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Portfolio Monitor

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"The effects of either an Asian export surge or an Asian import collapse matter to companies and policy makers world-wide."

G. Pierre Goad, *The Wall Street Journal*, February 9, 1998

U.S. Economy

Much has been written about the expected slowdown in the U.S. economy due to "instant recessions" that have rocked most of the Asian countries. In fact, the economic consensus is that the trade deficit will grow by $2 billion per month for the rest of 1998 and easily surpass the all time record of $210 billion set back in July of 1996 (see chart 1) and thus put recessionary pressures on the economy.

We believe that these predictions of "doom and gloom" have overstated the impact that Asia's recession will have on the U.S. for the following reasons:

1. America has strong resilience against the economic woes of major trade partners due to its solid domestic economy.

Since 1987, the U.S. has been able to achieve 31% growth in Gross Domestic Product, even though most of its major trading partners have had some degree of economic slowdown (see chart 2).

For example, Japan has been in a recession since 1989, Mexico suffered a major economic set back in 1994 and Germany has been struggling with high employment and slow business growth throughout most of the 1990's. In fact, the combination of strong "consumer driven" economy and a highly advanced business and financial structure gives the U.S. a distinct advantage of being able to sustain economic growth with only mild recessions despite the problems faced by our global competitors.

2. Growing trade deficits do not pose a threat to U.S. economic growth.

As the largest player in the growing world economy, we believe that "balanced trade" is a myth that can't be reached due to the United States' unusual economic structure.

The American economy has evolved into the "consumer of the world," with its health tied to increases in domestic demand and not dependent on selling goods and services abroad. In fact, there seems to be an inverse relationship between the size of the trade deficit and the growth of the U.S. economy as seen by the recession of 1990 (see charts below).

OPINION: We believe that the elements driving the U.S. economy are largely intact, and that the current Asian economic "slump" will temporarily effect the U.S. for 6 to 9 months followed by a return to a 2.5% to 3% annual economic growth rate for the remainder of this decade.

CHART 1
Trade Deficit
(1987-1997)

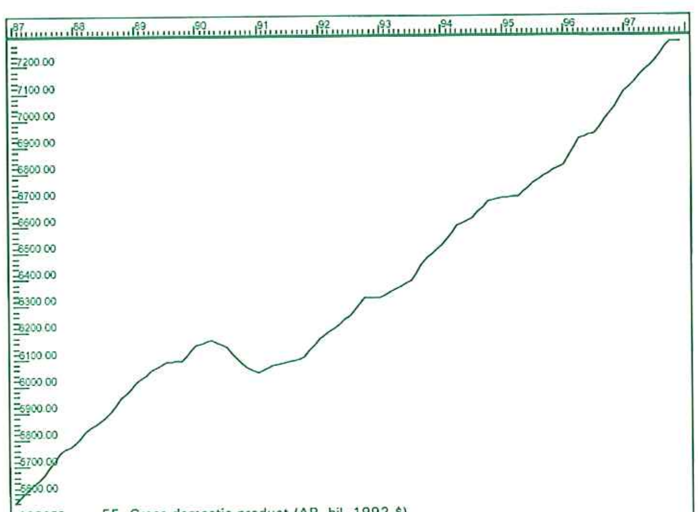


CHART 2
Economic
Growth
(1987-1997)

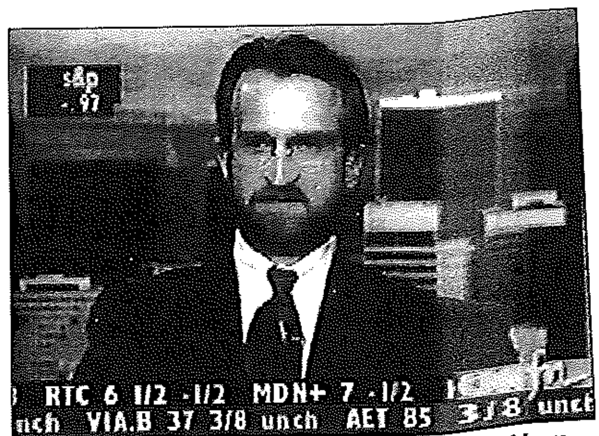
Global Economy

1997 STOCK MARKET PERFORMANCE

		MARKET % (LOCAL CURRENCY)	MARKET % (US DOLLAR)
G7 NATIONS:			
CANADA		16.0	11.2
FRANCE		27.9	10.6
GERMANY		45.9	23.3
ITALY		55.4	33.6
JAPAN		(15.0)	(24.3)
U.K.		23.9	19.1
U.S.		31.7	31.7
	AVERAGE	26.4	15.0
EUROPE:			
AUSTRIA		17.1	0.3
BELGIUM		29.3	10.8
DENMARK		54.4	33.0
FINLAND		37.0	16.0
GREECE		52.5	32.7
IRELAND		34.5	13.3
NETHERLANDS		42.5	21.6
NORWAY		21.0	4.8
PORTUGAL		70.4	43.9
RUSSIA		111.5	111.5
SPAIN		4.2	26.1
SWEDEN		29.7	11.6
SWITZERLAND		55.5	45.0
	AVERAGE	46.1	28.5
LATIN AMERICA:			
ARGENTINA		21.9	21.9
BRAZIL		32.7	23.4
CHILE		5.4	2.0
COLUMBIA		77.5	37.8
MEXICO		54.5	50.9
VENEZUELA		34.9	27.4
	AVERAGE	37.8	27.2
PACIFIC RIM:			
AUSTRALIA		6.6	(12.6)
CHINA		(26.3)	(26.3)
HONG KONG		(25.8)	(25.8)
KOREA		(34.3)	(67.2)
MALAYSIA		(51.9)	(68.8)
NEW ZEALAND		1.3	(16.7)
INDONESIA		(40.5)	(74.4)
PHILIPPINES		(40.5)	(60.8)
SINGAPORE		(17.0)	(31.1)
TAIWAN		10.7	(6.9)
THAILAND		(57.8)	(77.5)
	AVERAGE	(25.0)	(42.6)
OTHER REGIONS:			
INDIA		20.0	9.6
ISRAEL		32.4	23.0
SO. AFRICA		(7.0)	(10.5)
TURKEY		301.3	111.4
	AVERAGE	86.7	33.4

" The Asian financial crisis and its impact on the U.S. economy has probably been overrated."

