

Interim Market Update 5/10/99

Comment on 1st quarter performance

The small plus to minus numbers for the 1st quarter ended 3/31/99, depending upon the program and underlying mutual funds have caused concern among a few of our clients. We welcome these calls, understand your concerns and felt it important that we communicate our thoughts to all – not just those who called.

First of all some general observations.

- 1) There are no money managers anywhere that always have great or even positive quarterly returns. An example outside our industry would be a sports team such as the New York Yankees. If they win 65% of their games they will win the American League Pennant every time. What does this have to do with the financial markets? The markets are a competitive arena. It's our judgement against everyone else's every day. For each buyer there is a seller every time. Not only that but it's the marginal buyer and seller that many times changes our market values. What we mean by that is somewhere in the neighborhood of 90% of all stock and bond holders never sell. It's the person on borrowed money and/or the one most subject to fear and greed that many times determine market prices. In the long run, however, fundamentals prevail and those of us who are on the right side of such will obtain superior returns.
- 2) Rates of total return obtained from market assets never move upward and downward at the same rate each quarter, let alone the same direction. If one wants that type of an asset he/she must give up the idea of obtaining superior long term returns and let someone else take the risk and assign him/her a much lesser return. Over time such returns rarely exceed inflation. That is the way our capitalistic society operates.
- 3) There will always be another asset somewhere that someone owns that will do better than yours over any given quarter or year. Keep in mind there are hundreds of thousands of assets of varying risks that are measured quarterly. To be number one every time is impossible. To be number one just once would be great.

Secondly it's important to keep in mind what long term annual total returns have been achieved by various asset classes* If the world was linear, quarterly returns would be one fourth of that below.

1/1/25 – 12/31/98

	<u>Annually</u>
Large Company Stocks	11.2%
Small Company Stocks	12.4%
L/T Corporate Bonds	5.8%
L/T Government Bonds	5.3%
US Treasury Bills	3.8%

*Ibbotson Associates 1999

We are enclosing our quarterly returns from our bond management program to illustrate how these returns can vary over time.

The profile of this program is as follows:

- 1) In a database of \$1.6 Trillion this “fund” ranked in the 1st percentile over 24 years (better than 99% of all other funds.)
- 2) It's median return was 12th percentile over the 24 years.
- 3) It was dead last one year and first 4 times.
- 4) There were 76 positive quarters (83%) and 16 negative (17%).
- 5) There were 22 positive years (92%) and 2 negative (8%).
- 6) It's 14.7% annualized 24-year return was 46% greater than the median bond fund. Not only that but think of this. 14.7% was 86% of the S&P 500 stock average.

We are not making excuses for having a sub-par quarter. The number speaks for itself. We are simply attempting to explain that one should not take a quarterly number and consider that any kind of a trend, whether it be very good, very bad or somewhere in between. One needs to take a longer term perspective. Good management will provide good returns, but not every day, not every quarter and even sometimes not every year.

Don Peters Fixed Income Returns by Quarters and Year End Totals

Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year End
1999	-8.82%				
1998	1.54%	9.17%	10.07%	-1.97%	19.61
1997	-8.25%	9.68%	11.25%	13.43%	26.97%
1996	-17.54%	-0.59%	1.11%	7.63%	-10.79%
1995	8.00%	21.43%	4.41%	16.82%	59.96%
1994	0.32%	0.48%	0.38%	6.92%	8.19%
1993	5.93%	6.44%	6.09%	0.97%	20.78%
1992	-5.73%	4.24%	10.39%	0.25%	8.75%
1991	1.35%	1.66%	13.50%	6.44%	24.47%
1990	-4.70%	4.40%	-3.30%	10.50%	6.31%
1989	1.60%	11.80%	-0.30%	5.00%	18.91%
1988	4.20%	0.60%	2.30%	1.70%	9.06%
1987	1.07%	-4.30%	-5.60%	8.00%	-1.36%
1986	10.20%	0.50%	1.60%	4.10%	17.14%
1985	1.70%	11.30%	2.20%	11.20%	28.64%
1984	-0.90%	-4.40%	10.70%	7.70%	12.95%
1983	3.78%	1.22%	-0.21%	0.43%	5.28%
1982	5.34%	1.10%	13.36%	9.77%	32.52%
1981	2.39%	2.67%	-0.16%	7.90%	13.25%
1980	2.69%	4.73%	1.72%	2.59%	12.23%
1979	2.50%	2.52%	1.72%	2.48%	9.54%
1978	1.47%	1.40%	1.93%	1.89%	6.86%
1977	-0.73%	3.61%	1.48%	-0.09%	4.28%
1976	6.84%	1.54%	5.14%	6.21%	21.14%
1975	7.40%	2.90%	0.20%	4.80%	16.05%

Don Peters

Past Performance is no Guarantee of Future Results.