



Market Comments

Strong January Encouraging, But Economy Not Out Of Danger Yet

January through February 1 saw significantly strong investment market performances. Both stocks and bonds rose at an annualized rate of over 20% with small stocks rising over 5% or an annualized rate of over 60%! Even International markets showed some pep. In particular, International Emerging Markets were up over 10% for the month. (See Table A)

But before you break out the party hats, remember that the markets were looking for a reason to rebound from a down 2000, and they got a strong one in the Federal Reserve's dramatic cut in interest rates. The promise of lower rates and a possible tax cut certainly should help stimulate the economy, but to think that these are necessarily going to take away all problems is naïve. And to think that the markets can continue to climb at these rates is foolishness.

Table A: Selected Market Indices Through 2/1/01

	<i>Year-to-Date as of 2/1/01</i>
Bonds	+2.5% Merrill Lynch Corp 1-10 Yr Index +1.5% Lipper US Gov Fds Avg
US Stocks	+4.0% S&P 500 Index +1.8% Dow Jones Industrials Index +5.3% Russell 2000 Small Co. Index
International	+0.2% EAFE Index +1.2% Dow World Ex US Index +11.0% Lipper Emerging Mkts Fds Avg

The economic problems that have been creeping up on us the last year are still there. Company earnings are slowing significantly. There are significant debt problems among companies and consumers. Energy prices and other cost issues are still concerns. The valuations (prices) of many companies still look high.

It is probably about even money right now as to whether or not we will have a recession (i.e. two consecutive quarters of negative economic growth). A recession could knock stocks back to their year-end levels or lower.

If we can avoid a recession that would allow the markets some continued upside, but a strong upturn is not

justified right now. It is hard for me to envision a 15% or 20% year for the U.S. large company stock market. The places where I see the greatest potential gains are in the International markets.

Investment Planning Strategies

Look ahead at least six to twelve months. If you know you need money for income, autos, college tuition or anything else, I suggest keeping that money in Intermediate bonds, short-term bonds or cash.

If you have a good, well-balanced asset allocation, you can let it ride. Continue monthly contributions to 401(k) and other investments. Do not be afraid of this market if you are investing for the long haul.

If you want to be more conservative, sell some of your mutual funds or stocks when they rise strongly and look for an opportunity to buy them back cheaper later. But note that this can be tricky, and if a mutual fund or a particular stock keeps rising, you can lose future gains.

If you are retired and on an automatic withdrawal program, stay with the plan, except where your need for a large outlay of cash projected within six to twelve months would make a larger withdrawal prudent.

Note: If we have a recession, typically it takes 12 months to 18 months for the stock market (large stocks) to recover from their lows. If the recession is mild or if there is no recession, 2001 should result in a positive year for most asset classes. Now if this is true, and the market lows of 2000 are indeed the bottom, the DOW and S&P 500 could be making new highs by the end of the year or in early 2002. The NASDAQ is harder to judge because of the high technology emphasis. But even there, higher levels at the end of this year are very possible. All in all I would be pleased with modest returns for 2001 near historical averages. That would mean the S&P 500 and Russell 2000 could each rise another 7-8%. Unless a recession was to turn global, International and Emerging markets have a reasonable chance to rise more than U.S. markets.