

## **Back to Basics**

*(Or, how the “new paradigm” has come full circle)*

It is now just over 2 years since the major stock averages posted their all time highs in the first quarter of 2000. We thought it might be interesting to look at the magnitude of the declines from the top, and relate this market action to our investment philosophy. Here are the numbers.

<b>Index</b>	<b>High (Q1, 2000)</b>	<b>3/31/2002</b>	<b>Gain/Loss</b>	<b>% Gain/Loss</b>
S&P 500	1527.46	1147.39	-380.07	-24.9%
DJIA	11,722.98	10,403.94	-1319.04	-11.2%
NASDAQ	5048.62	1845.35	-3203.27	-63.4%

It is no secret that the technology heavy NASDAQ Composite bore the brunt of the damage. A confluence of events in the latter part of the last decade; a PC upgrade cycle, rollout of wireless communications, Y2K fears, and the emergence of the internet, converged and inflated many asset values to unrealistic levels. The basics of investing, revenue, earnings, and cash flow were dismissed by many as being not applicable to the new economy. It seems that, once again, the Graham & Dodd fundamental approach to investing has stood the test of time.

We strongly believe that the effects of 11 consecutive cuts in interest rates will ultimately have a positive effect on stock prices, and the strength of the recovery may well be greater than many are predicting. At Abbot, we will *continue* to practice the “basics” of investing, quality and diversification, emphasizing value and growth at a reasonable price. Our economy is already showing signs of recovery in many areas, and it is only a matter of time before stock prices follow with a meaningful rise. We will continue to position portfolios to take maximum advantage of any rebound in the equity markets.

<b><i>Quarterly Scoreboard Q1 - 2002</i></b>	
<i>Dow Jones Industrials</i>	+3.8%
<i>S&amp;P 500</i>	-0.1%
<i>NASDAQ Composite</i>	-5.4%

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