



Investment Management

To: All Clients
From: Ken Winans
Date: September 4, 1998
RE: Current Market Situation

As you all know, the world economy has been jolted by recessionary conditions that exists in Asia, Latin America and Russia. Unfortunately, this has "spilled over" into the U.S. economy by slowing corporate earnings growth by 3% - 5%, and thus causing the U.S. stock markets to have significant declines.

Since its record high set on July 20th, the Dow Jones Industrial Average has declined 19.5% to this year's low of 7,539 set on August 31st. In other words the Dow is back near the level it was on December 30, 1997. Although we do not invest in these areas, it is important to note that international stocks and small U.S. stocks have faired much worse with declines of 30% - 50%.

On a positive note, the bond markets have held up quite well throughout this year due to low inflation.

Due to my concern about the situation, I decided to "rebalance" the stock holdings during the 2nd week of August by raising cash positions through selling stocks that were expected to have sales & earnings growth declines for 1998. In other words, I sold a significant number of "weaker" stocks prior to the last week's historic 512 point drop in the Dow.

Looking forward, I believe that U.S. stock markets have over-reached to the actual effect that these global issues are having on the U.S. economy. In other words, even though the economy has slowed down this year, I don't believe it will "sink " into a recession due to the strength of the domestic economy and low interest rates.

In light of this, I have started buying stocks and bonds that are expected to post sound earnings growth over the next twelve months.

Within the week you will be receiving your brokerage statements, and thus will show that your portfolios have been effected by the events described in this letter. It is important to remember that stock investing can be volatile at times, but history has showed that over the long run it is a profitable way to invest.

If you have any questions or concerns, please don't hesitate to call me directly.