



A Monthly Brief on Investment Markets and Financial Planning Issues

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YEAR OF CHALLENGE

2001 revealed our vulnerabilities, but also our strengths. I will not spend time reviewing the year; you were there and other publications will provide rehash.

All I will say is that I am proud and thankful to be a citizen of this nation. While we are far from perfect, we remain the strongest and one of the most moral nations in history. What other nation goes to war and then rebuilds its enemies and sets them free?

Those that say the USA is evil and somehow to blame for the 9/11 terrorist attacks are at best ignorant. I will agree that our foreign policy could be much better, especially more consistent. Let us work to be better in the future.

But our response in this case has been appropriate and admirable. Another country as powerful as the USA might not have proceeded with the thoughtfulness and regard for people we have. Others would just "wipe them out" and take over the country.

But we have a history, blemished as it might be, of conquering and then giving back. Germany and Japan are the two best examples. The Marshall Plan was among our most shining moments as a nation. And now we propose to do the same in Afghanistan.

Friends, there is still much to be thankful for and proud of regarding our country. As we contemplate thusly, let us strive to make her better.

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Where Are We Now?

Chart A shows the performance of selected indices for 2001 and the previous two years. While most of the indices managed to make some money over the last three years, it wasn't much. Of the above major categories, only Intermediate Bonds returned more than 6% per year average for the past three years.

After ten years of unprecedented growth, we were due for a slowdown. The terrorist attacks exacerbated the recession, making it last longer, but we were due for one anyway.

Conditions right now are a mixed bag:

Positives -- Low Inflation; Low Interest Rates; Productivity gains and Technological Advances; War Expenditures; Consumer confidence; Unemployment in manageable range.

Negatives – Terrorist activity; Slowed Earnings;

Continued layoffs; Bankruptcies; Congressional infighting/lack of clear, effective government action.

Overall, we are in better shape than many think. We have problems and risks, but we are still alive and resilient.

Chart A: Benchmark Performance*	2001	2000	1999	3 Year Avg Ann Return
Lipper Intermed. Inv. Grade Bond Fds.	8.2%	10.6%	0.1%	6.2%
Lipper Corporate A-Rated Bond. Fds.	7.8%	10.3%	-0.3%	5.8%
Lipper U.S. Gov. Fds.	6.7%	11.9%	-1.5%	5.5%
Money Market Funds	3.6%	5.7%	4.6%	4.6%
Inflation	1.9%	3.4%	2.7%	2.7%
Russell 2000 Small Co. Index	1.0%	-3.0%	21.3%	5.9%
Wilshire SmallCap Index	-5.7%	0.0%	26.1%	5.9%
Dow Jones Industrials*	-7.1%	-4.9%	27.2%	4.0%
Lipper Growth & Income Funds	-7.4%	0.4%	11.9%	1.3%
S&P 500 Stock Index*	-13.0%	-9.1%	21.0%	-1.5%
Dow World (ex. US) Index	-21.0%	-17.4%	31.5%	-5.0%
NASDAQ*	-21.1%	-39.3%	85.6%	-3.8%
EAFE International Index*	-22.6%	-14.2%	27.0%	-5.2%

*Preliminary numbers. Some indexes may not include dividend reinvestment. Money Markets are an approximate average.

Average of Above Indexes w/out Inflation (33% Interest-Bearing Conservative)	-5.9%	-4.1%	21.2%	3.5%
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STAAR Funds Performance* (Read the Funds' prospectus for full information: 412-367-9076)	2001	2000	1999	3 Year Avg Ann Return
Intermediate Bond Fund	7.7%	9.1%	-0.1%	5.5%
Long Term Bond Fund	7.6%	9.0%	-4.5%	3.9%
Smaller Company Stock Fund	0.8%	1.1%	30.8%	10.0%
Larger Company Stock Fund	-9.9%	-2.7%	16.1%	0.6%
AltCat Fund	-10.2%	5.5%	30.8%	7.4%
International Fund	-17.3%	-16.8%	38.7%	-1.5%
Average of STAAR Funds (33% Interest-Bearing Conservative)	-3.5%	0.9%	18.6%	4.6%

Performance figures are total returns except those marked with an *, for which dividend reinvestment figures were not available. Indexes were quoted as published in various publications or sources, including the Wall St. Journal. Past performance is no guarantee of future results. Investment returns and principal values fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

(Note: Reasonable expectations are not predictions or forecasts. They are provided for planning purposes and to help investors develop realistic expectations. Each type of investment carries its own set of risks and actual returns may be more or less than those indicated.)

OUTLOOK

Bonds -- *First Quarter Neutral, 1-3 Years Unfavorable (Reasonable Expectation: 2-5% average annual return next three years)*

The Federal Reserve will keep rates lower until the economy turns around. The bond markets are acting like the bottom in treasury yields was reached in the 4th quarter of 2001. Interest rates have risen over the past two months and could rise more in 2002. While any increase should not be precipitous, it will be enough to keep bonds from making further gains.

