Industry and the Sector.

Earnings History

The company's earnings have been very good for the two years it had been publicly traded. Analyst consensus estimate for the year ending December 31, 2001 is $2.40 per share[149], slightly down from last year due to adverse economic conditions.



Looking Forward

UPS expects a "modest" growth in domestic volume, stronger revenue-per-piece and continued industry-leading margins despite the slower economy. Among large US freight transportation companies, we believe UPS have the best international growth prospects. In 2001, the company placed its largest-ever aircraft order, agreeing to buy sixty Airbus A300-600 cargo planes[150]. The company has also started a direct service to China on April 1 and expects to boost its revenue in the country to $300 million from $100 million during the first 12 months[151]. In addition, the company has agreed to buy Mail Boxes Etc. during 2001[152].

UTILITIES

The Public Utilities sector finished the last pre-announcement season of the year on a generally positive note, mainly due to a strong performance by the Gas Utilities Industry. Revisions ratios for the sector were 1.29 for 2000 and 2001. The sector currently trades at 27.3 times FY1 earnings and 25.9 times FY2 earnings.

As lights went out in California for the first time in the state's current power crisis, *PG&E Corp. (*PCG*)* announced that it had defaulted on $76 million of commercial paper, and that the state's largest utility would not be able to trade with the California Power Exchange. Two days later, Southern California Edison, a unit of *Edison International (EIX)* and a company pushed to the brink of bankruptcy by the power crisis, said it had defaulted on $32 million of short-term debt. The company also said that it expects to default on $223 million more and would not pay preferred dividends due next month. The announcements came as the two utilities were struggling to conserve the little cash they have left so they can keep electricity flowing to homes of Californians.

Plans to buy the utilities some breathing room by asking power suppliers to accept less money than they were owed, or collect the sum owed over a longer period of time were underway. These suppliers pre-announced record reported earnings. *Calpine Corp. (CPN)*, one of the fastest growing unregulated power producers in the country, raised its earnings estimates for 2000 and 2001 as a result of higher prices in California and the Northeast. Numerous acquisitions and successful efforts to protect itself against rising natural-gas prices have been the root of the company's phenomenal success. The company said it expects earnings to be about $0.30 per share for Q4, $1.05 for 2000 and $1.25 for 2001. Calpine sought to assuage investors' fears of big losses that it could potentially suffer by utilities' defaults, by pointing to long-term contracts it has signed with its customers as well as stressing its diversified portfolio of plants scattered throughout 15 states.

Duke Energy Corp (DUK), which manages about five percent of California power generation, reported Q4 EPS of $0.94 per share, beating I/B/E/S consensus of $0.87 per share despite a $110-million charge related to California power sales. The company also said that for all of 2001, 90 percent of its generation had already been sold to other suppliers with California delivery points.

The utilities industry represents 1.10% of the overall portfolio and 1.30% of the equities component with a total of $1,938.30. All of the stock in this category is held in AT&T, which is analyzed next.

AT&T (T)

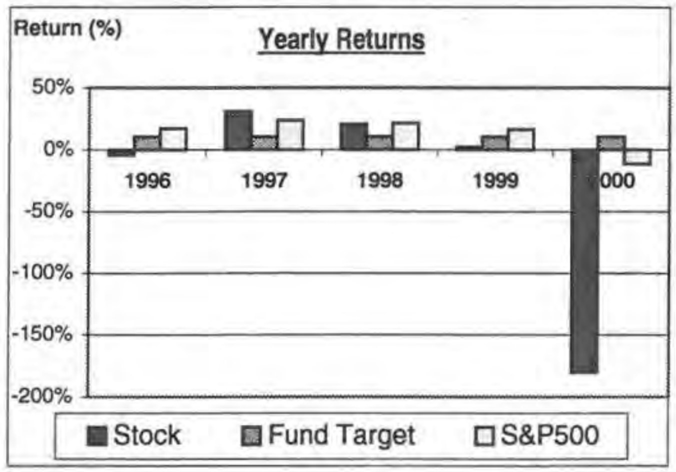
Company Overview

AT&T provides voice, data & video telecommunications services, including cellular telephone and Internet services to businesses, consumers and government agencies. AT&T also provides cable TV services to approximately 11 million customers throughout the U.S. For the fiscal year ended 12/31/00, revenues rose 5% to $65.98 billion. Net income fell 42% to $3.18 billion[153]. Results reflect growth in wireless and broadband revenues, offset by increased restructuring and other charges.

Fundamentals

Return History

AT&T stock has been performing unequally over the past five years. Only 1997 and 1998 have seen one-year returns meeting the fund target and exceeding S&P500 performance. Year 2000 has been disastrous for the company stock with a one-year return of –180%. A drop in net income and the announcement that broadband and wireless services are to be spun-off can explain this situation. The current price also reflects poor earnings expectations for the future due to the disappearance of these two profitable operations.



	[illegible]	Sector	Industry
P/E	22.2	26.8	17.7
Beta	1.03	0.90	0.99
ROE	3.3%	13.5%	10.2%
ROA	2.9%	5.3%	3.2%
Operating Margin	16.9%	11.2%	12.4
Net Profit Margin	9.3%	7.6%	7.7%
Debt/Equity	0.56	0.90	1.16

Key Figures

AT&T has a low P/E ratio compared to the Sector average, but high compared to the Industry average. The company's Beta is in line with the Industry and the Sector averages. Return on Equity and Return on Assets are both lower than the industry average and much lower than the Sector average. However, Operating Margin and Net Profit Margin are both higher than the Industry average and the Sector Average. Finally, the company's Debt to Equity ratio is much lower than the Industry and Sector averages.

Earnings History

AT&T has a good earnings history over the past five years. However, 2000 has seen a drastic drop in earnings. The company has entered into an alliance with European telephone giant British Telecom. The multinational alliance was expected to produce $10 billion in revenues by 2000 year-end, but did not suffice to maintain earnings. The current consensus estimate is a low $0.45 per share for the year ending December 31, 2001[154].

Looking Forward

There is a degree of uncertainty regarding the company's ability to execute its restructuring plans, in light of weak markets for telecommunications in particular, and for growth companies in general.

The evolution of long distance pricing continues to be a prime concern for AT&T investors, even though long distance is only one third of the value of the company today. Overall long-distance calling value growth has slowed in recent years since industry-pricing trends have stabilized; annual calling volume growth is expected to be flat in 2001. However, AT&T expects to spin off AT&T Wireless in mid-2001, to launch an IPO for Broadband operations in the fall and to distribute a Consumer division tracking stock to shareholders in the third quarter. This should leave the company with only its least profitable operations.

FINANCIAL

The financial services industry is rapidly changing. More people than ever before are investing their money in stocks and mutual funds. Primarily, this surge is due to the change in access to information and the new methods for trading. Both of these factors are affecting companies in this industry. First, the SEC has banned early access to financial results by big brokerage firms, so that premiums cannot be made for providing privileged information to clients. This equal-access to information has been fueled by the increasing amount of information made available on the web[155]. Even popular Internet portals such as Yahoo and Excite provide access to detailed financial analyses. The transparency that the web provides is bad news for financial services companies because they have traditionally profited from wide spreads between purchase and resale prices, and now consumers can see exactly how wide those spreads are.

Secondly, the web is affecting how trading occurs, as well. Not only have some purely electronic exchanges opened (e.g., NASDAQ), but also there are also electronic networks that allow trading online without any direct interaction with a broker/dealer. Commission deregulation has also allowed discount brokers to reduce fees by not providing advice[156]. Now trading can occur without professional advice and using an electronic broker. Financial services companies must do their best to maintain competitive pricing, keep current with new electronic exchanges, and provide online access and information.

The year 2000 saw record profits and revenues for the securities business. In December, the Securities Industry Association projected 2000 worldwide holding company revenues for US securities of $425 billion, a 31 percent increase over 1999. Profits are expected to be $51 billion, a 22.5 percent increase. Two big cautions come with these numbers, though. Most of 2000's enormous gain came in the first quarter, while the fourth quarter saw profits decline 38 percent from third-quarter 2000. Plus, a study released by Mercer Management Consulting in December found that most web-based financial services have so far failed to win acceptance by consumers[157].

The financial industry represents 8.85% of the overall portfolio and 11.00% of the equities component with a total of $16,057.94. The stock in this category is held in American Express, Bear Stearn's, and Citigroup, which are analyzed next.

American Express (AXP)

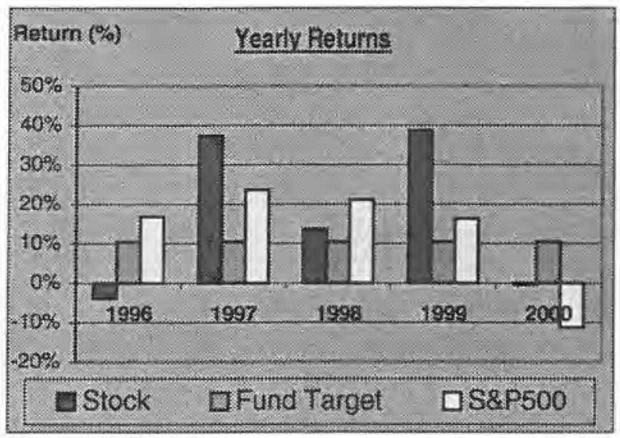
Company Overview

The American Express Company provides travel related services, including travelers' checks, American Express cards, consumer lending, tour packages and itineraries, and publications; investors diversified financial products and services; and international banking services through offices in 37 countries.

Fundamentals

Historical Returns

American Express has had higher returns than the S&P500 for three of the past five years. The company met the fund target in each of these three years. 1997 and 1999 stand out as they brought especially high one-year returns. However, the year 2000 has been slightly disappointing in terms returns on the shares. This is mainly due to an overall sluggish market in 2000 combined with a slowdown in the sales growth of the company (even though sales were up from 1999).



Key Figures

	AXP	Industry	Sector
P/E	17.76	19.02	18.84
Beta	1.14	0.77	1.02
ROE	26.14%	24.47%	18.03%
ROA	1.86%	1.88%	2.34%
Operating Margin	16.51%	16.41%	28.02%
Net Profit Margin	11.87%	12.32%	15.31%
Dividend payout ratio	-	-	-

American Express has a lower P/E ratio than the Industry and the Sector average. The company also has a high Beta compared with the industry average and the Sector average. However, Return on Equity is higher than both the Industry and the Sector average. Return on Assets on the other hand is lower than both the Industry and the Sector average. Operating Margin is in line with the Industry average but much lower than the Sector average. Also Net Profit Margin is lower than the Industry and the Sector.

Earnings history

American Express has recently reported strong growth in its core card business. This has been spurred by strong account and spending growth. Over the past several years, the company has averaged 15% annual earnings growth and 10 – 12% annual revenue growth. American Express has been a steady and solid performer financially. The consensus estimate for the year ending December 31, 2001 is a high $2.10 per share[158].

Looking Forward

It is clear that American Express depends on consumer spending. No evidence of a spending slowdown appeared in their most recent numbers. It appears that the company's focus on prime cardholder could mitigate credit quality erosion as the economy slows down. American Express continues to expand its international presence, strengthen its card network and broaden its product offerings. For instance, the company expanded in China in 2000, it also purchased ATMs from EDS to become the second biggest operator of ATMs. In early 2001, Kenneth Chenault replaced Harvey Golub as CEO of American Express (Golub remains Chairman of the company until mid-year when he planned to retire completely). This change of management gives the company a stronger position to face future challenges and continue expansion.

Bear Stearn's (BSC)

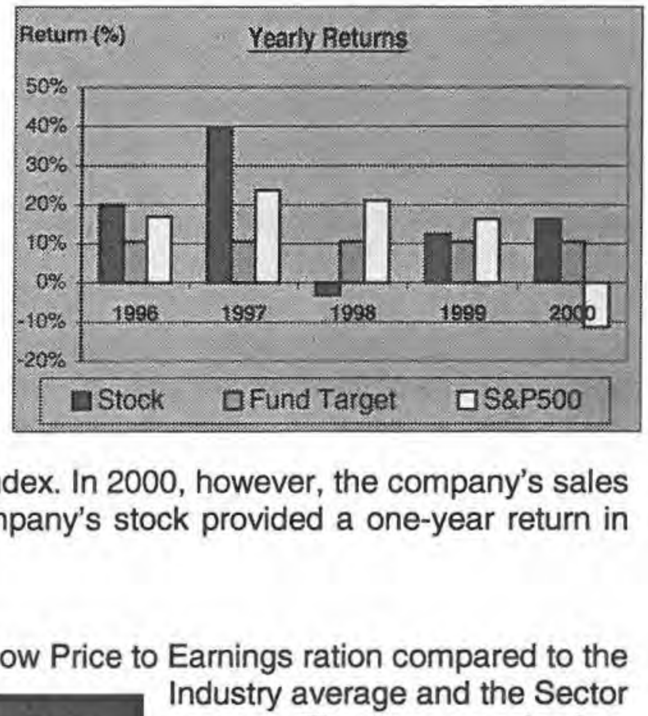
Company Overview

The Bear Stearns Companies Inc. is a holding company that, through its subsidiaries operates as a leading investment banking, securities trading and brokerage firm serving corporations, governments and institutional and individual investors worldwide. The company is also present in Latin America, Europe where it has operated for forty years, and Asia where it has offices in China and Japan.

Fundamentals

Historical Returns

Bear Stearns' stock has been performing very well over the past five years. In fact, the company delivered one-year returns that exceeded the fund target for four of the five years and also outperformed the S&P500 for four of the five past years. In 1998, the firm's return was negative, due mainly to the lawsuits that were filed against the firm for fraud in underwriting operations performed during the 80's. In 1999, stagnating sales combined with the settlement of the lawsuits provided decent returns but lower than the S&P500 index. In 2000, however, the company's sales were up almost 25%[159] and the company's stock provided a one-year return in excess of 15%.



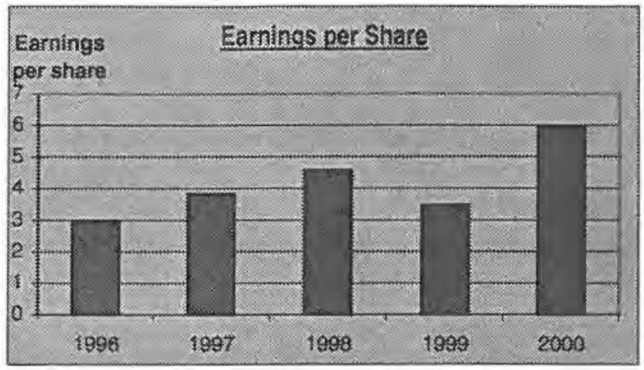
Key Figures

Bear Stearns has a relatively low Price to Earnings ration compared to the Industry average and the Sector average. The company also has a Beta in line with the Industry average but much higher than the Sector average. Return on Equity as well as Return on Assets are lower than both the Industry average and the Sector average. The same is true of the Operating and Net Profit Margins.

