

Note: I missed last month's letter due to an illness. I apologize. As a bonus this month, I include a special article on tax efficient investing.



STAARSM Strategies Report

Market Comments, 7-2-99

Stocks React Positively as Fed Raises Interest Rate Expected .25%

The DOW and S&P500 are back to new highs after the Federal Reserve's increase. However, there are still some inflation concerns, and many Fed watchers expect another rate increase by September. Therefore, interest rates are staying in their recent range, and I would expect this to continue.

Fund Managers Averages Beat S&P 500

The average diversified US Stock fund beat the S&P500 by over 3 percentage points during the second quarter. This shows a more healthy broad market. Hopefully, this trend will continue with midcap and smallcap stocks becoming even stronger.

International Markets Pause, but Still Show Good Gains for Year.

The average international mutual fund was up nearly 7% for the first six months of the year. Emerging markets were up over 35%.

Overall Conditions Are Mostly Positive Short-Term

The economy is growing, people are working and inflation still doesn't look too alarming. International situations have stabilized, and some countries that were in serious trouble look to be coming out of it.

OUTLOOK (Next one to three months)

Bonds: Neutral to Unfavorable. Interest rates could rise a bit more., but not much.. If all goes well, rates could come down a bit by year-end. If so, today's yields look somewhat attractive.

Larger Company Stocks: Neutral. I would be more positive if large companies weren't at the higher end of their price range. However, where astute managers are finding some less pricey companies, there is still upside potential. Bad inflation news or some other issue could trigger a correction, so some caution is warranted. The rest of the year should be interesting.

Smaller Company Stocks: Neutral to Favorable. This category has started to show some life. Unless we find ourselves in a recession soon, I expect small companies to do better than they have in the past couple years.

International Stocks: Neutral to Favorable. I have a similar view of the international markets.

There are Still Risks

As the year moves on, I will be watching inflation and interest rates as well as Y2K behavior with great interest. Company earnings and international economics also need to be watched. Significant negative developments in any of these areas could cause downturns in stocks and/or bonds.

Year-to-Date Results

The following are preliminary published data for the six months ending 6/30/99. Accuracy is not guaranteed.

DOW Jones Ind. Avg.	+19.5%
S&P 500	+11.7%
*Lipper Growth & Income Fds Avg	+11.6%
Lipper Growth Fds Avg	+11.9%
Russell 2000	+ 8.5%
*Lipper SmallCap Fds Avg	+ 9.3%
DJ World ex. US	+ 6.8%
EAFE int'l index	+ 3.3%
*Lipper Int'l Fds Avg	+ 6.9%
Lipper Emerging Mkts Fds Avg	+35.1%

Lehman Bros Long T-Bond Index - 6.6%

Lehman Bros Intermediate Treas Index - 0.6%

Merrill Lynch Corp Master Index (bonds) - 2.3%

Merrill Lynch High Yield Bd Index + 1.8%

*Lipper Intermediate Inv Grade Fds Avg - 1.5%

Lipper Corp A-Rated Bd Fds Avg - 2.1%

*Lipper US Gov't Bd Fds Av..... - 2.5%

Balanced (Equal Mix of those marked with *) + **4.8%**