



YEAR END 2003

We closed 2003 with good economic news busting out all over. The mother of all economic stimuli, both monetary and fiscal, has paid off. We are reaping the benefits in almost all sectors: Low interest rates, higher stock, commodity and real estate prices, corporate earnings, better profits...the goods news goes on and on.

Over the past few years, we relied on consumer spending to remain buoyant as corporations cut back on spending. But it's all changed now—corporate profits are increasing as top line revenue grows, capital spending is revving up and everything that wasn't working during the past three years is humming now. Corporations held off spending for so long there is true pent-up demand to spend on all kinds of equipment, software, hardware and even new hirings. Cost cutting is over and growth prospects look rosy.

What about the deficit? This recovery has the ability to melt away much of the deficit. Tax receipts are increasing and as the job market strengthens (which it will) more people working will be the maraschino cherry on the cake.

Barron's recently published the accompanying chart developed by the prestigious International Strategy & Investment Group (ISI). **If** their historical employment study materializes, then creation of 400,000 jobs a month will be the butter cream icing anchoring that cherry.

Certainly, interest rates will rise but they are historically too low for a booming economy. Your portfolio returns didn't suffer even though we've been early in our call for rising rates. If interest rates rise

A Coming Boom?

► Since early 2002, household employment has increased, while payroll employment has only recently started to tick up, creating a near-record divergence between the two. The past six times there were large divergences, payroll employment in the next 12 months increased, on average, 3.7%. Such a rise over the next year would equate to 400,000 jobs a month.



during the second half of 2004, after the elections, your portfolio will decline only marginally due to its short duration (sensitivity to interest rate moves).

We've had attractive returns over the past

several years. But as you know, rapid economic growth is toxic to bonds.

So we expect to collect our coupons and patiently wait until the upswing in interest rates is in full force and scares the daylight out of bond investors. Then, we'll methodically extend your duration and increase your portfolio yield.

This process requires patience. For those who stay the course, their reward will truly pay off. Wishing you a healthy and happy New Year.

As always, I am available to you and welcome your questions, comments and conversation.

Sincerely,

Marilyn