

September 27, 2002

Dear clients,

The concept of regression to the mean is very powerful indeed. An analysis of the performance of an index representing the entire U.S. stock market over the last eight years is illuminating. Here are the numbers:

| Year | Wilshire 5000 Total Mkt Index |
|----------------------|----------------------------------|
| 1995 | 36.45% |
| 1996 | 21.21% |
| 1997 | 31.29% |
| 1998 | 23.43% |
| 1999 | 23.56% |
| 2000 | -10.73% |
| 2001 | -10.90% |
| 2002 YTD (thru 8/31) | -18.41% |

Although it may seem like a long time ago, it was only 1999 when the stock market delivered its unprecedented fifth consecutive year of returns in excess of 20%. Since then, all of us know returns have been sobering to say the least - but what about this idea of regression to the mean? If you invested \$1 at the start of 1995 and received the returns shown above, that dollar would now be worth \$2.15. On an annualized basis the return is 10.04%. The long-term return for the stock market as a whole dating back a little bit over seventy-five years is approximately 10.5%. You see, after the euphoria of the return's of 1995 through 1999 were largely offset by the harsh reality of the return's of 2000 through 2002, stock returns were pretty much right at their long-term historical average. This is precisely the idea of regression to the mean.

What practical use does this analysis have for us? The message is two-fold:

1. It's not healthy to get too excited and optimistic over "unusually" good returns because the natural offshoot to that would be to become depressed over "unusually" bad returns. I think anyone would agree this is not a healthy way to view the management of one's life savings.
2. Although so many of the economic pundits on TV, radio, and in the newspapers remind us so frequently that this is one of the harshest bear markets we have faced in several generations, rarely do they mention that this market comes on the heels of one of the most raging bull markets of all time. It's not always easy, but keeping things in proper perspective is very important.

As always, I encourage you to call, visit, or email me any time you have questions about your investments or just need a dose of reassurance. Remember, you are smartly invested and with patience, self-discipline, and good management will be rewarded. Please spend the rest of the year doing the things you enjoy with family and friends but whatever you do, **don't fret over the market!** Until early next year...

Regards and be well,

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