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Not since the period 1939-1941 had the markets experienced three successive calendar years of down turn. By the end of 2002, the US market had experienced its third annual decline. The down markets have been broad, reaching almost all market sectors and virtually all nations. Of the Dow Jones Industry Groups, less than fifteen percent of the domestics showed positive growth in 2002; ten percent of these world indices were up. It was a year that most overseas investors would like to forget.

For the year, the Dow was down 16.8%, the S&P down 23.4%, the NASDAQ down 31.5%. Excepting gold, real estate, some bond categories, and hedge funds, not one mutual fund category showed positive results. The average large-cap growth fund lost more than 27.7%. Mid-cap growth funds lost 27.3%. Small Cap growth funds fell 29%. Large Cap value funds lost 19.25%. Mid Cap value funds lost 17.3%. Small Cap value funds lost 9.75%. December, with a 6.2% drop in stock prices, was the worst December since 1931. *

For the year, your portfolio lost . . . That your returns were better than the stock averages is no consolation. To achieve them, it was necessary to make your portfolio very defensive in posture. The present financial scenario is one that will call for significantly greater flexibility. I would welcome the opportunity to again meet with you to discuss your objectives and your risk reward tolerance level.

Why have we experienced such extensive and prolonged market declines? One reason is the market overhang from the nineties. The nineties, with its dramatic rise in market value, left many stocks having unrealistic and unsustainable value. It also saw the creation of more than sufficient production capacity due to large capital expenditures and the build up of large inventories. Stock prices had to fall, inventories reduce and production capacity start to obsolesce before the market could again rise.

A second reason was that malfeasance through creative accounting practices and even embezzlement had been going on for some time only to be discovered in 2002. This was the year of Enron, WorldCom, and Arthur Andersen. Many Americans lost faith in the market's honesty. By the end of the year, it appeared that the really bad actors had been caught and that their detection served to deter others who might have been similarly inclined. Certainly, we must be alert to detect any future such occurrences.

Finally, there were the geopolitical issues: terrorism, Iraq, North Korea, Pakistan-India, the Middle East, Taiwan, and even South America. The world appeared to be a tinderbox waiting for the conflagration. This cooled a number of industries, most notably travel and left some companies delaying capital expenditures.

These factors all caused a slow down in the economy, reduced revenues and profits, resulted in people losing jobs. That the recession did not become more severe was a blessing in large part due to government and consumer spending. The consumer spent for homes, entertainment and leisure. Business was not spending.

The year ahead presents more than the usual risks and rewards to one trying to grow a financial portfolio. Seldom in the past fifty years have fixed income rates been so low. Bank CDs and treasuries will be fortunate to meet the rate of inflation. Ordinarily, when interest rates are this low, the stock market becomes attractive. Certainly, it offers some attractive opportunities. But, viewed on a broad basis here are the issues:

Each of the major world economies, the United States, Japan, and the European Economic Union attempted to jumpstart their economies in 2002. Central banks and federal governments sought to provide the incentives to get the business cycle started.

In 2001, the United States enacted a very significant reduction in federal taxation to become effective gradually over the next ten years. The Federal Reserve cut interest rates eleven times. Massive new federal spending followed the terrorist attacks of 9/11. A new economic stimulus package will be introduced in the opening days of 2003. The United States has provided and will continue to provide significant monetary and fiscal stimulus to its economy. Japan and Europe in no way matched the United States in providing this economic stimulus. As a result, there may be better investment opportunities in the United States in 2003 than in the other two regions. Most commentators now believe that Japan and the European Union will have to look to the United States to help jump-start their economies.

Because of these fiscal and monetary stimuli, the United States would almost certainly be looking to a most favorable year for its stock market but for the country's geopolitical problems: Al Qaeda, Iraq, North Korea, Pakistan, Taiwan, South America. We have the strong market incentives of very low interest rates, reduced taxation, massive federal spending. Men are being taken from the domestic economy for service in the military. This will free up our employment capacity. Although our industrial capacity may be more than is needed, some obsolescence is showing and inventories are being drawn down. For all these reasons, we should see growth in the United States economy and markets. But, largely due to the geopolitical issues, there has seldom existed greater economic uncertainty.

President Bush stated just last week that Iraq has the capacity to deliver a crippling blow to our economy. Of course, North Korea is the one known to have nuclear weapons. North Korea is suspected of dealing with Al Qaeda and might not hesitate to sell them a nuclear bomb... The geopolitical issues offer the greatest obstacles to a successful economy in 2002. Obviously, there are most significant domestic issues such as health care, education, and social security but the geopolitical issues can threaten our existence as a country.

