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INVESTMENT COUNSEL

July 18, 2002

THE ECONOMIC OUTLOOK

The U.S. financial markets remain preoccupied with the potential risks of an aborted economic recovery and further revelations of corporate misdeeds. In particular, investors are fretting over the possibility of a double-dip recession due to weak business investment and the lack of a perceptible pick-up in employment growth. Standing back from the recent market turbulence, newly released economic data, as well as Fed Chairman Greenspan's mid-year policy report to Congress, lend little support to concerns of an economic retrenchment. In fact, the news remains quite consistent with a continued recovery, albeit a moderate one. After treading water during mid-spring following torrid first quarter GDP growth of 6.1%, the latest data support the view that growth reaccelerated in June and early this month.

(1) Hours worked had their biggest increase in 17 months in June.

(2) Even though the most recent consumer conditions reading from the University of Michigan softened a bit in early July, probably reflecting poor stock market sentiment, consumers continue to spend, with chain-store and auto sales remaining strong.

(3) Mortgage refinancing has jumped during the past three weeks and is likely to move still higher. Mortgage applications for home purchases ran at a record rate during the past four weeks, portending continued strength in the housing market.

(4) Industrial production has now increased for six consecutive months reaching the highest level since May 2001 and capacity utilization is on the rise.

(5) Business inventories rose by 0.2% in May, reversing an 18-month period of liquidation.

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(6) While the Institute of Supply Management Non-Manufacturing Index fell in June to 57.2% from 60.1% in the prior month, a reading above 50% indicates continued expansion in this sector.

(7) U.S. productivity in the first quarter of this year advanced at a robust 8.4% rate while unit labor costs declined at a 5.2% pace. Both indicators are at their best levels since the second quarter of 1983 and telegraph a strong rebound in corporate profits later this year and in 2003.

(8) Unemployment, a lagging indicator, appears to be stabilizing amid modest job creation and moderating new jobless claims.

(9) Measures of global business confidence have picked up sharply over the first half of the year, and consumer confidence has also edged higher abroad. European leading economic indicators, which troughed in October 2001, have risen sharply since the start of 2002.

(10) Global trade activity continues to strengthen. Various measures of global cargo traffic have been rising since last year.

(11) In Japan, there are some grounds for optimism, though this is largely confined to the industrial sector. The stronger than expected 3.9% rise in industrial production in May was the fourth consecutive monthly increase.

In short, the U.S. and, indeed, the global economy continues to recover and corporate earnings are rising according to government data. Both the Leading Economic Indicators and our firm’s Economic Model (attached) point toward further expansion.

However, a disconnect between the economic recovery and the stock market’s performance has emerged as investors have largely ignored the improving fundamentals, instead focusing on the torrent of media reports which would lead us to believe there is little or no honesty left in the accounting profession, the government or corporate America. Financial publications and cable television imply the U.S. President was guilty of a board director’s conflict of interest and disclosure avoidance tactic, that the Vice President was instrumental in overseeing questionable accounting changes at a former employer so as to “manage” earnings and, that SEC

Commissioner Pitt is a corporate puppet who should resign. Add Sam Waksal, Martha Stewart, Dennis Kozlowski, Bernie Ebbers, Kenneth Lay, and Jack Grubman to the list of 18 corporations (11 of them former Arthur Andersen clients) under SEC investigation for wrongdoing and the impression becomes devastating to investor confidence.

Clearly, within certain industries (i.e. telecom and energy merchants) where stock price valuations were based upon revenue, there appear to have been some serious abuses. So far as insider trading and accounting irregularities are concerned, the vast majority of the 6,000 publicly traded companies are governed by executives with integrity. However, Congress and the President face intense pressure to enact new laws and regulations to swiftly restore confidence in both the financial markets and corporate behavior. New rules of the road are on their way. While our collective thirst for vengeance is understandable, we run the risk of over-regulation which could lead to a longer term stifling of business initiative. Rather, market disciplines which are already taking hold will be the most effective means by which durable reforms are put in place. Among the first of these are:

(1) Highly leveraged companies and those suspected of employing legal but very aggressive practices face sharply higher costs of doing business. For example, the cost of capital has risen through lower stock prices and higher demanded yields on debt. Insurance companies offering directors and officers liability coverage are charging higher premiums for covering companies with loose governance practices.