	BSC	Industry	Sector
P/E	9.62	15.73	18.84
Beta	1.81	1.83	1.02
ROE	15.52%	24.94%	18.03%
ROA	0.38%	4.51%	2.345
Operating Margin	11.40%	18.64%	28.02%
Net Profit Margin	6.79%	12.11%	15.71%
Debt/Equity	-	-	-

Earnings history

Bear Stearns has a very good earnings history. Despite a slightly weak year 1999, earnings have been growing rapidly over the past five years. The year 2000 was marked with several substantial positive earnings surprises. Consensus estimates for the year ending November 2001 are $5.12 per share[160], reflecting the positive outlook for the company.



Looking Forward

The company recently announced it would miss analysts' estimates for the first quarter due to a slowing US economy[161]. The firm also announced its purchase of NSYE specialist Wagner Scott Mercator jointly with Hunter Partners[162]. Despite the firm's exposure to the future state of the US economy, we believe that it is well positioned to continue its expansion and remain a top performer.

Citigroup (C)

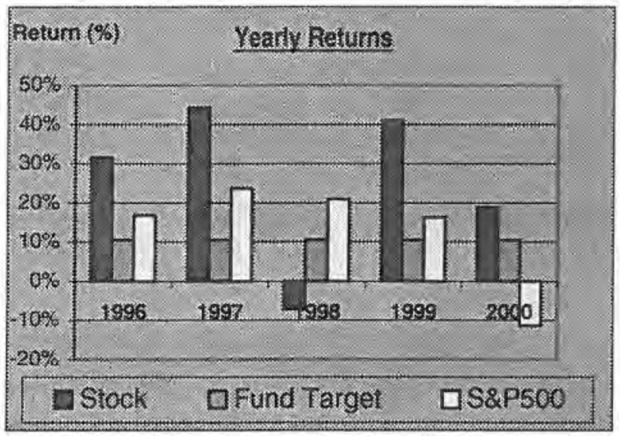
Company Overview

Citigroup, Inc. is the world's number one provider of financial services. Its services include banking, insurance and investment services, to consumer and corporate customers in more than 100 countries around the world.

Fundamentals

Historical Returns

Citigroup has produced very high returns over the past five years, outperforming the S&P 500 and the fund target for four of the five years. The company has pursued a policy of multiple acquisitions around the globe and reached the size of an industry leader over the years. 1996 and 1997 have been exceptional years with returns of more than 30% and 40% (respectively). The company produced negative returns during 1998 due to the creation of Citigroup from a merger between Citicorp and Sanford Weill's empire, Salomon Smith Barney Holdings. In addition, the financial crisis of 1998 resulted in enormous losses on both sides of the deal.



The company quickly turned around and 1999 was another year with a one-year-holding period return above 40%. In 2000, despite a poor market performance and a dive of many financial services stocks, Citigroup delivered a return close to 20%.

Key Figures

[illegible]	16.94	[illegible]	35.36%
[illegible]	1.28	[illegible]	21.0%
[illegible]	24.72%	[illegible]	-
[illegible]	1.69%	[illegible]	

The P/E ratio of Citigroup is slightly higher than the Industry average (16.58[163]) but lower than the Sector average (20.00[164]). Also the company's Beta is higher than the average for the Industry (1.22[165]) and the Sector (1.03[166]), implying a higher volatility. Return on Equity is much higher than the Industry average (18.03%[167]) and the Sector average (18.13%[168]). The Asset utilization is slightly better than the industry average (1.34%[169]), but lower than the Sector average (2.31%[170]); however, due to the nature of its business, it bear little relevance for the company performance. Operating margin is in line with the Industry (36.28%[171]) and much higher than the Sector average (28.02%[172]). Net Profit Margin sets Citigroup ahead of the Industry (18.64%[173]) and the Sector (15.75%[174]).

Earnings history

Citigroup exhibits a good history of earnings. The Company has consistently delivered earnings over one dollar per share over the past five years. In addition, the company has almost doubled earnings in 1999, after the successful completion of the Citigroup merger. 2000 was another good year for the company, which set the expectations for the company at a very high level. The analyst consensus earnings estimate for the year 2001 is $3.06 per share[175].

Looking Forward

In 2001, the company announced the purchase of the European American Bank in New York[176]. Citigroup also announced its intent to expand its European banking and wealth management operations. The company appears to be well prepared to continue its growth despite a sluggish global economy.

INTERNATIONAL

Major economic trends in he international environment can be analyzed by considering three major geographic groups: US and North America, Europe and Japan and Pacific.

- US and North America: this area is driven mainly by the US economy. February numbers for payroll employment gains suggest that payrolls continue to grow in the US[177]. This gives a strong indication that US consumer spending should keep up and that private consumption should continue to grow (even though at a moderate pace). However, capital expenditure remains low, particularly in the Tech sector. The future direction of these major factors will influence the recovery the speed of recovery of the American Economy. Canada has been aggressively cutting interest rates and seemed determined to take every necessary action to ensure a rebound of the economy in the second semester.
- Europe: GDP results for the European Monetary Union (EMU) have been in line with consensus expectations for the fourth quarter of 2000 with an annualized growth of 2.9%[178]. However, this quarter was the third consecutive quarter of inventory build-up and a large proportion of this growth can be attributed to high exports. Considering the current inventory correction and the negative effect that a slowdown in global demand is likely to have on EMU growth, there is a risk of future slowdown. The recent easing of fiscal policies in the area however is expected to limit the risks of recession. Monetary policy seems to be lacking the necessary proactive stance though, since interest rates cuts form the European Central Bank are not expected until April. This could come too late to prevent a downward motion of the EMU economy. In the UK, the government announced it would increase spending and reduce taxes substantially. This is aimed at maintaining the UK out of the global trend towards economic slowdown. Inflation also remains low and gives the Bank of England more liberty to use fiscal policy if need be. There is consequently no indication that the UK economy should suffer from the global slowdown. The economy of Central Europe is strongly dependent on the performance of Western Europe: the European Central Bank's monetary policy and the economic performance of Western Europe (mainly Germany) will largely determine the state of Central Europe's economy.
- Japan and Pacific: Japan is facing a weakening of its exports as well as a slowing consumption[179]. In addition, tight fiscal policy is likely to amplify the effects of a slowing economy. The Bank of Japan is expected to revert back to a zero interest rate monetary policy in order to limit the consequences of the slowdown. On the other hand, Australia has been aggressively cutting interest rates in reaction to a 2.2% annualized decline

in GDP in the fourth quarter of 2000[180] (well below the most pessimistic estimates). Inventory build-up, low levels of business and residential investments and reduced global demand create a risk of a new GDP decline in the first Quarter of 2001, thus putting Australia in a recession. The rest of Asia is still struggling with the effect of the clean up of their financial system following the Asian crisis. Also liquidity is still a problem, as the tendency to invest in low risk assets seems to be strengthening. Overall, the Asian economy appears to be trapped between structural challenges and dependence on exports.

The international component represents 17.48% of the overall portfolio and 21.80% of the equities component with a total of $31,735.18. The stock in this category is held in four mutual funds, which are analyzed next.

Fidelity Pacific Basin (FPBFX)

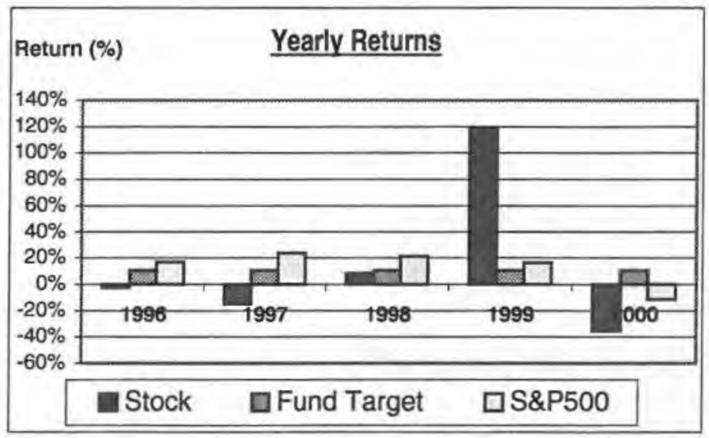
Company Overview

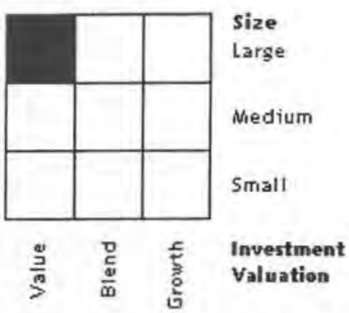
The Fidelity Pacific Basin Fund seeks long-term growth of capital. It normally invests 65% of assets in companies that have their principal business activities in the Pacific Basin. It invests the balance in securities of issuers in other Asian countries. It normally invests a significant percentage of assets in Japan. The fund may invest up to 35% of assets in debt securities rated below investment-grade.

Fundamentals

Historical Returns

The fund returns since its inception in October 1986 have been very irregular. The fund returns over the past five years have met the Fund target return only once, in 1999, with a return in excess of 110%. Since the beginning of 2001, the fund has provided a return of almost –12%[181].





Morningstar Rating:

Overall: ★★★
Risk: Above average
Return: Average

Composition

Top Ten Holdings (as of 10/31/00)

1. Toyota Motor	4.21%
2. Takeda Chemical Inds	3.23%
3. Sony	3.17%
4. Toyoda Gosei	2.38%
5. Nippon Telgraph	2.29%
6. Furukawa Elec	2.13%
7. Canon	2.03%
8. News	1.94%
9. Hutchison Whampoa	1.91%
10. China Mobile	1.78%

Sector Weightings (as of 10/31/00)

Consumer Durables	18.56%
Consumer Staples	1.22%
Retail	2.91%
Technology	17.50%
Health	8.23%
Utilities	0.76%
Industry Cyclicals	16.70%
Services	13.33%
Financials	20.72%
Energy	0.07%

Looking Forward

The fund ranks in the top 1% of all funds within its category over the last 5 years. Manager Bill Kennedy has been at the helm since December 1998. The fund constitutes a good diversification in the Pacific area and in the value management style.

Invesco International European (FEURX)

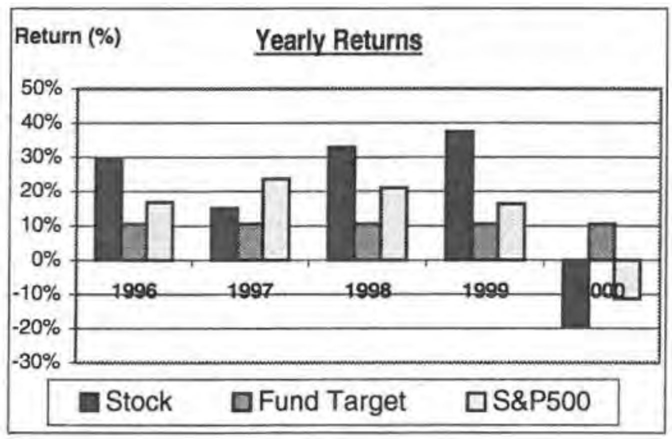
Company Overview

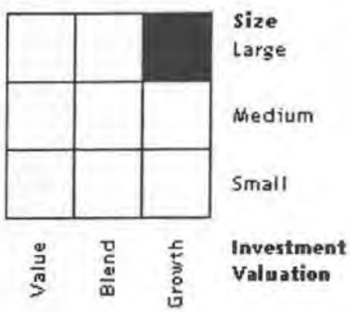
Invesco European Fund - Investor Shares seeks growth. The fund will primarily invest in equity securities of companies located in Western Europe. The fund may invest in debt securities such as bonds and notes. It will primarily invest in mid- and large-capitalization stocks.

Fundamentals

Historical Returns

The fund returns since its inception in June 1986 have been positive ten years (out of fourteen). Year 2000 was a down year with return of about –20%. Also, since the beginning of 2001, the fund has been declining in value (-23.82%[182]).





Morningstar Rating:

Overall: ★★★
Risk: Above average
Return: Above average

Composition

Top Ten Holdings (as of 12/31/00)

1. Tomra Systems	3.74%
2. Vodafone	3.04%
3. Nokia	2.93%
4. Glaxo Smithkline	2.64%
5. Altran Tech	2.61%
6. Assa Abloy Cl B	2.51%
7. Vestas Wind Sys	2.07%
8. ING Group	2.04%
9. AXA	2.00%
10. LM Ericsson Tele B	1.92%

Sector Weightings (as of 12/31/00)

Consumer Durables	10.27%
Consumer Staples	2.29%
Energy	4.25%
Financials	17.84%
Industry Cyclicals	12.71%
Services	19.69%
Retail	3.53%
Technology	19.24%
Health	8.33%
Utilities	1.86%

Looking Forward

The fund is most heavily weighted in the United Kingdom, France, and Germany. Therefore, the fund provides a good diversification into the European markets.

Montgomery Emerging Markets (MNEMX)

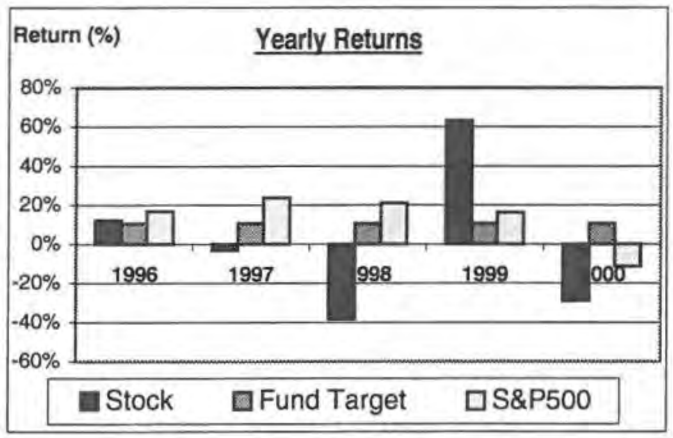
Company Overview

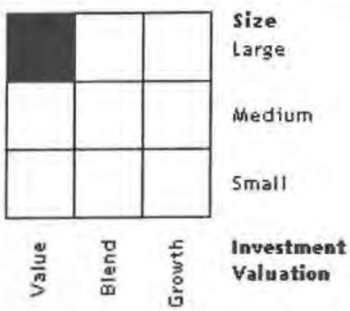
The Montgomery Emerging Market Fund seeks capital appreciation. The fund invests at least 65% of assets in equity securities issued in emerging-markets, as designated by the World Bank or the United Nations. It may invest no more than 35% of assets in one country; the portfolio represents at least six emerging-market countries.

