



A Monthly Brief on Investment Markets and Financial Planning Issues

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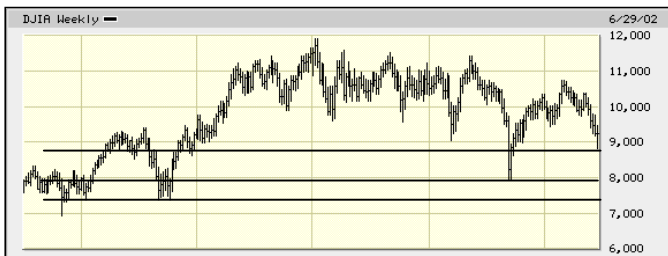
Second Quarter Dud Gives Little for Celebration

When will this Bear let go? The quarter ended with a depressing dud. Corporate accounting scandals contributed to keep Bear sentiment dominant in stocks. Some representative indexes are provided in the following table.

Representative Indexes	2 nd Qtr	Year-to-Date
Money Markets	+0.4%	+0.9%
Intermediate US treasuries	+3.8%	+3.3%
Dow Jones Industrial Avg.	-11.2%	-7.8%
S&P500 Index	-13.7%	-13.8%
NASDAQ	-20.7%	-25.0%
Russell 2000 Index	-8.7%	-5.3%
EAFE International Index	-2.8%	-2.8%

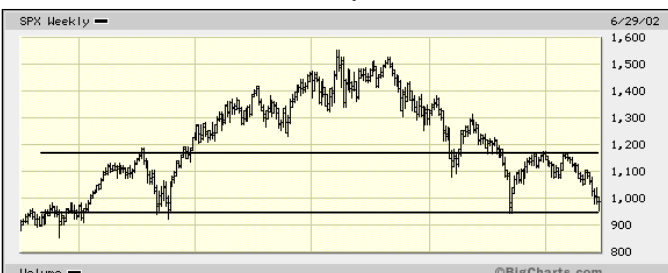
Where Are We and Where Are We Going?

Chart A: Dow Jones Industrials 5 Year Weekly



2-3 Yr Target Range →

Chart B: S&P500 5 Year Weekly



2-3 Yr Target Range →

The Dow broke downward through the 9500 level and dipped below 9100 before ending last week at 9243. There is a significant support level around 8900-9000. If it broke below that, it would likely head toward the September 2001 lows. The S&P500 is flirting with the September lows.

Could the stock market drop further? Yes. Is it likely? I think it is less likely after the resilience shown toward week's end. But stocks still are dominated by bearish sentiment and that needs to change.

In my June 24 email message to STAAR Funds shareholders and fee clients, I said the following:

What will happen next? How many ways are there to say, "I don't know," and still appear intelligent? What I can say is this:

- 1) The next support level is near to today's trading low. That it bounced off that is a good sign.
- 2) Overall fundamentals of the economy are more positive than negative.
- 3) Bear sentiment is hard to break, but once the mood changes, the markets could rise significantly.
- 4) Market losses this year are depressing to everyone except "short" traders. Investors are worried that things will get worse, even in the face of good news. Therefore one piece of bad news seems to equal three pieces of good news right now.
- 5) There is an adage that says, "It is always darkest before the dawn."
- 6) And then there is one of my key working principles: Do not base financial decisions on either fear or greed. If you do, you will have a very high probability of making a mistake.

At the beginning of the year I thought that it would most likely be the second half of the year that would see a strong upturn in the stock markets. Over the next two to three years a reasonable expectation would be a 9%-11% annual return for the Dow and a 12%-15% return for the S&P500, which would get them into the target range shown on the charts. Well, that's my story and I'm stickin' to it. Don't count out a summer rally.