Our goal for Iraq is regime change. Saddam can voluntarily step down. He could be overthrown by his own countrymen. We might have to go in either with or without the

United Nations sanction. The actual alternative should come quickly, some feel in the next four or five weeks. If the situation in Iraq could be resolved quickly, our markets would certainly react favorably. If Saddam puts up a fight, others in the Middle East or even North Korea might ally themselves with him. Protracted warfare could result. Our economy would suffer greatly. Our homeland could be physically threatened. War with Iraq would not bring the easy victory achieved in 1991.

Who would ally with us? With a good economy we certainly could anticipate the support of Western Europe and even of some of the Arabs. But, to what extent would those on our side actually be with us. What would they contribute?

The aftermath of an Iraqi solution must also be considered. A peaceful solution would be relatively inexpensive; we might get the benefit of cheaper Iraqi oil. War would almost certainly oblige us to undertake the massive expenditure of rebuilding the Iraqi infrastructure.

North Korea presents a most sensitive issue to the world. Presently it is thought not to have the capacity to deliver its nuclear weapons to detonate on the United States. It is a particular threat to its neighbors, South Korea, Japan, Russia, and China. But North Korea is known to have previously sold weaponry to other regimes. What is to stop it from making such a sale of nuclear weapons to Al Qaeda?

The United States has called on South Korea, Japan, Russia and China to exert diplomatic efforts on North Korea to stop it from developing its nuclear weapons. We know that China, in particular, would not want us to be further militarily involved on the Korean peninsula. There are conflicting reports of what China is doing with the North: conducting quiet diplomatic proceedings to have the Koreans stop their nuclear activities or supplying materials to assist in the development.

The threat of Global War is far from remote. Yet the firm hand of the United States exercised in the first instance through diplomatic channels may still avert these global powder kegs from explosion. The hand of the United States will be as firm as its economy appears to the rest of the world.

The President is up for re-election next year. Twelve years ago, his father was equally popular as President of the American People only to experience electoral loss to a little known Southern governor. The loss is widely blamed on domestic issues, particularly the economy. George W. Bush is determined that he will not fall victim to a similar happenstance. His stimulus program is strong. He has turned his attention to the health problems of the elderly, another popular domestic issue that might derail his presidency. He has a strong advisory team and a strong Cabinet. He apparently has the support of a Republican Congress, although that certainly does not offer him a carte blanche for his domestic program. He knows that a weak stock market this year may well be blamed on his administration's policies. As was said twelve years ago: "it's the economy, stupid".

The President recognizes that there are many obstacles to carrying out successful administration policies, both foreign and domestic. As recognized in his speech to Congress following 9/11 and in his domestic stimulus package announced today, this (the

battle against our geopolitical foes including Al Qaeda, which in large part is an economic battle) is going to be a long war and we are in it to win.

I believe in the resolve of George W. Bush and further believe that, as part of this resolve, we will have a good stock market in 2003. History's timeline suggests our nation and financial markets will weather this storm, just as they have in past crises. Fear and uncertainty was ubiquitous just after the attacks on Pearl Harbor on December 7th, 1941. Yet from its closing value of 112.52 on December 8th 1941, the Dow Jones Industrial Average rallied with 4 consecutive up market years, closing at 192.91 at the end on 1945. Similar market swings have been observed after the onset of major national security events as illustrated in the matrix below. **

EVENT	DATE	DAY	% CHANGE FOR DAY	6- MONTHS LATER	1 YEAR LATER
USS MAINE EXPLODES	2/15/1898	TUESDAY	-2.14%	14.91	24.90
LUSITANIA SINKS	5/07/1915	FRIDAY	-4.54	36.01	32.75
KOREAN WAR	06/25/1950	SUNDAY	-4.65	2.36	9.34
CUBAN MISSILE CRISIS	10/22/1962	MONDAY	-1.85	25.05	31.41
KENNEDY ASSASSINATION	11/22/1963	FRIDAY	-2.89	12.04	21.58
IRAN HOSTAGE CRISIS	11/04/1979	SUNDAY	-0.77	-0.32	14.44
WTC BOMBING	02/26/1993	FRIDAY	0.17	8.41	14.07

We recognize that this may be a long and hard fought battle. With this in mind, we have assembled a risk adverse portfolio that somewhat follows traditional asset allocation models, though with a value bias. We believe this alternative offers investors the opportunity to take advantage of market growth while limiting downside risk. The portfolio has been closely tracked over the past year and has done quite well. Should you wish to discuss these alternatives, we have developed fee-based arrangements that would enable a portfolio transition without any loads.

2003 will bring considerable volatility, a need for flexibility, and of course, the need to choose your investments with care.

Let's stay in close contact.

Best Regards,

William L. Haas

* The Wall Street Journal, January 2, 2003. Note: past performance is not a guarantee of future results.

** Dow Jones Index website, “The Dow Performance at the Onset of Major National Security Events,” January, 2003. Note: past performance is not a guarantee of future results.

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