Fundamentals

Historical Returns

The fund returns since its inception in March 1992 have been very volatile. 1999 returns were in excess of 60% whereas 2000 was negative almost 30%. Since the beginning of 2001, the fund is down more than 9%[183]





Morningstar Rating:

Overall: ★★
Risk: Above Average
Return: Below Average

Composition

Top Ten Holdings

1.	Alpha Credit Bk	4.30%
2.	Telefonos de Mexico ADR	3.70%
3.	Yapi ve Kredi Bankasi	3.22%
4.	Fomento Economico Mex ADR	3.12%
5.	United Microelect ADR	3.08%
6.	Taiwan Semicon ADR	3.05%
7.	Reliance Inds	2.92%
8.	China Mobile	2.63%
9.	Korea Elec Pwr	2.56%
10.	Unibanco	2.47%
Total		**31.05%**

Economic Sectors

Utilities	6.17%
Energy	5.01%
Financials	20.13%
Industrial Cyclicals	13.52%
Consumer Durables	4.65%
Consumer Staples	5.96%
Services	24.08%
Retail	4.87%
Health	0.96%
Technology	14.65%
Total	**100.00%**

Looking Forward

The fund is exposed primarily emerging markets in Brazil, Mexico, and Taiwan. In addition, the fund has never performed in the top quartile of its category and is rated with a level of risk that is above average for a return that is below average.

Montgomery International Growth (MNIGX)

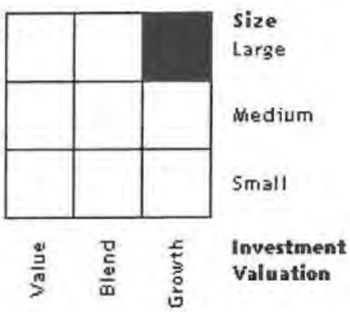
Company Overview

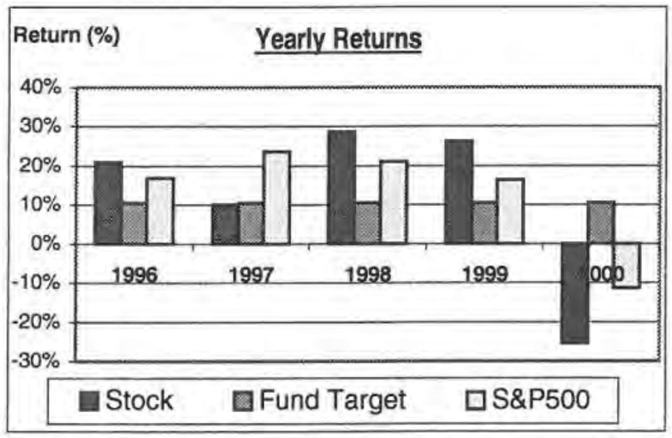
The Montgomery International Growth fund normally invests at least 65% of assets in equities issued by companies domiciled in at least three foreign countries, with market capitalizations greater than $1 billion. It may invest the balance in debt or in smaller companies.

Fundamentals

Historical Returns

The fund returns since its inception in July 1995 have been relatively high. However, the year 2000 was marked by a negative return of –25.42%[184]





Morningstar Rating:

Overall: ★★★
Risk: Average
Return: Average

Composition

TOP TEN HOLDINGS

1. Konami	3.61%
2. Nordic Baltic	3.26%
3. Logica	3.25%
4. HPY Hldg	3.12%
5. Muenchener Rueckvers	3.11%
6. Alcatel	3.03%
7. Zurich Financial	3.03%
8. Aventis	2.94%
9. Castorama Dubois	2.93%
10. RAS	2.93%
Total	**31.21%**

Economic Sectors

Utilities	2.40%
Energy	2.60%
Financials	24.63%
Industrial Cyclicals	10.44%
Consumer Durables	9.73%
Services	12.22%
Retail	4.70%
Health	4.90%
Consumer Staples	5.54%
Technology	20.20%
Total	**100.00%**

Looking Forward

Managers Oscar Castro and John Boich have managed the fund since inception. The fund performed within the bottom quartile for its category the last two years, but is expected to rebound.

TECHNOLOGY

As we head into the heart of reporting season, the Technology sector has seen 429 out of 1074 (39.6%) companies report earnings, showing excellent results. 273 (63.6%) companies have reported positive surprises, while 70 (16.3%) companies came in with negative surprises and 86 (20.0%) companies reported on target with I/B/E/S consensus. By contrast, the I/B/E/S Universe has just 53.6% of its companies reporting a positive surprise.

Looking forward to fiscal year 2001, consensus forecasts over the past 6 months have come down 21.3%. Forecasted annual growth continues to decline at an astonishing rate, with 2001 growth now down to 14.9% from 35.4% last month. While revisions ratios this month were a scant 0.50 and 0.39, many companies have begun to rally despite the lowered guidance, suggesting markets have discounted at least the first two quarters of 2001.

The Software & EDP Services industry has positive results so far this reporting season. Out of 135 companies that have reported (387 companies are in this industry), _98 (72.6%) have produced a positive surprise. Rational Software *(RATL)* and *BMC Software (BMCS)* were among the surprise leaders. *RATL* reported its 3Q earnings at $0.20, beating the I/B/E/S mean estimate of $0.18, and producing a surprise of 13.2%. Revenues rose 47% year-over-year to $215.5. As a result, *RATL* saw consensus earnings rise 3.6% to $0.75 for 2000 and 8.3% to $0.91 for 2001. *BMCS* reported its 3Q earnings at $0.24, which overcame the I/B/E/S consensus estimate of $0.17, resulting in a surprise of 40.3%. *BMCS* attributed its positive surprise to better sales channels from new acquisitions, good sales execution, and the recovery from the Y2K hangover effects that dampened spending.

The Semiconductors & Components industry has also showed strong earnings growth for fiscal year 2000 (up 103.4%), however this number has fallen to 4.1% for 2001. Revisions ratios for this month were 0.45 and 0.27. Ninety-four out of 162 (58.0%) companies have reported, with 56 (59.6%) reporting a positive surprise. *Applied Micro Circuits (AMCC),* a communications chip maker for high-speed networks, reported its 3Q earnings at $0.16, surpassing the I/B/E/S mean estimate of $0.14 to produce a surprise of 13.6%. *AMCC* saw consensus earnings rise 7.0% to $0.62 for 2000 and 10.9% to $0.91 for 2001. *AMCC* said the excellent earnings were a result of strong communications sales, growing 37% from the pervious quarter. Revenues rose to $143.3 million, up from $45.8 million reported in the year-ago quarter.

The technology industry represents 6.75% of the overall portfolio and 8.40% of the equities component with a total of $12,253.95. The stock in this category is held in the NASDAQ 100, a technology-focused index fund, which is discussed next.

NASDAQ 100 (QQQ)

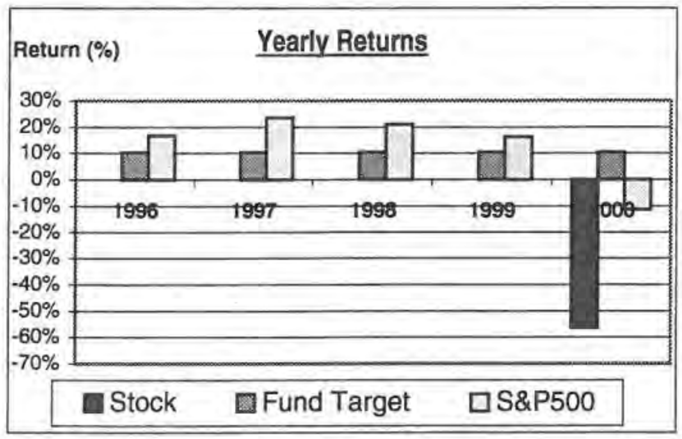
Company Overview

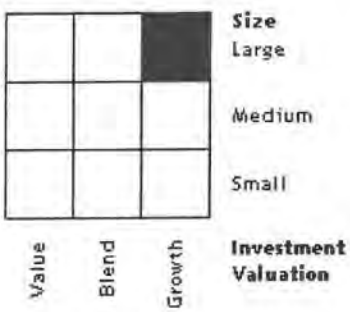
Representing 100 of the largest non-financial U.S. and non-U.S. companies listed on the Nasdaq National Market tier of The Nasdaq Stock Market, the Nasdaq-100 Index reflects Nasdaq's largest companies across major industry groups, including computer and office equipment, computer software/services, telecommunications, retail/wholesale trade, and biotechnology.

Fundamentals

Historical Returns

The returns showed on the graph are adjusted for recent splits. Returns on the fund have been poor during the year 2000 due to the collapse of technology stocks.





Composition

TOP TEN HOLDINGS

1. Cisco Systems, Inc.	6.36%
2. Microsoft Corporation	5.15%
3. QUALCOMM	4.80%
4. Intel Corporation	4.59%
5. Oracle Corporation	4.39%
6. Sun Microsystems, Inc.	2.56%
7. JDS Uniphase	2.53%
8. VERITAS Software	2.27%
9. Siebel Systems	2.20%
10. Amgen Incorporated	1.99%
Total	**36.83%**

Economic Sectors	
Technology	75.33%
Health Care	9.78%
Communication Services	5.36%
Consumer Cyclicals	3.98%
Consumer Staples	3.17%
Capital Goods	2.14%
Basic Materials	0.23%
Total	**100.00%**

The 10 stocks described above tend to determine the direction of the Nasdaq 100. Of the Nasdaq 100 Stocks, 81 have been profitable over the past year (excluding charges), while 19 have not. During the last 12 months, 20% of the stocks were replaced. The new major components include: Brocade Communications Systems, Nevellus Systems Inc, Palm Inc, VeriSign Inc, Juniper Networks, XO Communications, Ariba Inc, Exodus Communications Inc, and Inktomi Corporation.

Looking Forward

The fund provides exposure to the Technology sector, which has been providing very high returns over the past decade. Despite the recent poor performance of this sector, growth prospects are still very high in the medium to long-term. At a very low price compared to historical values, the fund constitutes a risky investment opportunity, therefore holdings tremendous potential return expectation should the sector rebound in the near future.

MONEY MARKETS

STI Classic FD-Prime MM (SQIXX)

The money markets component represents 2.00% of the total portfolio with a total of $4,208.00. This component is held in STI Classic FD Prime. The fund, started in 1992, aims to, "provide as high a level of current income as is consistent with preservation of capital and liquidity by investing exclusively in high quality money market instruments[185]." As of year-end 2000, the following composition was held:

Composition	
Corporate Bonds	40.0%
Commercial Paper	27.2%
Certificates of Deposit	14.7%
Money Markets	6.5%
Private Placement	4.5%
US Agency Bonds	2.8%
Asset Backed Securities	2.7%
Other	1.5%
Municipal Bonds	0.1%

On December 31, 2000, the fund had a one-month simple yield of 5.90% and a three-month simple yield of 5.92%. The average maturity was 47 days and there were nearly $4.7 billion in the fund. In April 2001, the fund's average maturity was 28 days and there were approximately $1.99 billion in the fund[186].

FIXED INCOME

The fixed income securities represent 17.00% of the entire portfolio with a total of $31,518.90. All of the assets in this category are US Treasury Notes, which are analyzed next.

In 2000 the fixed income market has benefited in large part from the relative weakness of the economy and the poor performance of the stock market. In fact, the Lehman Brothers Aggregate bond index was up 11.6% in 2000, its strongest performance since 1995. However, an expected rebound of the economy combined with an ease of monetary policy could switch assets back in the direction of the stock market.

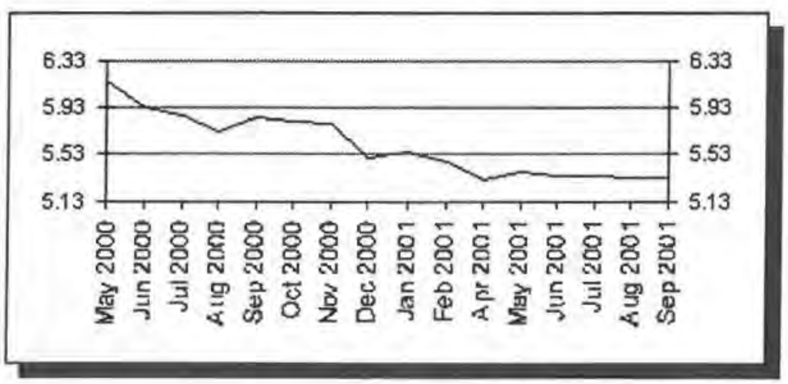
US Treasury Notes

With the recent ease in interest rates from the Federal Reserve, the yield of Treasury notes has been going down, driving the price of Treasuries up.

With the Federal Reserve easing short-term rates, the Treasury curve should continue to steepen toward a more normal positive slope. Since the government strategists do not expect the pace of treasury bond buybacks to moderate under the administration of President Bush, we would expect yields on the long end of the curve to remain relatively flat-to-higher.

The long-term end of the yield curve, therefore, is likely to cheapen relative to shorter-term securities (see Exhibit 10).

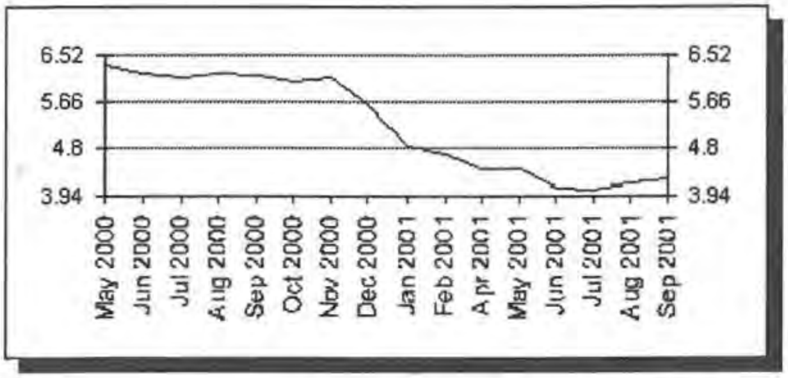
Exhibit 10. 30-Year Yield Curve, May 2000 – September 2001



30-year Treasury yield and forecast (Source: www.neatideas.com)

In this environment, it is wise to avoid long-term issues, as a future recovery of the economy would drive down their prices. Though the short end of the curve traditionally benefits from Fed easing, much of this has already been priced into the market. In addition, it is expected that the Fed fund's target rate will be lowered over the next few month to stabilize around 4.5%. This would make short-term issues even less desirable because falling rates will increase reinvestment risk (see Exhibit 11).

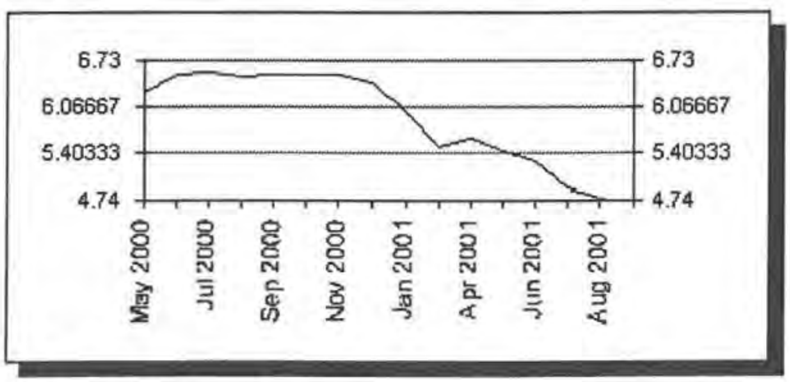
Exhibit 11. 1-Year Yield Curve, May 2000 – September 2001



1-year Treasury yield and forecast (Source: www.neatideas.com)

At this point, a rebound of the economy would eventually drive rates up, but one can be confident that the Federal Reserve will wait for tangible signs of a durable growth trend to raise the rates again (see Exhibit 12). In the meantime, it is preferable to invest in Treasuries with intermediate durations.

