



1ST QUARTER 2003

Do you remember Steven Spielberg's quintessential movie, Jaws? You can conjure those feelings of fright; just when you thought it was safe to go back into the water, the vicious shark strikes again. That feeling hit many equity and bond managers weeks ago. Just when they thought that more stringent accounting rules coupled with Sarbanes - Oxely would be the new silver bullet and corporate fraud would be all but a footnote to the equity bubble; it was not to be. Another fraud attack was committed by HealthSouth Corporation; they inflated profits by \$2.5 billion. They brazenly cooked their books, made up profits and overvalued assets. Just another reason investor confidence is so limbo low.

In the corporate bond market credit quality continues to erode. The rating agencies downgraded \$140 billion in bonds last year, eight times more than were upgraded. Another sign the bubble hangover continues.

Drilling down to what matters in your bond portfolio; Treasury yields won't decline any further unless there is another terrorist event. Although a bear market in Treasuries is not imminent, the growing budget deficit, weak economy, costly war, limp consumer spending all spell trading range for the rest

of this year and higher rates next year.

Don't let the doomsayers scare you regarding the amount of new Treasuries that need to be issued. No matter how much they hate us, the world continues to pour money into our Treasury bond market because of its safety and liquidity. We're talking about the Saudis, Chinese and Japanese who remain the biggest holders of U.S. Treasuries. It's safety and return that clearly matters, not geopolitics, rage or anti-war sentiments.

Our game plan is simple; shorten up portfolio durations (the number of years required to receive the present value of future payments of interest and principle) for corporate and municipal bonds. For high yield investors, we'll stay with turnaround and cost cutting situations so when the economy feels a modicum of strength, the leverage will be meaningful.

No matter what negative or lukewarm economic events occur in our economy, the United States is far better off than Europe. Europe is laboring under an umbrella of regulation and blubbery bureaucrats that won't allow dynamic growth. America can only grow further ahead of Europe in our prosperity because of free trade and the need to achieve.

Presently it's war news driving the markets. As long as our positions are not in the headlines.....that's good news.

Be well and as always, call with any questions.

