

## *The Bear Grew Claws*

We enter the fourth quarter of 2002 on the heels of six straight monthly declines in stock prices. The last time this happened was the same six month period in 1981. While the declines in the early stages of the bear market were primarily limited to technology related companies, the latter stage has seen significant damage across the board. As they say on Wall Street, the bear grew claws, and there was no safe haven in the equities market.

In this environment, what are investors to do? First and foremost, we must review stock holdings and ask the question, "Do these companies continue to fit our criteria for growth in the months and years ahead?" Changes should only be made when dictated by fundamental changes in a company's prospects, and not for the sake of change alone. History will show that disciplined, long-term investors (take Warren Buffet as an example) will eventually be successful regardless of shorter-term fluctuations in the financial markets.

The market swoon reflects many worries; one of them being that the economy goes back into recession, referred to as a double dip. First quarter of 2002 GDP (Gross Domestic Production) was up a strong 5.0%, followed by a modest gain of 1.3% in Q2. Forecasts for the just-ended third quarter, as well as the fourth quarter, remain in the plus column and it is our belief that recession will be averted. One of the major reasons for this position is that the Federal Reserve Board has been sharply expanding the money supply, and has indicated a willingness to lower interest rates even further if conditions warrant. Historically, accommodative monetary policy such as this has had a positive impact on economic growth, which in turn has a positive impact on corporate earnings, which in turn has a positive impact on stock prices.

Recoveries often occur when least expected. History also shows that the early gains in market turnarounds can be the largest, percentage wise, in the ensuing advance. We intend to be there and participate to the fullest extent possible. As always, we invite your comments and look forward to talking with you in the future.

These are the results for the first three quarters of 2002:

DJIA	-24.24%
NASDAQ	-39.91%
S&P 500	-28.99%

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