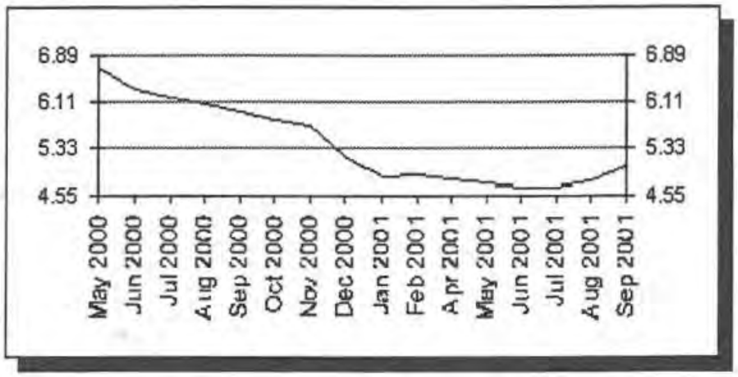
Exhibit 12. Fed Funds Rate and Forecast, May 2000 – August 2001



Fed funds rate and forecast (Source: www.neatideas.com)

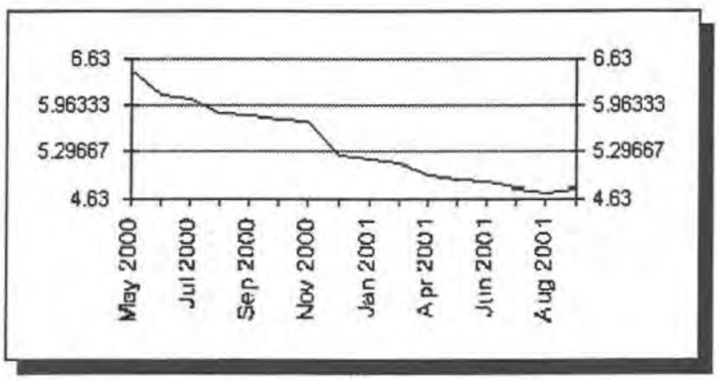
Therefore, providing the current economic environment, we recommend a 5-year or a 10-year Treasury note (see Exhibits 13 and 14).

Exhibit 13. 5-Year Yield Curve, May 2000 – September 2001



5-year Treasury yield and forecast (Source: www.neatideas.com)

Exhibit 14. 10-Year Yield Curve, May 2000 – September 2001



10-year treasury yield and forecast (Source: www.neatideas.com)

PROPOSED CHANGES TO EXISTING PORTFOLIO

INVESTMENT PHILOSOPHY

Our recommendations are based on an approximate value of $175,000 for the portfolio at the current time and an additional $100,000 that will be added to the fund prior to implementation of the recommendations. The total portfolio amount upon which we are basing our recommendations is therefore $275,000.

Our recommendations will ensure that the fund is following the fund policy. Part of this goal is to adjust the allocations to various industries to ensure the policy is obeyed. In addition, the policy states both small/mid cap and large cap stocks should be included in the portfolio, and currently small/mid cap stocks are not included. Our recommendations will also serve to add these missing components. We aim for a return of at least 10.5% and intend the equities to be used for principal growth while fixed income securities will be used for hedging against possible inflation.

Our recommendations will serve to build up the representation of industries we feel will be strong in the next year while reducing or eliminating representation in industries that we feel are stagnating or performing poorly. We will also use a pricing model, so that our recommendations will serve to increase our position in securities that we feel are under-priced while simultaneously decreasing our position in securities that we feel are over-priced.

CHANGES TO THE PORTFOLIO

Money Markets

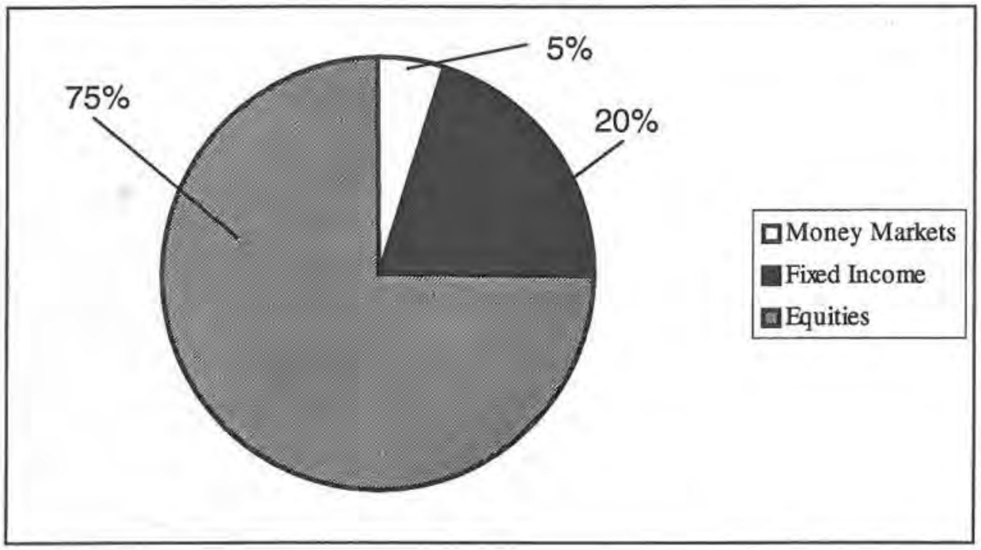
The money markets segment of the portfolio is not to exceed 5% of the total portfolio. Currently, the roughly $4,250 that is in the money market account represents 2% of the portfolio. We recommend that the investment in the STI Classic Fund be increased by $9,500 to total $13,750, which would make the proportion equal to 5%.

Fixed Income

We recommend that the roughly $31,000 currently held in US Treasury Notes be maintained. It is also recommended that we add $20,000 in T-notes maturing in five years. The five-year time frame is recommended because of the current low interest rates; longer time frames are not desired at this time. In addition, the duration requirements for the fixed-income segment dictate a minimum of four years; since the existing T-bills will mature in three years, we recommend the addition be in 5-year notes.

We also recommend that $15,000 be invested in a corporate bond fund (discussed below). The new total for fixed-income securities would be $56,000, or 20.36% of the roughly $275,000 total portfolio; this meets the requirement that fixed-income securities not exceed 25% of the total portfolio.

Exhibit 15. New Portfolio Asset Allocation



CORPORATE BOND FUND

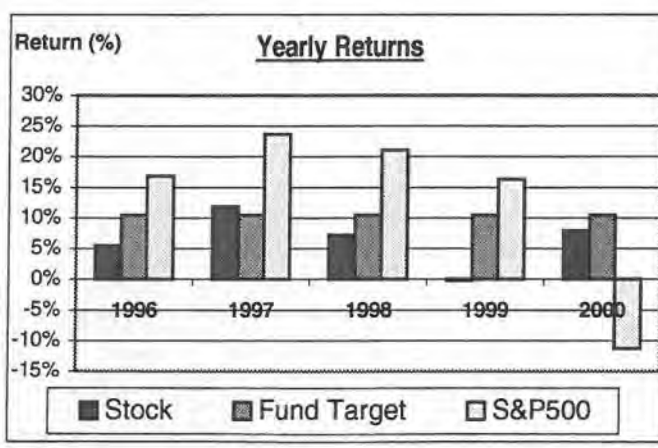
Company Overview

Strong Corporate Bond Fund - Investor Class seeks current income. The fund normally invests at least 65% of assets in corporate bonds. It may invest the remaining assets in any other type of fixed-income securities, including U.S. government obligations and mortgage-backed securities. It may also invest up to 25% of assets in foreign securities, either directly or in the form of ADRs. The average maturity typically ranges from seven to 12 years.

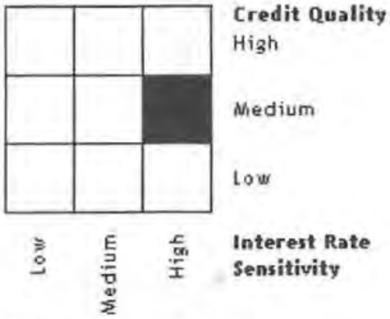
Fundamentals

Historical Returns

The fund returns since its inception in December 1985 have been positive twelve years (out of fifteen). The fund ranks in the top 1% of its category for the past three month returns (2 out of 123). It ranks in the top 22% for the past 3 years, in the top 25% for the past 5 years and in the top 4% for the past ten years[187] (4 out of 78). The fund also consistently beat the Lehman



Brothers Aggregate index over the past five years[188].



Morningstar Rating:

Overall: ★★★★
Risk: Average
Return: High

Composition

Top 10 Holdings	**% Assets**
Discover CC Master Tr 0%	2.58
Chase Manhttn CC Mstr Tr 0%	2.58
MetroNet Comm 10.625%	2.19
US Treasury Bond 6.125%	2.17
Duke Energy 8.125%	1.75
KN Cap Tr 8.56%	1.69
Time Warner 9.125%	1.66
Ford Motor 7.45%	1.55
Worldcom 144A 7.375%	1.54
Cendant 7.75%	1.43
% Fund Assets in Top Ten Holdings	**19.1**

The average Duration of the fund's bond holdings is 5.70 years; the average maturity is 11.30 years and the average quality is BBB[189].

Looking Forward

Jeffery A. Koch has been manager of the fund since 1991. The fund invests mainly in long-term corporate bunds and thus has high interest rate sensitivity. However, the fund has performed very well over the past ten years and has been especially noticed over the first months of 2001 with a 4.31% return so far. The fund differs from its peers in that it does not typically invest heavily in government agency bonds, which matches the Fund policy. We believe the fund represents a promising opportunity in the corporate bond category and that it will improve the overall portfolio balance.

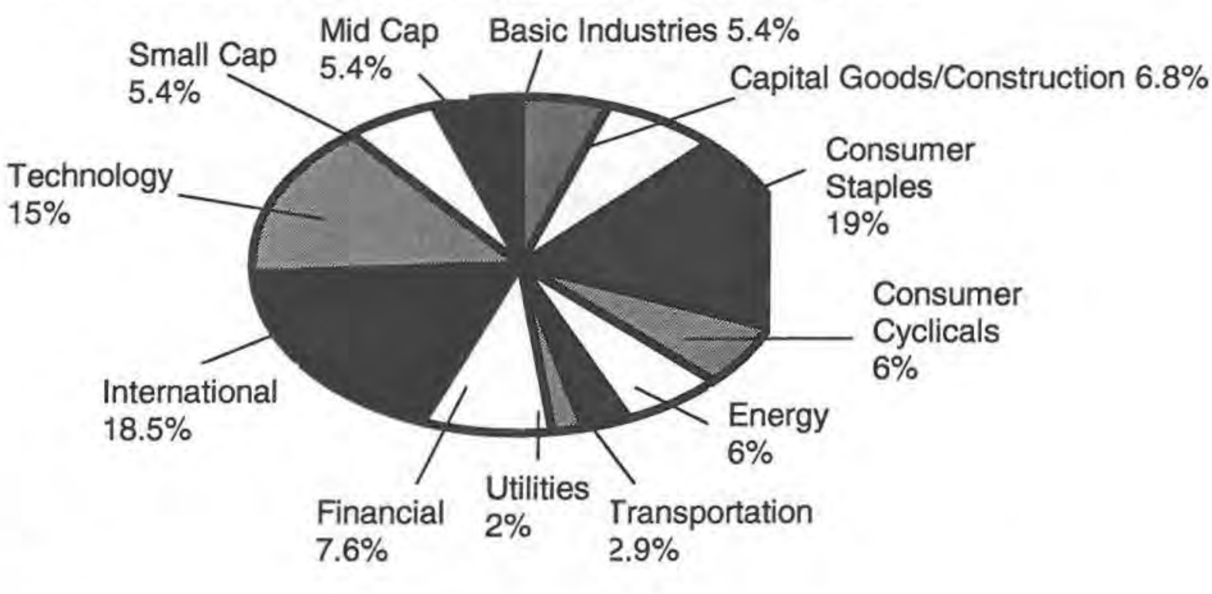
Equities

The remainder of the portfolio, 75% of the total fund, is held in equities (totaling approximately $211,000). We would like the industry represented to be adjusted to the following:

Exhibit 16. Desired Industry Allocation

Industry Sector	Percent of Total Equity
Basic Industries	5.4%
Capital Goods/Construction	6.8%
Consumer Staples	19.0%
Consumer Cyclicals	6.0%
Energy	6.0%
Transportation	2.9%
Utilities	2.0%
Financial	7.6%
International	18.5%
Technology	15%
Small cap	5.4%
Mid cap	5.4%

Exhibit 17. Industry Allocation within Equity Component

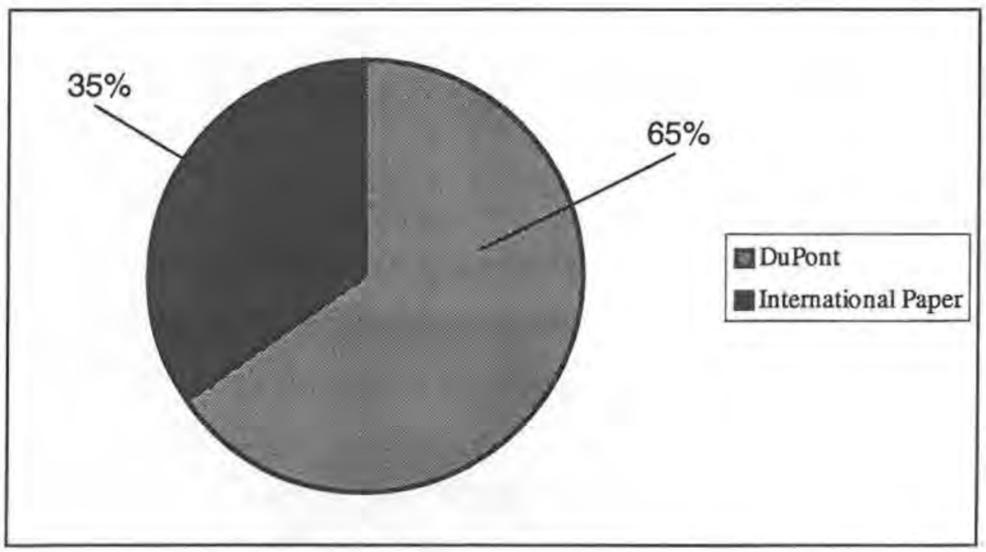


Basic Industries

It is recommended that the position in Dow be eliminated and replaced with DuPont (DD, see summary below). DuPont is the industry leader (Dow comes in a close second) and is without the merger problems that are plaguing Dow because of the Union Carbide acquisition. DuPont has been expanding its business to include life sciences or biotechnology, which is an area of high growth for the industry. DuPont has higher future earnings projections and a higher ROE/ROI/ROA, a higher profit margin, and lower long-term debt ratios than Dow. In addition, DuPont's stock price is near a five-year low, making it an attractive time to buy this stock. We expect a rebound in this stock as the market begins to realize the future earnings potential of DuPont's life sciences business.

