



3RD QUARTER 2003

With the third quarter firmly behind us, good economic news is busting out all over. The declining dollar in conjunction with massive fiscal and monetary stimulus has ignited the reflationary process. The economy is on the move!

As the recovery builds momentum, more corporations will buy new equipment and upgrade their systems. It seems that everything in the economy and financial markets has a flip side to it. We continue to lose manufacturing and service jobs to India and China, yet US productivity continues to improve. Excess capacity and stubborn high unemployment hinder big economic growth but keep inflation tame. Large budget deficits are unpleasant but when growth and increased tax receipts kick in on all cylinders, deficits will decrease.

The economic worry worts have cried Chicken Little so long about rising interest rates due to our budget deficit that someone needs to put a gag over their mouths. Sure, there are still problems in the economy, but 2003 GDP growth has shaped up to be much better than the most optimistic economic forecasts. Interest rates are up from their lows, but they remain in a manageable trading range.

If you refer to your previous quarterly update, we clearly and unequivocally said the interest rate wind is in our face as opposed to our backs like during the past three years. Cycles change, that's their nature. I don't believe, 2004 and 2005 will produce a bloody bear market in bonds. In fact, we just lived through a nasty spike. June 13, 2003 (Friday the 13th) our ten-year US Treasury

bond was at a 40 year low in yield, 3.11% to be precise. By the end of August, the yield stood at 4.60%. By the time September rolled around the same ten year Treasury declined to 3.95%. And now it's back to 4.25%. This round trip interest rate roller coaster is what will drive bond fund investors insane but not short duration bond investors with separate accounts like yours.

You are a different species than the bond fund investor...you can hold to maturity...they have no finite maturity.

We can't have a quarter end commentary without mentioning the declining dollar. This is a good news/bad news item. The good news is a lower dollar will increase exports, which begets improved corporate earnings, which begets increased business spending. The bad news is that foreigners who hold hundreds of billions of US Treasuries may get fed up with their currency losses and sell in massive quantities thereby temporarily driving up interest rates.

Something important to remember is that we try to plan for unexpected financial occurrences and worry about only those things we have control over; which in your portfolio means duration, credit quality, portfolio structure, diversification and allocation. A mouthful of words, no question, but the crucial elements of your portfolio.

Enjoy the last quarter of 2003, before you blink it will be the new year.