

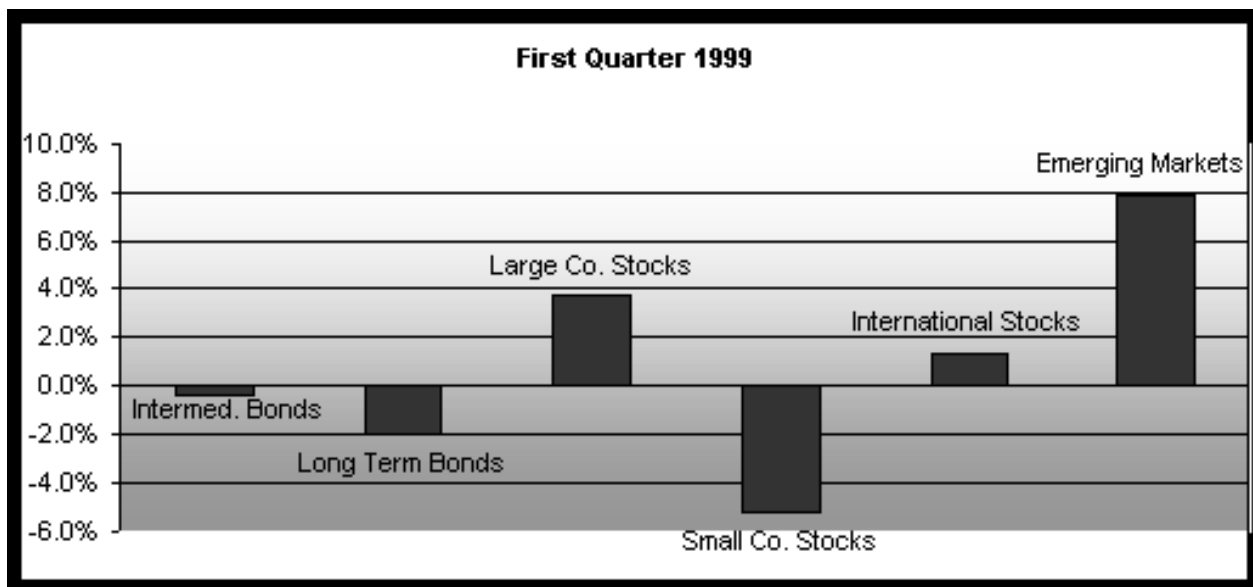


STAARSM Strategies Report

Market Comments

4/5/99

First Quarter Results Mixed



Large Stocks Gain But Narrow Focus is a Concern

The Dow Jones Industrials led the way for large caps with a 6.6% gain over the first quarter. This gain was due mostly to three stocks. And the 4.6% gain in the S&P500 was attributable to 21 stocks. More reflective of the broad market was the 1.3% increase of the New York Stock Exchange (NYSE). The 1,700 major stocks tracked in the Value Line Index actually lost 6.4%.

The Lipper Growth & Income Funds average was up 2.12% while the Growth Fund average gained just over 5%. A well-managed, widely diversified large stock portfolio could have been expected to make between 2% and 4% for the quarter. If you assume a 3% quarterly return, such a portfolio is on track to make over 12.5% for the year.

Bonds and SmallCaps Lag

Fears of creeping inflation and a turnaround in energy prices pushed interest rates up. This in turn pushed the prices (values) of bonds down. This resulted in negative returns for most bonds in the first quarter.

Small and Mid-Cap companies continue to be neglected by investors. There are plenty of smaller companies making excellent profits, but the majority of buyers continue to purchase "name brands" or speculative technology stocks.

Contrarian Positions Gain

Or why bailing out after a fall may not be a good idea, and why buying after a fall can be an excellent one.

Last year was not kind to many investment sectors. Most notably, foreign emerging markets took a beating. The energy sector was also hit hard. But if you stuck with these or bought when prices were cheap, you should have done well recently. In fact, of the broad market sectors, emerging markets was among the leaders with the Lipper average fund up almost 8% for this category. The Dow Energy index was up almost 5.7%.

OUTLOOK (Next one to three months)

Bonds: Neutral to Favorable. Interest rates look to be in the upper part of their short-term range. Unless more bad news on inflation surfaces, rates should remain close to where they are. Signs of economic slowdown could precipitate a fall in rates. Those concerned with safety might consider increasing high quality bond positions as well as cash as the year progresses.

Larger Company Stocks: Neutral. The general economy and cash flows favor large company stocks. However, narrow focus, high valuations, slower earnings growth and other factors raise a caution flag. While it looks on track for another double-digit return, I expect it will be hard for even the favored indexes to exceed 10% this year, especially without broader participation throughout the whole market.

Smaller Company Stocks: Neutral to Unfavorable. While small companies are generally better priced than large ones, and while I believe they are due for a turn-around, investor money is just not flowing to these stocks yet. Long term investors will hold their small cap positions. Contrarian investors will buy.

International Stocks: Neutral to Favorable. After lagging the U.S. for a number of years and going through economic slumps last year, international markets are showing signs of recovery. If there are no further blow-ups and the fighting in Europe does not escalate significantly, the short term trend is more favorable than it has been in awhile.

Y2K Effect: While I believe Y2K will prove not to be the disastrous problem some think, I do

believe the psychology is there to cause people to behave more conservatively as the year progresses. This could reduce the demand for stocks and raise demand for cash, quality bonds, and possibly gold, silver and "barterable" commodities. I will not be surprised to see another market correction in both domestic and international, probably in the second half of the year.

Some Old Adages Come to Mind

Buy low, sell high. What goes up will come down (and vice versa). Patience is a virtue. Many of us are like wheelbarrows – useful only when pushed and too easily upset. Small profits and often is better than large profits and seldom. After the horse has left the barn, don't close the door. Bulls can win, bears can win, but pigs lose. Haste makes waste. The prudent looks where he is going. He who jumps at the stars may only land in the mud. A cloud cannot cast a shadow unless the sun shines behind it. The way to be safe is to not assume you are. Wealth hastily gotten will soon dwindle. A word to the wise...