It is desired for the basic industries component to represent 5.4% of the equity segment of the portfolio. Therefore, we will sell the Dow stock for approximately $5,000 and invest approximately $7,400 in DuPont. DuPont will then represent 3.5% of the equity component. In addition, we recommend investing $4,000 in International Paper (IP). This would make IP comprise 1.9% of total equity.

Exhibit 18. Basic Industries Composition



DuPont

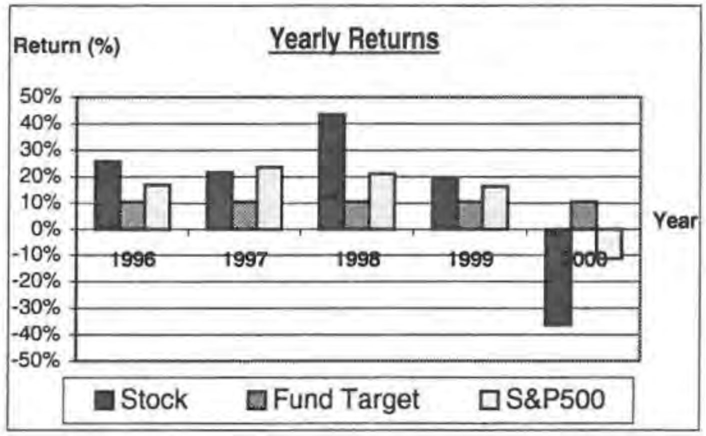
DuPont: Company Overview

E.I. DuPont de Nemours and Company is a global science and technology company with operations in high-performance materials, specialty chemicals, pharmaceuticals and biotechnology. Better known has Dupont, the company is the largest chemical company in the US[190]. For the fiscal ended in December 2000, total revenues increased 5% to $29.2 billion. Net income from continuing operations applicable to Common totaled $2.3 billion, up from $209 million.

DuPont: Fundamentals

Historical Returns

From 1996 through 1999, Dupont's one-year returns have consistently met or outperformed both the fund target and the S&P500 index. However, 2000 has been a poor in terms of returns. The shares remain substantially below their 1998 record high, as early investor euphoria with regard to a strategy of expanding Dupont's life sciences operations was then dampened by controversy regarding the use of agribiotechnology seed and food products. The stock declined 27% during 2000, partly due to disappointing EPS growth and despite a surge late in the year. The negative impact of higher raw material and currency rates was expected to exceed $1 billion in 2000, led by high soybean sales, while pesticides declined modestly.



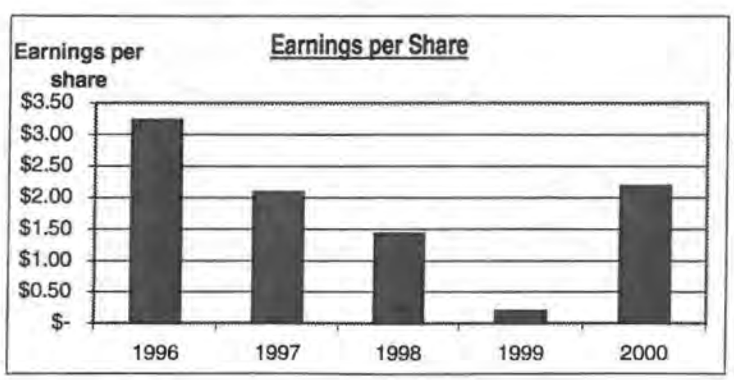
Key Figures

Dupont de Nemours still has a relatively low Price to Earnings ratio compared to the Industry average and the Sector average. The company also has a Beta lower than the Industry average and the Sector average. Return on Equity as well as Return on Assets is higher than both the Sector average and the Industry average. Operating Margin is higher than the Industry but lower than the Sector; whereas Net Profit Margin is much higher than both the Industry and the Sector. The Debt to Equity ratio of the company is also lower than the Industry average and the Sector average.

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	19.46	22.36	21.99
[illegible]	0.69	0.81	0.75
[illegible]	17.8%	15.0%	14.5%
[illegible]	5.9%	5.6%	5.1%
[illegible]	11.8%	14.5%	11.3%
[illegible]	8.1%	6.5%	6.3%
[illegible]	0.75	0.92	0.86

Earnings history

Dupont has a good earnings history despite a low in 1999. The company has strong fundamentals and is expected to perform better than its peers. Consensus estimates for the year ending December 2001 are $2.36 per share[191], reflecting the



company's internal strength in dealing with the consequences of a slowing economy and its ability to benefit from an expected rebound.

DuPont: Looking Forward

Sales for the core chemicals related segments might raise modestly in 2001, reflecting price increases achieved during 2000. Volumes in the first half of the year will be limited by downturns in the U.S. durable goods, auto and housing related markets, while margins will continue to be pressured by high energy costs. However, the company is currently under-priced and ideally positioned to fully benefit from a rebound of the economy during the second half of the year.

INTERNATIONAL PAPER

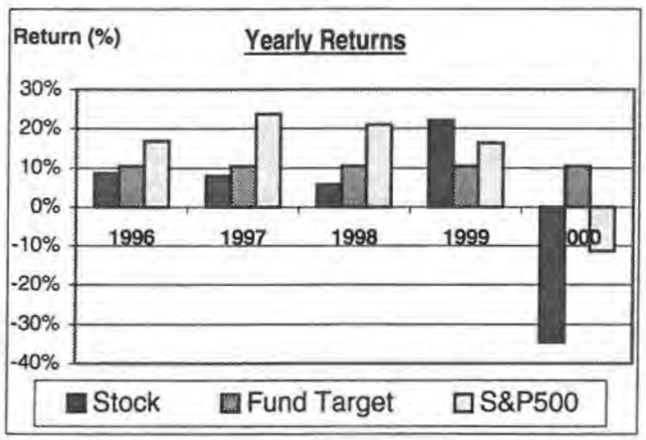
International Paper: Company Overview

International Paper Company produces printing and writing paper, paperboard, wood pulp, lumber, wood panels, laminated wood products and specialty products. International Paper also distributes printing papers and industrial and office supplies; and invests in oil and gas and real estate properties.

International Paper: Fundamentals

Historical Returns

International Paper has had modest returns over the past five years. In 1999, however, the company's stock delivered a one-year holding-period return higher than the S&P500 index and the Fund target. In 2000, the stock plunged more than 30%. In 2001, the price went further down to reach a recent low of recent low at $35.00[192]



Key Figures

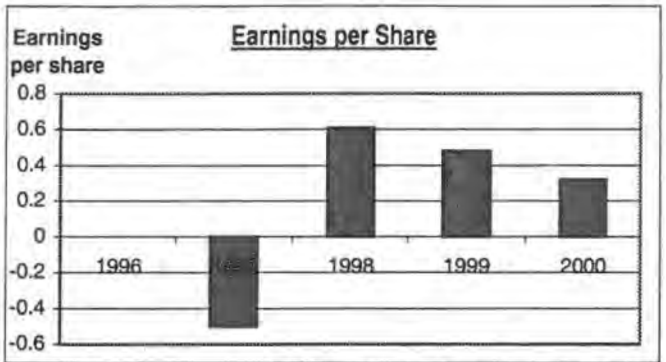
The company's P/E ratio is still high compared to the Industry average and the Sector average despite the recent drop in share price. The company's Beta is also higher than the Industry and the Sector average. Return on Equity and Return on Assets are much lower than the Industry and the Sector averages. The same is true of Operating and Net Profit margins. The company's Debt

	[illegible]	Industry	[illegible]
[illegible]	81.18	30.67	22.36
[illegible]	0.97	0.78	0.81
[illegible]	1.21	18.25	15.04
[illegible]	0.99	6.78	5.65
[illegible]	5.34	12.63	11.45
[illegible]	1.35	6.98	6.50
[illegible]	1.23	1.10	0.92

to Equity ratio is also higher than the Sector and Industry averages.

Earnings history

International Paper's earnings have been decreasing for the past three years. However, this trend can be attributed to the restructuring the company went through over the past few years, and the benefits from these expenditures should start to materialize in the coming year. Consensus estimates for the year ending December 2001 are $0.51 per share[193], reflecting the positive outlook for the company.



International Paper: Looking Forward

Sales for International Paper are expected to be just moderately higher this year. Softer demand and high inventories within the industry group are likely to negatively affect the industry, but the company's aggressive restructuring initiatives from its takeover of Champion should start to boost its business and stock price relative to its peer group.

CAPITAL GOODS/CONSTRUCTION

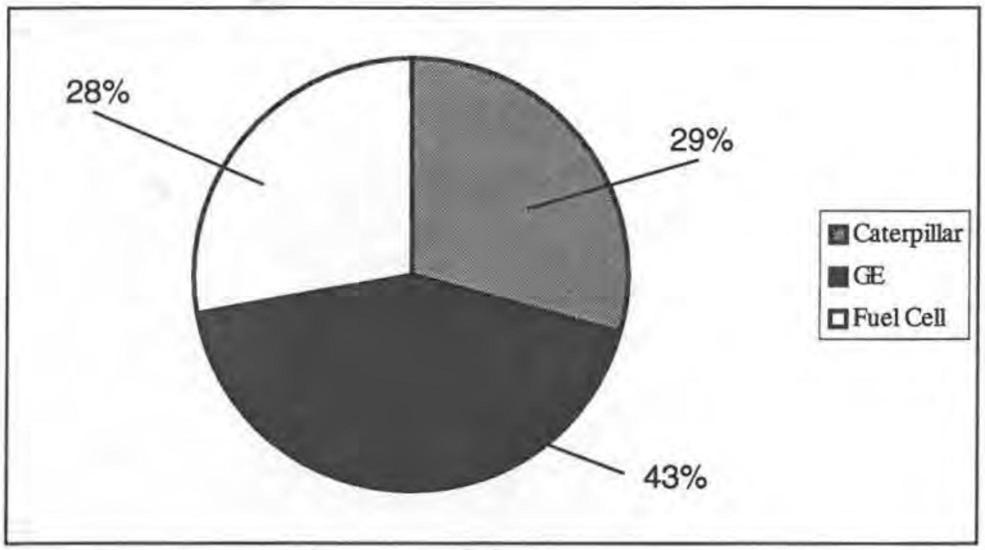
It is recommended that the proportion of equities held in the capital goods/construction industry be reduced to %. Within this industry, we would like to slightly increase the proportion of Caterpillar to 2%, which would mean investing an additional $1,900 to make the total dollar amount in Caterpillar $4,200. We believe that the construction segment of this industry will be enjoying high levels of growth in the next year, especially as a result of lowered interest rates. An alliance with Daimler-Chrysler should also help the company obtain cost savings in terms of procurement. The Caterpillar CEO has been replaced with an individual that we believe has the right goals for this company. Finally, the stock price for Caterpillar is currently low and we believe this presents a good opportunity for increasing our position.

We would like to maintain the dollar amount invested in GE, so that after the $100,000 addition to the fund the proportion in GE will decrease to 2.86%. We believe that the stock is a good one but that it is currently rather expensive, and there is a level of uncertainty related to the Honeywell acquisition and the departure of long-time CEO Jack Welsh. Therefore, we will not increase our position, nor we will deliberately increase the position.

We would like to eliminate the position in GM because the automotive industry is suffering significant setbacks, and is expected to continue experiencing declining sales over the next year. GM in particular has had difficulty implementing their e-commerce strategies, and they also poured large sums into the development of their electric car, which they immediately pulled due to a lack of sales. In addition, there is increased competition from companies like Honda and Toyota, who have just successfully unveiled their electric cars.

To replace the GM holding and to maintain the proportion of the capital goods/construction industry in the portfolio, we recommend adding a $4,000 investment in Fuel Cell Energy. This $4,000 will make this stock equal to 1.9% of the equity component of the portfolio. The Fuel Cell Energy stock is discussed below.

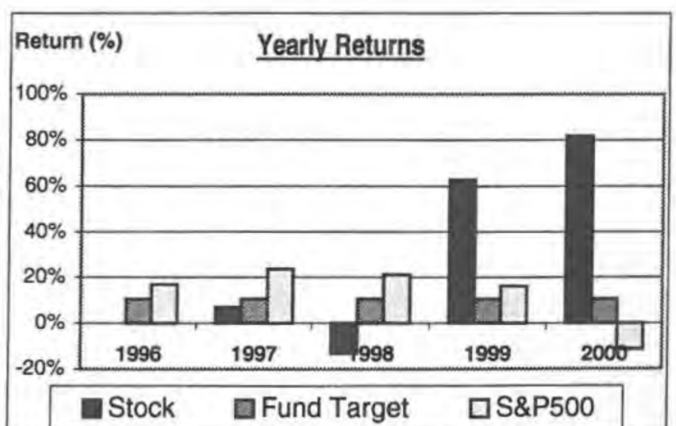
Exhibit 19. Capital Goods/Construction Composition



FUELCELL ENERGY, INC.

FuelCell Energy, Inc.: Company Overview

FuelCell Energy Incorporated develops electrochemical technologies, focusing its efforts on the development, demonstration and commercialization of the carbonate fuel cell.



FuelCell Energy, Inc.: Fundamentals

Historical Returns

The adjacent graph shows one-year return for the stock of FuelCell Energy. Despite a weak start, the company stock has been providing very high return in the past two years, far outperforming the S&P 500 index. The company's promising technologies and the recent raise in energy prices has probably contributed to the shares' success.

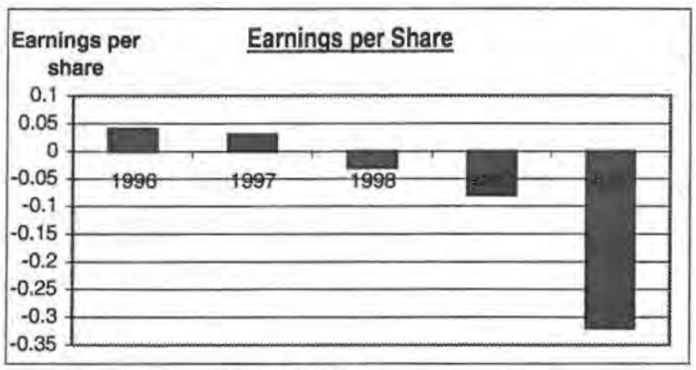
Key Figures

The company's P/E ratio is not available since earnings are negative. The company's Beta however, is low compared to the Industry and the Sector, which implies a low volatility relative to the market. Return on Equity and Return on Assets are both negative so far and consequently much lower than both the Industry and the Sector average. The same is true of Operating and net profit Margins. The company's Debt to Equity ratio is also very low compared to the Industry and the Sector.