Leo Frasciocco, *Investor's Business Daily*
January 15, 1998



As featured on CNN's International Business News.

OPINION: As we all know, 1997 was a terrible year for the Pacific Rim countries with dollar adjusted declines averaging -43%. The real surprise is how well the rest of the world performed in spite of this. In fact, the stock markets of the G7 nations, Europe and Latin America posted returns between 15% and 29% in dollar adjusted terms during 1997.

We believe that the world economy will adjust, as it did when the stock market bubble burst for Japan in 1990 and Latin America in 1994. In fact, the global economy should boldly move ahead over the next five years.

Fundamental Analysis

STOCK MARKET

Our computer models have selected 9 industry groups (out of our database of 93 industry groups) where investment analysts are forecasting strong earnings growth over the next 12 months, and their stock prices are reasonable at the current levels.

"The decidedly uncool topic of taxes is quickly becoming a buzzword in the mutual fund industry due to changes to the capital gains tax structure last year and the huge capital gains paid out by many stock funds."

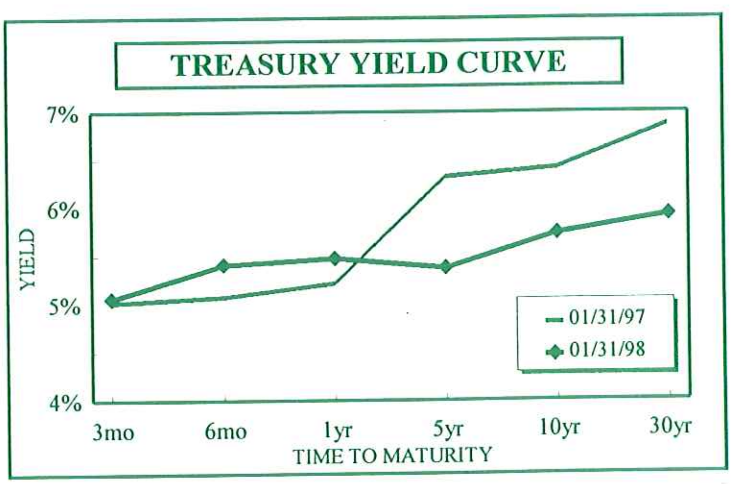
Julie Creswell, *The Wall Street Journal*
February 6, 1998

INDUSTRY	NUMBER OF COMPANIES	26 WEEK PRICE CHANGE	EST. % CHANGE IN FY EPS	P/E RATIO
∏Base Metal Industry	5	31%	27%	16
Brokers/Dealers	5	68%	30%	13
Business Services	19	29%	45%	41
Chemical Products	5	10%	16%	16
Communications	9	17%	48%	31
Electronic Products	13	27%	36%	23
Industrial Machines	12	43%	32%	26
Oil & Gas Servicing	8	9%	52%	16
Specialty Retail	7	47%	34%	29

FIXED INCOME MARKET

The treasury yield curve has flattened since last January, and currently there is a .87% yield spread between short and long term bonds.

OPINION: Due to this flat yield curve and the low yields of treasury and municipal issues, we are concentrating on corporate fixed income investments with maturities between 5 and 10 years. In other words, we believe that these bonds offer the best balance between yield and risk.



Technical Analysis

"Recent stock market volatility has prompted more investors to pass up more racy sectors to put money into conservative stock and bond investments."

Richard Wolde, *The Wall Street Journal*, January 27, 1998

STOCK MARKET

The S&P 500 is trading within a 15% upward sloping channel established in 1995.

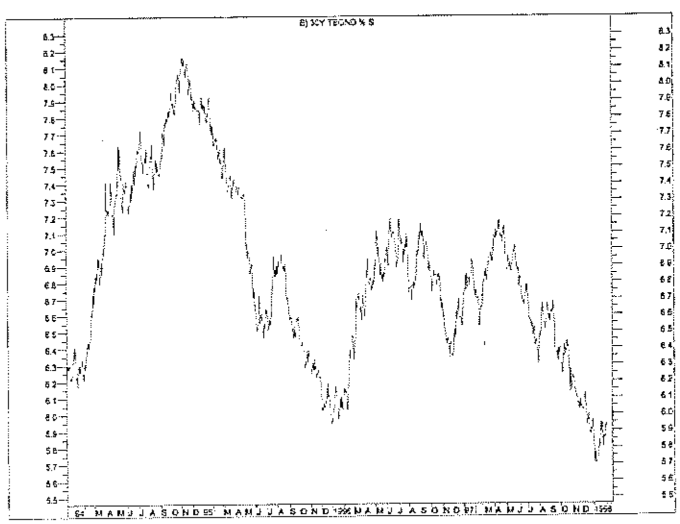
OPINION: The S&P 500 index is currently near resistance (at 1,040). Any correction to the 960-930 range is a buying opportunity.

Standard & Poor's 500 Index — 1994 to Present

FIXED INCOME MARKET

The yield on the 30 year T-bond has been in a range between 6% to 8% since 1992.

OPINION: We consider an increase in the yields to the 6.25%-6.50% range as a buying opportunity.



30 year T-Bond Yield — 1994 to Present

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