

Two in a Row (But who's Counting?)

Anybody invested in common stocks, that's who! The stock market has now logged two consecutive quarters of solid gains, and the economy continues to show signs of recovery. In this recent quarter, as was the case in the second, the technology laden NASDAQ Composite index showed the strongest gains, up just over 10%. The S&P 500, an indicator of the broader market, posted a gain of just over 2%.

The quarter saw dramatic swings in interest rates, and of particular interest is the action of the 10 year US treasury note. Remember that this is the benchmark rate on which most mortgage rates key, and the housing sector is a major contributor to our economy. This rate went from just over 3½% on June 30th to just under 4% on September 30th. However, in early September the rate spiked to over 4.6% on fears of an accelerating economy that might force the Fed to raise short-term rates. Weak job reports brought rates back down, and it is our belief that the current level of interest rates will support not only an economy that will grow without significant inflation, but presents an environment that is positive for stocks.

Earnings reports for the third quarter are beginning to trickle in as this letter is being written. Pre-announcements of weak earnings have been fewer and farther between than recent quarters, and many companies have actually guided higher. Productivity gains have contributed heavily to profits in the face of weak revenue growth and a general lack of pricing power. At Abbot, we will continue to focus on companies with strong balance sheets that offer the potential for growth over the long term.

We would like to correct a reporting error in our last newsletter dated August 1, 2003. We said that recent tax law changes reduced dividend and capital gains rates retroactive to January 1. This is not correct. Reduced taxation on dividends is retroactive to January 1; however, capital gains reductions are only for transactions closing after May 5, 2003. We apologize for the error.

Here is the scoreboard:

	<u>Q3</u>	<u>YTD</u>
DJIA	+3.2%	+11.2%
NASDAQ	+10.1%	+33.8%
S&P 500	+2.2%	+13.2%

Bill Novelline Andrew Novelline
October 8, 2003

Bob McLemore