	FCEL	Industry	Sector
P/E		16.69	28.73
Beta	0.63	1.42	1.73
ROE	-11.26	11.74	15.04
ROA	-10.27	8.38	12.72
Operating Margin	-47.00	10.43	17.76
Net Profit Margin	-32.37	7.06	15.77
Debt/Equity	0.02	0.80	0.31

Earnings history

FCEL's limited operating history and large expenditures on Research and Development have restricted the company from reaching profitability in the past. The company is expected to return to profitability within the next two fiscal years. Consensus estimates for the year ending December 2001 are -$1.41 per share[194], reflecting the very positive outlook for the company.



FuelCell Energy, Inc.: Looking Forward

FCEL is focused on completing field trials for its products and expanding its manufacturing operations. Continued development of its technologies and commercial acceptance of its products should power the company going forward. Recent alliances, including one with Enron, provide proof of the business model and, as new applications are discovered for its products, will open up new markets for FCEL to penetrate.

CONSUMER STAPLES

The consumer staples industry should represent 19% of the equity position. The Anheuser-Busch stock is performing very well and is expected to continue doing so. However, the stock's price is currently rather high; as a combined result of these factors, we recommend that the BUD stock is held. No additional stock should be purchased and none should be sold. By keeping the dollar value at approximately $11,600, BUD's proportion of the equities will reduce to 5.5%.

The Bausch & Lomb stock is a recommended sell. The company's main market is mature, if not stagnating. BOL also announced they will miss analysts' earnings estimates for 2001. The purchase of Bausch & Lomb was a good trade initially, because it was at a low price, and the price started to rise due to expectations that performance would rise. However, it is looking less likely that these expectations will be realized, and so the price is expected to go back down. Because the expectations were not realized, this stock should be sold.

The Coca-Cola stock should be sold, as well. Although the stock is at one of the lowest levels in the last few years, we are doubtful Coke will be able to meet its aggressive growth goals. International beverage competition as well as competition from private label brands prevents Coca-Cola from significantly increasing prices, while growth in sales in stagnant across the industry. In addition, the position held in this company is relatively small, and therefore we recommend this position be eliminated.

It is also recommended that the position in HCA be eliminated. HCA has suffered from extensive litigation, and a new series of lawsuits is currently hitting them. However, the price for HCA already reflects positive expectations; we feel that the risks HCA possesses may impact their ability to realize these expectations. Therefore, we feel this is an ideal time to sell HCA. The elimination of Bausch and Lomb, Coca-Cola, and HCA will serve to consolidate holdings and reduce the overall number of equities in the portfolio, which was one of the goals we delineated for these changes.

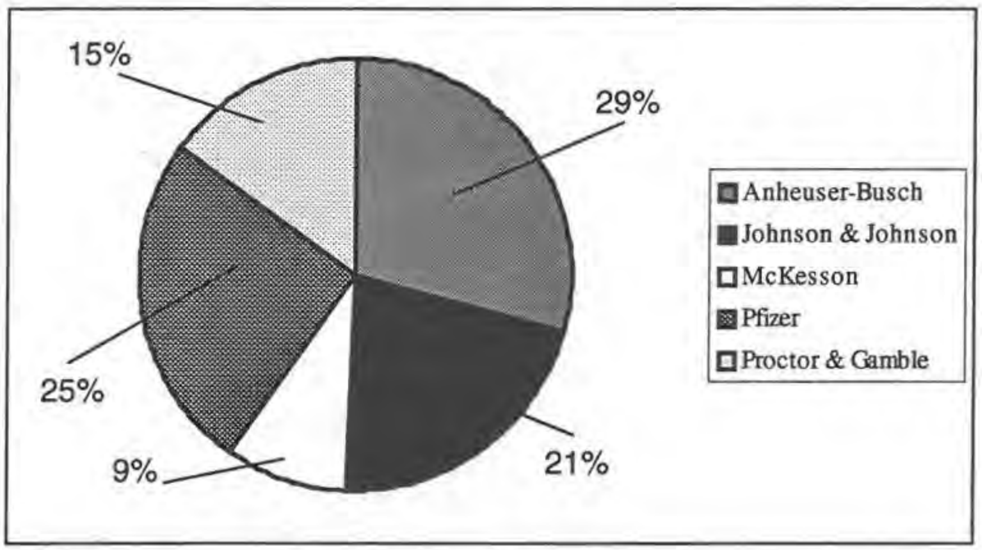
We recommend that the position in Johnson and Johnson be increased. This company has demonstrated a consistently high level of performance over the last several years. The investment in biotechnology is also expected to pay off as it becomes an increasing component of J&J sales. In addition, the healthcare industry is expected to continue growing at a high rate, and Johnson and Johnson is positioned to gain from this growth. Therefore, we recommend that we add an additional $3,500 to the investment in J&J, bringing the proportion of that stock in total equities to 4.00%.

It is recommended that the dollar amount in McKesson be maintained. We do not recommend adding to this amount because projections are uncertain and the company has been dealing with a lot of setbacks, mostly related to lawsuits. Therefore, we will keep the nearly $3,700 in McKesson, which will reduce the McKesson proportion of total equity to 1.75%.

It is recommended that the position in Pfizer be increased to $10,000, which would make it 4.7% of the total equities in the portfolio. Pfizer is expected to continue performing extremely well, both because the healthcare industry is experiencing high growth and because the company is positioned at the top of the market. In addition, the joint venture with Microsoft and IBM should provide an important edge for Pfizer in the rapidly expanding area of software applications in medicine. Finally, the stock is currently trading at a slightly lower price than its competitors, but is expected to be above its competitors in the next year. This makes it an opportune time to increase our position in Pfizer.

It is recommended that the position in Proctor and Gamble be maintained. The company is well-managed, although the results for 2000 are not very good. The recent drop in share price we view as a temporary setback and not an indication of a negative future outlook. However, we do not feel the stock is currently priced low enough or that prospects are good enough to increase the position in this stock. Therefore, we will keep the approximately $6,000 in P&G, which will reduce the P&G proportion of total equity to 2.84%.

Exhibit 20. Consumer Staples Composition



CONSUMER CYCLICALS

The consumer cyclicals industry should represent 6% of the equity position. First, the Black and Decker position should be eliminated. The company is clearly not confident that its recent restructuring will provide future benefits; for example, 750,000 shares of insider trading occurred in the last three months. Sales have been down since the peak in 1997, and are predicted to be flat or lower. The Black and Decker stock was purchased at a low price, and it was a good entry point, and we feel now is a good exit point. We do not see increases in stock price in the future.

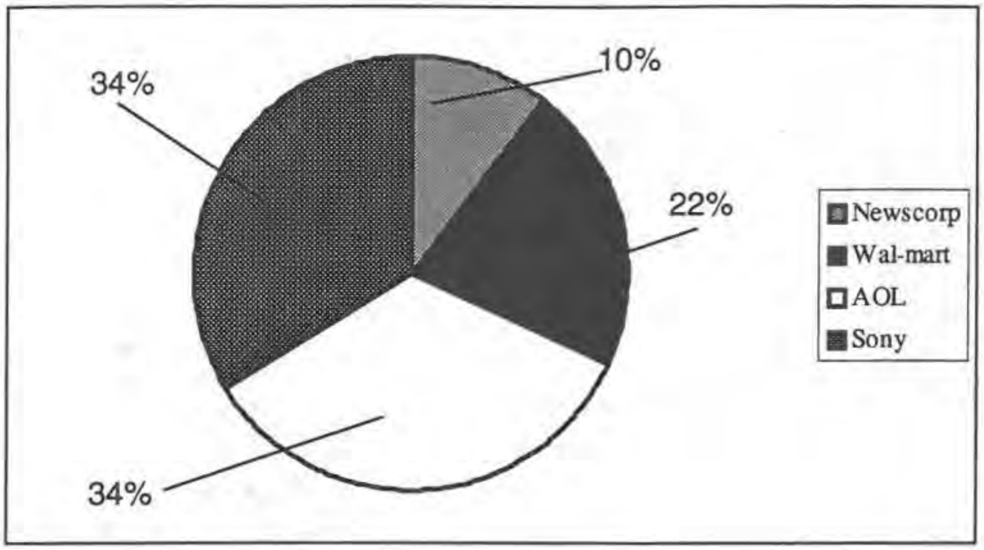
Mattel's position is similar to that of Black and Decker. The market that Mattel serves is showing increasing competition from manufacturers of video and electronic games. Although the company has the exclusive rights to the Harry Potter merchandise, the movie's success is no guarantee the merchandise will sell well. In addition, Mattel has no "hot new product." The shares have outperformed the general market so far this year and last year as the brand name and new management prospects appealed to investors. However, the outlook for Mattel is not good. This is providing an opportunity for us to sell the shares when they are richly priced. Therefore, we recommend that the position in Mattel be eliminated, as well. These eliminations serve to further reduce the overall number of equities in the portfolio.

We recommend that the dollar position in News Corp be maintained at $1,350, which would reduce the overall proportion of this equity to 0.6%. The company has good prospects for the future because of efficient operations and expansion into Asian and European markets. However, News Corp has been affected by the poor performance of many web companies, and this could be a limiting factor in the future. The stock is also currently at a high price, making this not a good time to increase our position. Therefore, we maintain a hold on this stock.

It is recommended that the dollar position in Wal-Mart be maintained at about $2,900, which will reduce its proportion of equity to 1.37%. The performance over the last year has been acceptable, and Wal-Mart is expected to perform strongly in the face of economic slowdowns because consumers will be increasingly seeking out lower prices. Wal-Mart has also enjoyed success with its super-center concept. The rapid growth of Wal-Mart has allowed the company to enjoy economies of scale; however, it is possible that too-rapid expansion could result in diseconomies of scale as the company's huge size begins to work against it. Therefore, we do not feel we should add to this position, but hold it.

To offset the elimination of the position in Mattel, we recommend that we add a position of $4,250 in AOL. This would make AOL represent 2% of the equities. The AOL stock is not at its highest price and the company is expected to perform very well over the coming year (see below). It is also recommended that we add a $4,250 position in Sony Corporation, making it represent 2% of the total equities. Sony is a consistently high performer and we feel that they are capturing much of the market that Mattel is losing. In addition, the diverse set of businesses in which Sony is involved help it maintain growth in economic slowdowns. The stock is also trading at a reasonable price (see below).

Exhibit 21. Consumer Cyclicals Composition



AOL-TIME WARNER

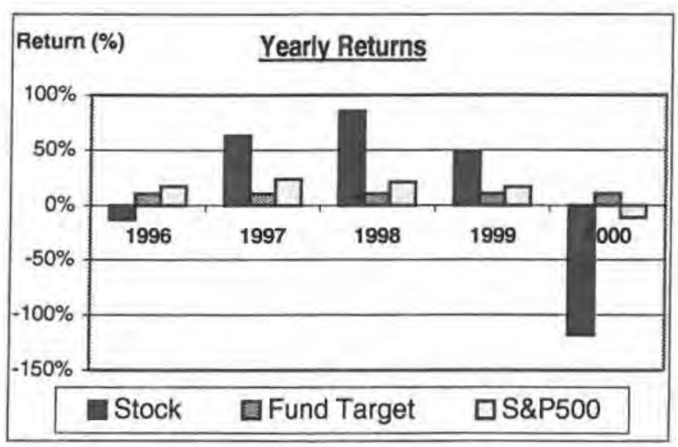
AOL-Time Warner: Company Overview

AOL-Time Warner, Inc. is an integrated, Internet-powered media and communications company. The Company was formed by the merger of America Online, Incorporated and Time Warner Incorporated on January 11, 2001. As a result of the merger, America Online and Time Warner each became wholly owned subsidiaries of AOL Time Warner. The Company's fundamental business areas are comprised of America Online, Web brands, Internet technologies and electronic commerce; Cable, Filmed Entertainment, Networks, Music, and Publishing.

AOL-Time Warner: Fundamentals

Historical Returns

The graph reflects returns that are adjusted for the recent merger. The company's stock has been providing very high returns between 1997 and 1999. However, in 2000, the return has been negative more than 100%. However, we believe the recent merger will provide the necessary strength to the company. The company's stock has hit a low in January 2001 and has slightly rebounded since then.



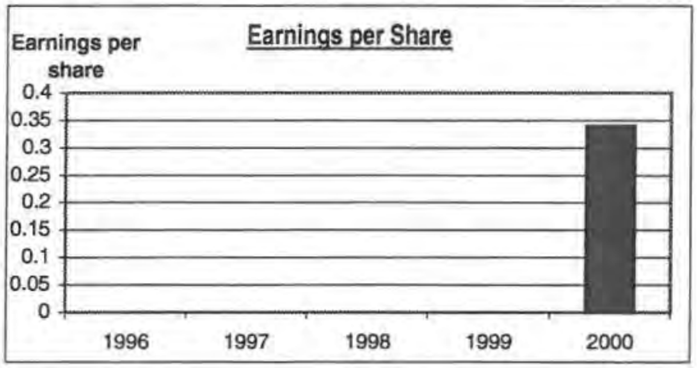
Key Figures

The company has a Price to Earnings ratio that is much higher than the Industry and the Sector averages. Also, the Beta of the company is higher than the Industry average and the Sector average, confirming the high volatility of the stock. However, the merged company has a Return on Equity and a Return on Assets that is much higher than the Industry and the Sector averages. The same is true of Operating and Net Profit Margins. The company also has a low Debt to Equity ratio compared to the Industry and the Sector.

	AOL	Industry	Sector
P/E	52.68	43.00	28.73
Beta	2.61	1.93	1.73
ROE	29.70%	19.54%	19.57%
ROA	17.85%	9.78%	12.72%
Operating Margin	22.92%	16.32%	17.76%
Net Profit Margin	16.62%	10.84%	15.77%
Debt/Equity	0.21	0.40	0.31

Earnings history

AOL's earnings history is hard to evaluate given the recent merger. Consensus estimates for the year ending December 2001 are $1.14 per share[195], reflecting the very positive outlook for the company.



AOL-Time Warner: Looking Forward

AOL Time Warner is now ideally positioned to take advantage of the largest digital distribution network in the country to distribute their products. Despite poor recent results, we believe that the current low price is a opportunity to buy the company's stock and will benefit in the short-term from the company's good results.

