

REALITY CHECK

Well, here we are again! Last year at this time the mood was everlasting optimism. The new millennium was upon us, and NASDAQ stocks were doubling, tripling or better in some instances in just weeks. All was right with the world of investing, or was it?

The market pundits and strategists were forecasting that the NASDAQ Composite Index would soar to new heights of glory, led by the “new economy” stocks. On the other hand, value investors and fundamental analysts were regarded as “old fuddy duddies”, people out of step with the new rules of investing.

Pharmaceuticals, consumer staples and financial services including banks languished. Technology stocks were bid up to unrealistic levels, led by the dot.coms, with investors giddily chasing what were soon to become dot.bombs. There were no bounds to the new paradigm, a heretofore-untested thesis in which revenues meant little and profits even less. This speculative bubble continued through the first quarter, peaking just about the time that Proctor & Gamble issued a profit warning in early March.

Meanwhile back at the Federal Reserve Board, there was growing concern over this excess speculation. As it was, they were already concerned over rapid growth leading to renewed inflation. After all, GDP was growing 6%, a level the Fed felt would see a surge in inflation. Thus the process of several rate increases began, culminating with a ½% hike in September.

There is a tried and true investment principle “Don’t Fight the Fed”. Beginning in the early summer and continuing into October and November, many over-valued technology stocks tanked, with some losing more than 90% of their market value. As this rout was underway, many under-valued sectors such as pharmaceuticals, consumer staples and financials began to rise, thus a realization that valuations and fundamentals were coming to the fore.

Today, the real question is “where do we go from here”? The Federal Reserve, because of the slowing in GDP will, we believe, lower rates over the next several months. Also, the likelihood of income tax cuts from the incoming administration will provide fuel to get the economy back into a sustainable growth mode. Thus we would have fiscal and monetary policies working in unison to cushion the downturn that appears to be underway.

Keep in mind the old adage, "Don't Fight the Fed". Historically, lower interest rates are friendly to the stock market.

We expect that there will be a very strong market in 2001 as the NASDAQ, Dow Jones and the S&P 500 have solid gains in the 15%-20% or better range.

The lesson that has been learned, at least for a while, is that investing in growing companies with strong fundamentals results in above average appreciation. Excess speculation leads to devastation.

The Scoreboard for 2000

	<u>% Change</u> <u>12/31/98 - 12/31/99</u>	<u>% Change</u> <u>12/31/99 - 12/31/00</u>
Dow Jones Ind.	25.22%	-6.18%
S&P 500	19.53%	-10.14%
NASDAQ	85.58%	-39.29%
Wilshire 5000	22.05%	-11.85%
Lehman Bros. Long Treas.	-8.70%	20.11%
Lipper Gr. Stock Index	19.36%	-19.68%
Lipper Bal. Fund Index	8.98%	2.39%

We would also like to invite you to check out our newly revamped website at www.abbotfm.com. We will be posting a quarterly newsletter on the site, and we encourage you to provide us with any feedback via the email link on the new site. This would also allow us to collect your email address for our files.

Finally, we have recently updated our Form ADV. If anyone would like to get a copy of it, please contact us. Happy New Year!

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January 3, 2001