Larger Company Stocks -- *First Quarter Neutral, 1-3 Years Favorable to Neutral (Reasonable Expectation: 7-10% average annual return)*

If you disregard the 9/11 sell-off, the Dow Industrial Stock Average is still in the lower end pre-attack trading range. (See Chart B) The market is telling us that the overall economy is stable and the damage done by 9/11 served only to delay recovery, not squelch it. The short-term upside of the DOW on Jan. 2 looks to be about 10%. If earnings outlook improves by the second quarter, a resumption of the long-term bull market could be in place by summer. However, stocks will continue to be vulnerable to negative events, so investors should exercise caution.

Smaller Company Stocks -- *First Quarter Favorable, 1-3 Years Very Favorable (Reasonable Expectation: 9-14% average annual return)*

For the past two years Smaller companies have outpaced larger companies. This trend could continue for another couple years.

International -- *First Quarter Neutral, 1-3 Years Favorable to Neutral (Reasonable Expectation: 7-10% average annual return)*

International markets have had a high degree of synchronicity with the United States over the past couple years. If we recover in 2002, global markets should respond positively, although there may be some lag behind the US markets.

Alternative Categories/Ten-Year Trends

The outlook is as mixed as the possible investment choices. Some long-term trends have been delayed, but are still intact. For instance, energy prices have declined, but demand should still rise over the next ten years. Technological innovation and application continue to move ahead despite the DotCom woes. Computers will continue to be needed. Communications needs will grow; Biotechnology and health care have not stopped their advance. In short, assumptions we made six years ago have not fundamentally changed. The last two years were an interruption, not a derailment.

What to Do Now

Things We Should Do, Can Do and Will Try to Do (No Resolutions, Just a Direction)

___ **Set Review Meetings** (Call your financial planner, investment advisor, broker, insurance agent, accountant and attorney and get on their calendars. Having an appointment creates a deadline, forcing you to act.)

___ **Get Organized** (Know what you have, where it is and how much it's worth. Gather statements, receipts and any other pertinent information. Organize it in easy-to-see file folders so you can access it for taxes or any other purpose. Use computer programs such as Quicken or record-keeping services on Internet sites.)

___ **Review Your Budget** (If you need money from investments, program your withdrawals now. If you are adding to investments, plan those deposits now. Work with your investment advisor.)

___ **Discuss 2002 Tax Saving Strategies with your Advisors** (Some strategies are better if done earlier.)

___ **Make IRA or Roth IRA contributions early this year.** (Note: IRA & ROTH IRA Contribution Limit is increased to \$3,000 and if you age 50 or more you may contribute an extra \$500 under a special "catch-up provision")

___ **Review Employer Plan Contribution Levels** (if you have a matching plan, contribute up to the maximum match.)

___ **Make Sure Your Emergency Funds Are Sufficient** (Generally we recommend 3-6 months living expense in a savings or money market fund.)

___ **Get Mortgage Financing on rate dips** (Rates may go up later in year. Rates bottomed at around 5.75%. 6.5%-7% is a good rate if you can get it.)

___ **Review Your Estate Plan, Wills and Trusts**

___ **Review Your Insurance Coverage**

___ **Add to Your Regular Investments Regularly**

Thoughts on Giving – Give outside your family and friends. Go where you haven't gone before. Go with no thought or need for recognition. Give some money or goods or time anonymously. Visit a nursing home, hospital or shelter and volunteer your time. Coach or tutor a child. Help a small businessperson with time and expertise with no pay. Help a teenager go to college. Help a disadvantaged family to become productive and self-sufficient. Be generously full of yourself. Be an invisible hero. And don't tell anybody. Then laugh and carry on and enjoy yourself.

Advertisements

For Information Call Andre Weisbrod at 412-367-9076.

STAAR Funds

Maximum Diversification with Simplicity; An excellent solution for Individual and joint accounts, IRAs, employer-sponsored Retirement Plans, Trusts and Endowments.

MetaTrends

Add Private Management to your investment account(s). This fee service oversees your asset allocation. A professional manager provides personal attention and oversees your account(s), making changes to your investments as trends change. The objective is to minimize losses during market downturns yet participate in gains when the markets move upward.

Mortgage Financing

If you are buying a new home or refinancing an existing one, we have a good source for financing.

Retirement Plans for Small

Businesses -- Now is the time to start SIMPLE Plans. These new generation employer-sponsored voluntary contribution retirement plans offer simplicity, easy administration and flexibility of design to fit employers having fewer than 100 employees.

Section 529 College Savings Plan –

Investments grow tax-free. Withdrawals for Education are tax-free. Contributions of up to \$100,000 per beneficiary. Parent or Grandparent considered to own account which is more favorable in getting college aid. Beneficiary can be changed if child doesn't go to college. Parent can retrieve money if pay 10% penalty plus income tax.

Tax-Saving Investment Idea – Reduces your Adjusted Gross Income by the amount of your investment (100% write-off). Is not a qualified retirement plan or IRA. Produces regular income. Takes advantage of future increases in energy prices. Provides a reasonable hedge and diversification in relationship to your other investments. Is this opportunity suitable for you?

If it has to do with your finances, chances are we can help: Stocks, bonds, mutual funds, annuities, tax-advantaged investments,

private investment management, mortgage financing, insurance (long-term care, life, health, business) Call 412-367-9076

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Set Your Annual Review Meeting Now!

Beginning the third week of January we will begin meeting with clients to review their accounts and discuss 2002 strategies. To get on our calendar, call now.....412-367-9076