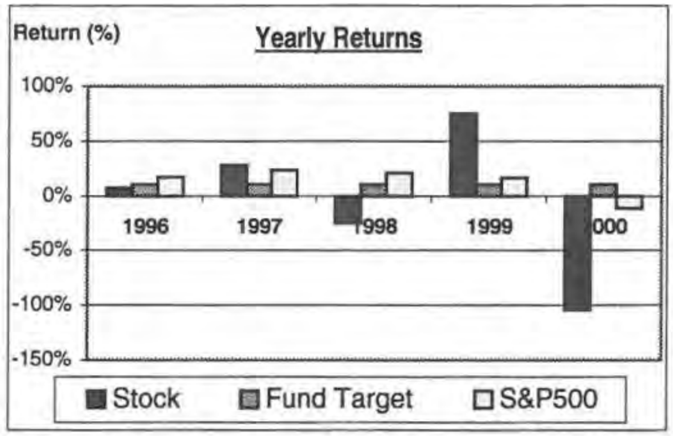
Sony Corporation

Sony Corporation: Company Overview

The Sony Corporation is a consumer electronics and multimedia giant. Electronics account for approximately two-thirds of sales ($63 billion in 2000); its most profitable product ever is the Sony PlayStation, which is responsible for nearly 10% of sales. Other assets include Columbia TriStar (movies and TV shows), Columbia and Epic record labels, and music club Columbia House (a joint venture with AOL-Time Warner). In addition, Sony operates insurance and finance businesses[196].

Sony Corporation: Fundamentals

Historical Returns



The return on Sony stock exceeded the fund target and the market return in 1997 and 1999. In 1996, the stock fell slightly short of the fund target and the market; despite its shortcomings, the return in 1996 showed a remarkable turnaround from the 1995 data. In 1998, Sony suffered a negative return when the market performed well. This is not surprising for a company based in Tokyo, since 1998 is when the Asian market crises began. In 1999, returns peaked due to the introduction of several innovative digital technologies. In the beginning of 2000, there was a 2:1 stock split (the graph has been adjusted for the split). Also in 2000, Sony began a three-year-plus restructuring program[197].

Key Figures

The company has a Price to Earnings ratio that is much higher than the Industry and the Sector averages. The beta is right around 1, indicating volatility consistent with the market as a whole. The company's ROE is much lower than the sector average but higher than the negative industry average, as is the ROA. This trend also appears in the operating margin and net profit margin. Sony's debt-to-equity ratio is lower than the sector average but higher than the industry average, indicating it tends to finance less with debt than others in the sector, but more than others in the industry[198].

	[redacted]	[redacted]	[redacted]
[redacted]	130.87	13.27	16.87
[redacted]	1.02	1.38	0.96
[redacted]	3.29	-3.53	16.82
[redacted]	1.77	-3.31	5.26
[redacted]	2.92	-20.62	6.59
[redacted]	1.77	-21.35	3.58
[redacted]	0.59	0.15	2.13

Earnings history

Sony's earnings grew consistently until the peak in 1998, after which the earnings dropped slightly in each successive year. This may be a residual effect from the

Asian market crises that hit in late 1998.

Sony Corporation: Looking Forward

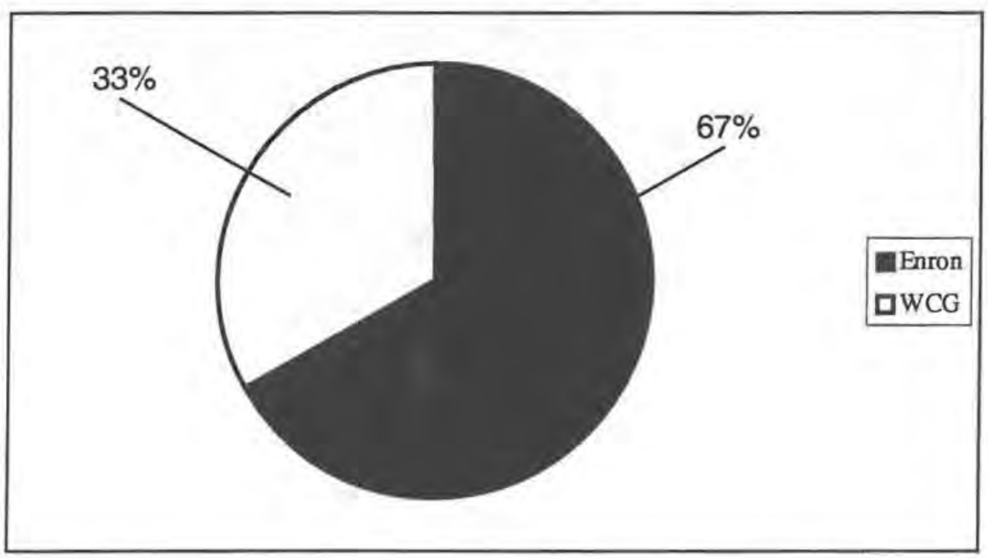
Sony Corporation is going through an extensive restructuring that aims to cut costs and increase the efficiency of operations. In 2001, the company intends to begin a joint venture for online banking operations. The company is involved in a related set of businesses, so that it can leverage its resources across its business units. Its prospects for the future are extremely good, and the stock hit a new 52-week low of $65.40 in March 2001. This provides a great opportunity to invest in Sony.

ENERGY

It is desired that the energy industry represent 6% of the equity component of the portfolio. We recommend that we increase our position in Enron. The price is down right now, so the price makes it an acceptable time to buy. In addition, the company has been performing well and is expected to continue doing so into the future. We feel this stock is currently undervalued. We would like to increase our position in Enron to $8,500, making it approximately 4% of the equity position.

In addition, we would like to add a position of $4,250 in Williams Companies Incorporated, making it 2% of the equity portfolio. This stock is also performing well and, like Enron, is expected to continue doing so in the near future (see below).

Exhibit 22. Energy Composition



WILLIAMS COMPANIES

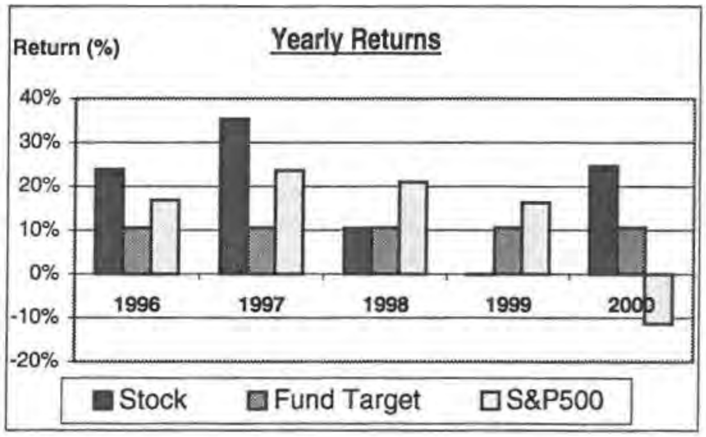
Williams Companies: Company Overview

The Williams Companies Incorporated, through its subsidiaries (The Williams Energy Group and The Williams Communications Group), engages in energy-related activities, including transportation and storage of natural gas and related activities. Williams Gas Pipeline operates 27,300 miles of coast-to-coast pipeline, including the Transco system, which runs from Texas to New York. The company's 85%-owned Williams Communications offers telecom providers voice, data, and video transmission services on its 26,700-mile national network.

Williams Companies: Fundamentals

Historical Returns

During the past five years, one-year returns for the Williams Companies have consistently met the Fund target (four years out of five) and the stock performance has consistently outperformed the S&P500 index (three years out of five). In 1998 and 1999, the company's return were down despite healthy growth in sales; this can be attributed mainly to the purchase of MAPCO and the creation of the subsidiary Williams Communications. However, the year 2000 has been a very good year for the company with sales reaching more than $10 billion and pushing the share price to its 52 week high in August 2000.



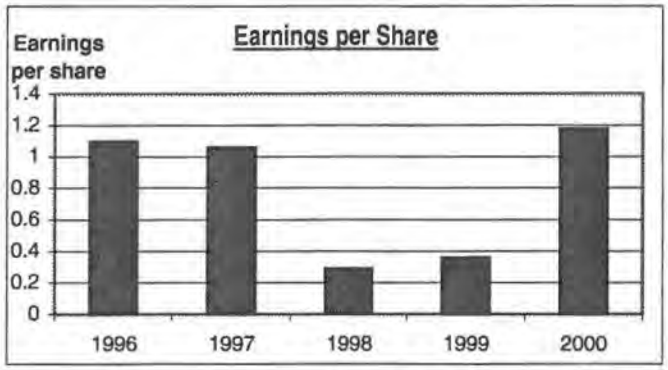
Key Figures

The Williams Companies has a low P/E ratio compared to the Sector average and the Industry average. The company also has a high Beta compared to the Industry and the Sector. Return on Equity is higher than the Industry and the Sector averages. The Return on Assets is in line with the Industry and lower than the Sector average. Operating and Net Profit Margins are much higher than both the Industry and the Sector average. The Debt to Equity ratio is also much higher for the company than the Industry average and the Sector average.

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	21.19	32.07	23.90
[illegible]	0.61	0.41	0.17
[illegible]	14.87	11.63	13.40
[illegible]	2.88	2.83	3.14
[illegible]	17.02	9.46	14.50
[illegible]	8.40	4.60	6.39
[illegible]	2.39	1.48	1.72

Earnings history

The Williams Companies have a relatively good earnings history over the past five years despite a low in 1998 and 1999, mainly due to the acquisition of MAPCO and the IPO of a minority interest in Williams Communications. The year 2000 however was a very good year for the company's earnings. In fact the company beat the analysts estimates for each quarter. The consensus estimates for the years ending December 2001 is $1.49 per share199. The Williams Companies is estimating recurring 2001 performance from $1.75 to $1.95 per share[200].



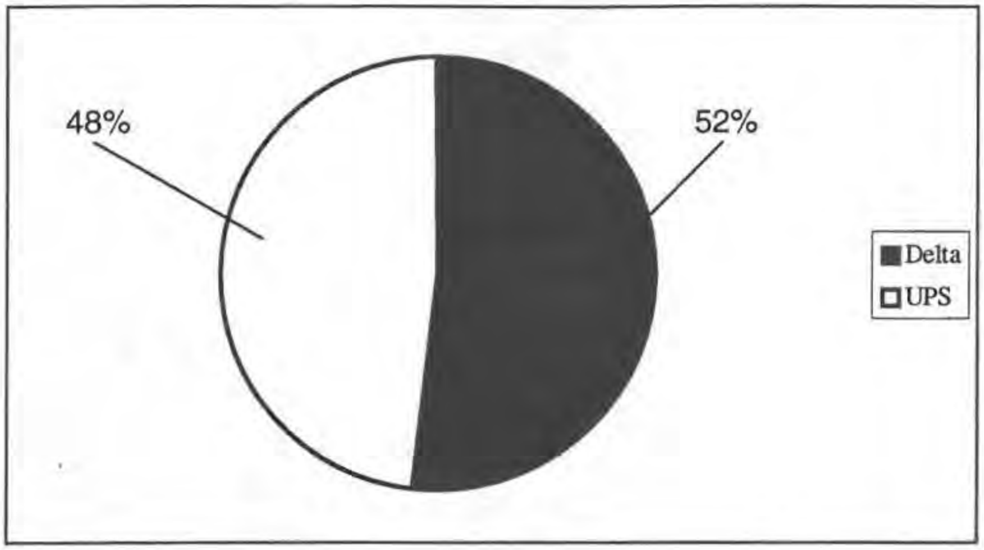
Williams Companies: Looking Forward

With the announcement of several long-term contracts in early 2001 and the strength of the company's fundamentals, it is very probable that medium to long-term results will be very good for the company. The stock has rebounded a little bit in the early 2001 and is expected to continue its growth along with relatively high volatility.

TRANSPORTATION

It is desired to have a 1.9% of the equity holdings in the transportation industry. We would like to maintain our dollar position in both Delta and UPS. Both companies are performing reasonably well and have positive outlooks. However, they are not priced low enough to buy additional shares at this time. Therefore, we will keep $3,100 in Delta, making it 1.47% of the equities, and we will keep $2,900 in UPS, making it 1.37% of the equities.

Exhibit 23. Transportation Composition



Utilities

It is desired to have a 2% of the equity holdings in the utilities industry. It is recommended that we eliminate the position in AT&T because restructuring problems that were once considered temporary look as if they are here to stay. In addition, the main line of business for AT&T is mature if not stagnant. In the last year, the portfolio has gained over 20% on the stock, and we feel this return will not be exceeded. Therefore, it is an ideal time to eliminate our position in this stock.

It is recommended that we add a position in the Vanguard Utility Fund in the amount of $4,250, making it 2% of the equities in the portfolio. This fund has been performing well and is expected to continue doing so (see below).

Vanguard Utility Fund

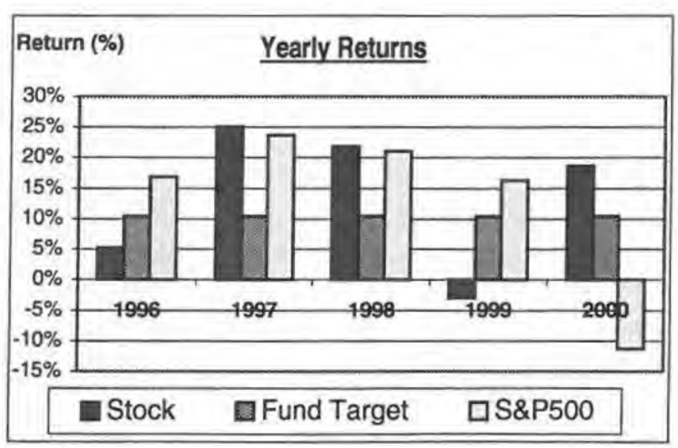
Vanguard Utility Fund: Overview

The Vanguard Utilities Income Fund's objective is current income. It invests in equity and debt securities of domestic utility companies such as those involved in the generation or distribution of electricity, telecommunications, gas or water.

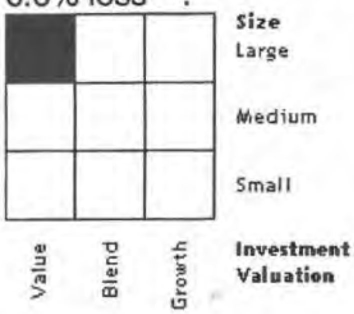
Vanguard Utility Fund: Fundamentals

Historical Returns

The fund returns since its inception in May 1992 have been positive six years (out of eight). In 2000, the fund registered a top-quartile return of 18.7%.



Performance has swung back around the category average so far in 2001 with a 6.6% loss[201].



Morningstar Rating:

Overall: · · · ·
Risk: Below average
Return: Average

Composition

Top Ten Holdings (as of 12/31//00)

1. Exelon	5.14%
2. Pinnacle West Cap	4.93%
3. FPL Group	4.85%
4. El Paso Energy	4.33%
5. Constellation Energy Group	3.68%
6. Alltel	3.55%
7. Dominion Resources	3.40%
8. Keyspan	3.34%
9. DPL	3.33%
10. Montana Pwr	3.27%

Sector Weightings (as of 12/31/00)

Energy	7.21%
Industry Cyclicals	2.49%
Services	18.25%
Technology	0.44%
Utilities	71.79%

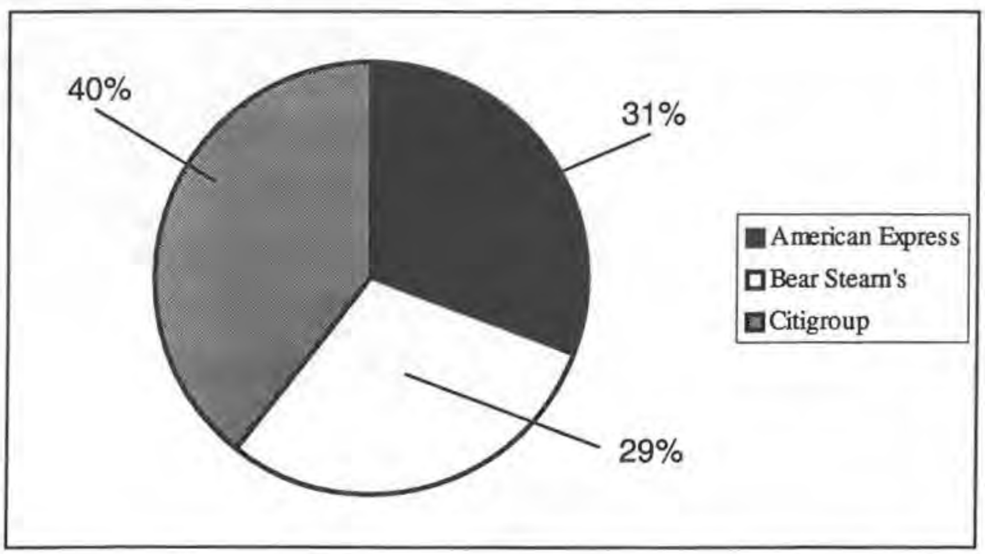
Vanguard Utilities Fund: Looking Forward

The Vanguard Utilities Fund, mainly made of traditional gas and electric utilities, did very well in 2000 as natural-gas prices soared through the roof, and as power shortages in California and elsewhere in the country demonstrated a growing demand for electric services. The fund performance will be highly dependent on the state of the energy market (especially natural gas) since the fund manager, Mark Beckwith, is keeping relatively large positions in natural-gas providers because he still thinks demand in the sector will be robust in coming years. Beckwith also looks for companies with healthy margins and relatively low exposure to Latin America, where he fears currency risk and inflation problems.

FINANCIAL

It is desired to have 7.61% of the total equities in the financial services industry. It is recommended that all three of the stocks in this category be held. There is a lot of uncertainty in the industry about potential mergers/acquisitions. This will reduce the proportion of each equity. The American Express equity will go down to 2.35% of the total equities, Bear Stearn's will do down to 2.23%, and Citigroup will go down to 3.03%.

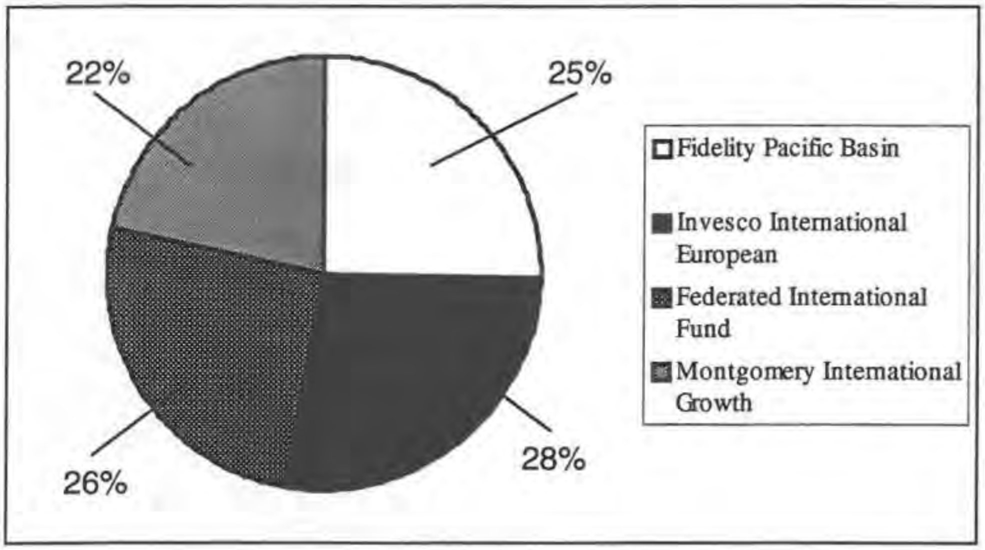
Exhibit 24. Financial Composition



INTERNATIONAL

It is recommended that we eliminate our position in the Montgomery Emerging Markets fund because it performed poorly over the last year and its Morningstar rating was reduced to two stars. In addition, the position in this fund is relatively small ($2,700). It is recommended that we add a $10,000 position in the Federated International Fund, which has exhibited consistently high performance and maintains a four star rating from Morningstar (discussed below). By pulling out $2,700 and adding $10,000, the new amount in international mutual funds would be $39,035, which is 14.2% of the new $275,000 portfolio and 18.5% of the equity component.

Exhibit 25. International Composition



FEDERATED INTERNATIONAL FUND

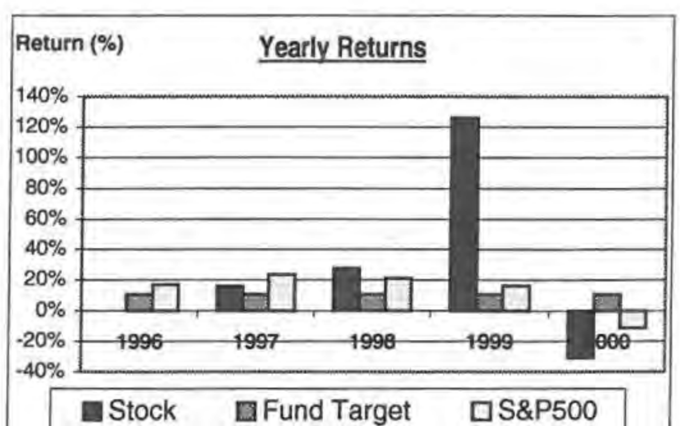
Federated International Fund: Overview

The Federated International Small Company Fund seeks to provide long-term growth of capital by investing at least 65% of its total assets in equity securities of foreign companies that have a market capitalization at the time of purchase of $1.5 billion or less.

Federated International Fund: Fundamentals

Historical Returns

The fund returns since its inception in February 1996 have been quite irregular with a 126% return in 1999 and a –30% return in 2000. Also, the fund has been going down very sharply in the beginning of 2001 with a negative return of more than 18% so far[202].



Morningstar Rating:

Overall: ★★★★★
Risk: Average
Return: High

Composition

Top Ten Holdings

1. Bank of America 6.68%	10.80%
2. Matalan	1.62%
3. Vestas Wind Sys	1.60%
4. China Everbright	1.46%
5. Straumann Hldg	1.22%
6. Daido Steel	1.16%
7. Pinguely-Haulotte	1.11%
8. Jomed	1.07%
9. Tecan	1.06%
10. Dainippon Pharm	1.05%
Total	**22.15%**

Economic Sectors

Energy	3.80%
Financials	14.74%
Industrial Cyclicals	22.53%
Consumer Durables	5.42%
Consumer Staples	6.92%
Services	13.99%
Retail	5.96%
Health	10.95%
Technology	13.87%
Total	**100.00%**

Federated International Fund: Looking Forward

Manager Leonardo Vila has controlled the fund since inception in 1996. Also, the fund carries the highest Morningstar rating possible and could be expected to rebound in the future.

Technology

It is desired that the technology industry represent 15.3% of the total equity. The position in the NASDAQ 100 should be increased by $20,000 to comprise 15.3% of the total equity. The returns in the NASDAQ 100 have been satisfactory and currently prices are at an historical low. Now is a great time to buy shares in this fund.

Small cap

It is desired that the small cap comprise 5.4% of the total equities in the portfolio ($11,400). It is recommended that the small-cap position be held in the FMI Focus Fund (discussed below).

FMI Focus Fund

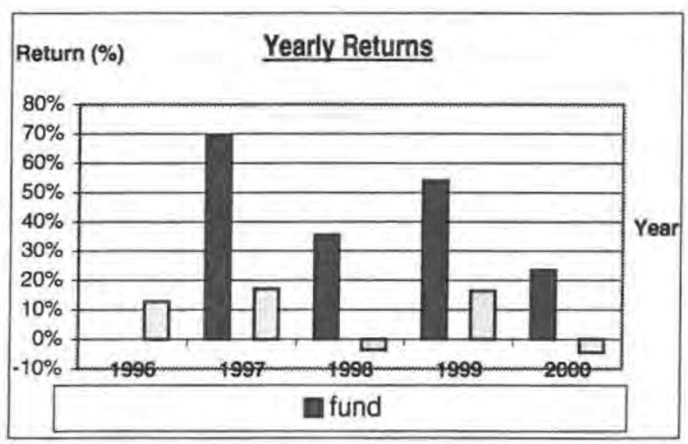
FMI Focus Fund: Overview

FMI Focus Fund seeks capital appreciation. The fund invests primarily in common stocks. The advisor seeks to identify securities it judges to be under-priced relative to the issuing corporation's future growth prospects. The fund may invest in securities issued by companies of any size and in any industry. It may invest without limit in foreign securities. It also engages in short sales and futures and options[203].

FMI Focus Fund: Fundamentals

Historical Returns

The fund returns since its inception in December 1996 have been high. The fund has outperformed the Russell 2000 index as well as the S&P500. 2000 delivered a return in excess of 20% while both indices were negative. The fund is down so far in 2001, but is well positioned to gain from the future economic rebound.



Morningstar Rating:

<u>Overall</u>: ★★★★★
<u>Risk</u>: Average
<u>Return</u>: High

Composition

Top Ten Holdings

1.	SunGard Data Sys	3.14%
2.	Retek	2.73%
3.	Adelphia Comms	2.49%
4.	HNC Software	2.46%
5.	Quest Diagnostics	2.37%
6.	Old Republic Intl	2.17%
7.	Pride Intl	1.93%
8.	Coflexip SA ADR	1.88%
9.	MGIC Invest	1.73%
10.	Kinder Morgan	1.69%
Total		**22.59%**

Economic Sectors

1.	Consumer Durables	0.23%
2.	Consumer Staples	0.68%
3.	Energy	12.53%
4.	Financials	19.93%
5.	Industry Cyclicals	14.53%
6.	Services	16.96%
7.	Retail	1.09%
8.	Technology	31.31%
9.	Health	6.03%
10.	Utilities	0.72%
Total		**100.00%**

FMI Focus Fund: Looking Forward

FMI Focus Fund, operating in the small cap sector, may be little known but it delivers big returns. The no-load Milwaukee-based $93 million FMI Focus has returned 22.86% at a time when the Russell 2000 was up by a mere 0.24 %, the S&P 500 Index was down by 0.22% and the Nasdaq Composite was off by 8.64% since the beginning of the year.

Boosting its position as a Morningstar five star rated fund, this four-year-old offering has continued along its outperforming binge by racking up a 77.4% average return over the past year and a 58.5% average over the past three years. Fund performance numbers are even more impressive because small cap stocks had been out of favor during roughly two-thirds of the time the fund has been earning such spectacular returns[204].

The fund would constitute a good diversification towards the small cap market and is expected to perform well during the next year.

MID CAP

It is desired that the mid cap comprise 5.4% of the total equities in the portfolio ($11,400). It is recommended that the mid cap position be held in Artisan Mid-Cap Fund (discussed below).

ARTISAN MID-CAP FUND

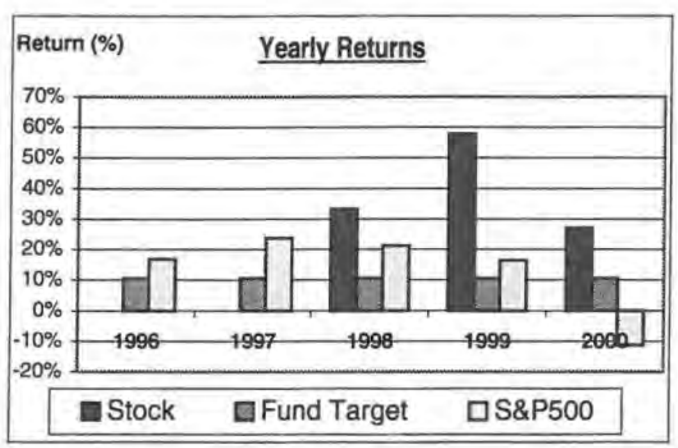
Artisan Mid-Cap Fund: Overview

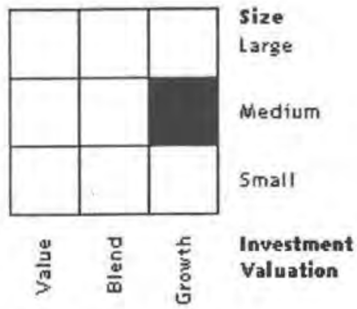
Artisan Mid Cap Fund seeks long-term capital growth. The fund primarily invests in common stocks of mid-size companies. Management considers a company to be mid-size if it falls within the range of companies in the S&P MidCap 400 index. Management also seeks companies that have or are developing franchise characteristics and that it believes to be undervalued. The fund may invest up to 15% of assets in illiquid securities. Though it intends to fully invest in common stocks, it may invest in investment grade bonds.

Artisan Mid-Cap Fund: Fundamentals

Historical Returns

The fund returns since its inception in June 1997 have been very high. In fact the fund gained more than 27% in 2000, outpacing 97% of its peers for the period[205]. However, since the beginning of 2001, the fund has been declining in value.





Morningstar Rating:

Overall: ★★★★★
Risk: Average
Return: High

Composition

Top Ten Holdings

1. Intuit	4.23%
2. ACE	3.50%
3. Citizens Comms	3.40%
4. St Paul	2.91%
5. Thermo Electron	2.73%
6. Sealed Air	2.68%
7. Kinder Morgan	2.67%
8. Healthsouth	2.65%
9. UnumProvident	2.65%
10. Charter One	2.60%
Total	**30.02%**

Economic Sectors

Utilities	3.14%
Energy	7.89%
Financials	14.18%
Industrial Cyclicals	16.36%
Consumer Durables	4.83%
Services	11.11%
Retail	3.29%
Health	10.86%
Technology	28.35%
Total	**100.00%**

Emphasis has been shifted out of pure technology stocks during the year 2000 in order to better perform in a poor performing technology environment. The new focus is on Energy, Financials and Utilities.

Artisan Mid-Cap Fund: Looking Forward

The fund provides diversification in the Mid-cap market, which has been providing very high returns over the past decade. Despite the recent poor performance of the technology Sector, the fund has been performing among the best in its category and seems well positioned to benefit from a rebound later this year. The fund is currently at a low price, an ideal time for entry.

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