(2) Companies are being forced to restructure their boards of directors away from insiders and celebrities, replacing them with individuals who are independent of management and possess oversight experience.

(3) Outrageous executive compensation packages are being recognized as practices at odds with the long-term best interests of shareholders and will be curbed.

(4) Company disclosure of pertinent details concerning operations is rapidly improving.

(5) Given the rising legal risks, auditors are likely to become increasingly independent and conservative in the future.

Tougher regulations are also on the way. And corporations will tighten their practices if for no other reason than CEO's and CFO's will be required, following August 14th, to personally sign off on all filed financial statements. And penalties for corporate fraud have been stiffened.

Interest Rates

In his remarks before Congress, Fed Chairman Greenspan expressed the view that stock market's recent severe woes will not markedly depress domestic demand and production. In fact, the Fed is forecasting GDP to steadily accelerate to an above-trend growth rate of 3 ½% to 3 ¾% for 2002 and 3.5% to 4.0% for 2003, bringing down the unemployment rate to 5.25% to 5.5% during the fourth quarter of 2003, ½% below the current rate. Moreover, they see inflation below 2% for both this year and next. These estimates are roughly in line with our firm's forecasts. Under ordinary circumstances, this data would suggest the likelihood of some monetary tightening over the next several quarters since current Fed policy is highly accommodative and inconsistent with the above rates of growth. Given current low inflation, we believe the Fed will defer any rate hikes until early 2003 as they await clear confirmation unemployment is coming down before tugging at the monetary reins. The Fed is also likely to remain cautious since the possible negative effects of the stock market's decline on domestic spending will take months to play out.

Investment Policy

Historically, easing by the Federal Reserve has boded well for U.S. equity performance, with shares typically rising 20% over the 18 months following the first rate cut. However, equities, as measured by the S & P 500 Index, have fallen 37% since the Federal Reserve began cutting rates at the start of 2001. Corporate credibility issues have hurt investor confidence despite an increasingly positive economic backdrop in the first half of the year. Just how much of the uncertainty surrounding the misdeeds of business and accounting firm executives has already been discounted by the current stock market rout is hard to know. In our view, sentiment among investors is as negative today as it was positive at the stock market's peak in early 2000. As business continues to recover and prospects for improving corporate profits clarify, we believe investors attentions will shift from fear of losses to the investment opportunities ahead. In addition, a number of stock market valuation measures we apply indicate equity returns are likely to outpace those of fixed income investments from their current levels over the intermediate and longer term. Nevertheless, a sustained improvement in stock market sentiment may well await a further flushing out of the business scandals making the daily headlines. Much of this is likely to occur between now and the looming August 14th deadline for corporate officer certification of financial statements.

Portfolios under our supervision are now tilted toward high quality *growth* shares in the anticipation of better corporate profit growth during the second half of this year. Many manufacturing companies will benefit from a combination of a weaker dollar, strong productivity gains and reduced labor costs. On the *value* side, financial services stocks remain attractive and are overweighted due to continued low interest rates and the prospect of improving credit quality.

The stock market decline of the past six months, which has driven the broad indices to four-year lows, has had its greatest impact on large cap *growth* shares which have been out of favor since mid-2000. By contrast, small cap value shares have performed relatively well during the same period after having been laggards for most of the late 1990's. The attached exhibit titled <u>Historical Returns Achieved by Various Asset Classes</u> shows the inevitable drift of investment styles from *growth* to *value* and *large cap* to *small cap*. Once investor focus returns to fundamentals, we expect yet another shift in appetites to emerge with larger cap growth shares again gaining attention given their relatively attractive current valuations.

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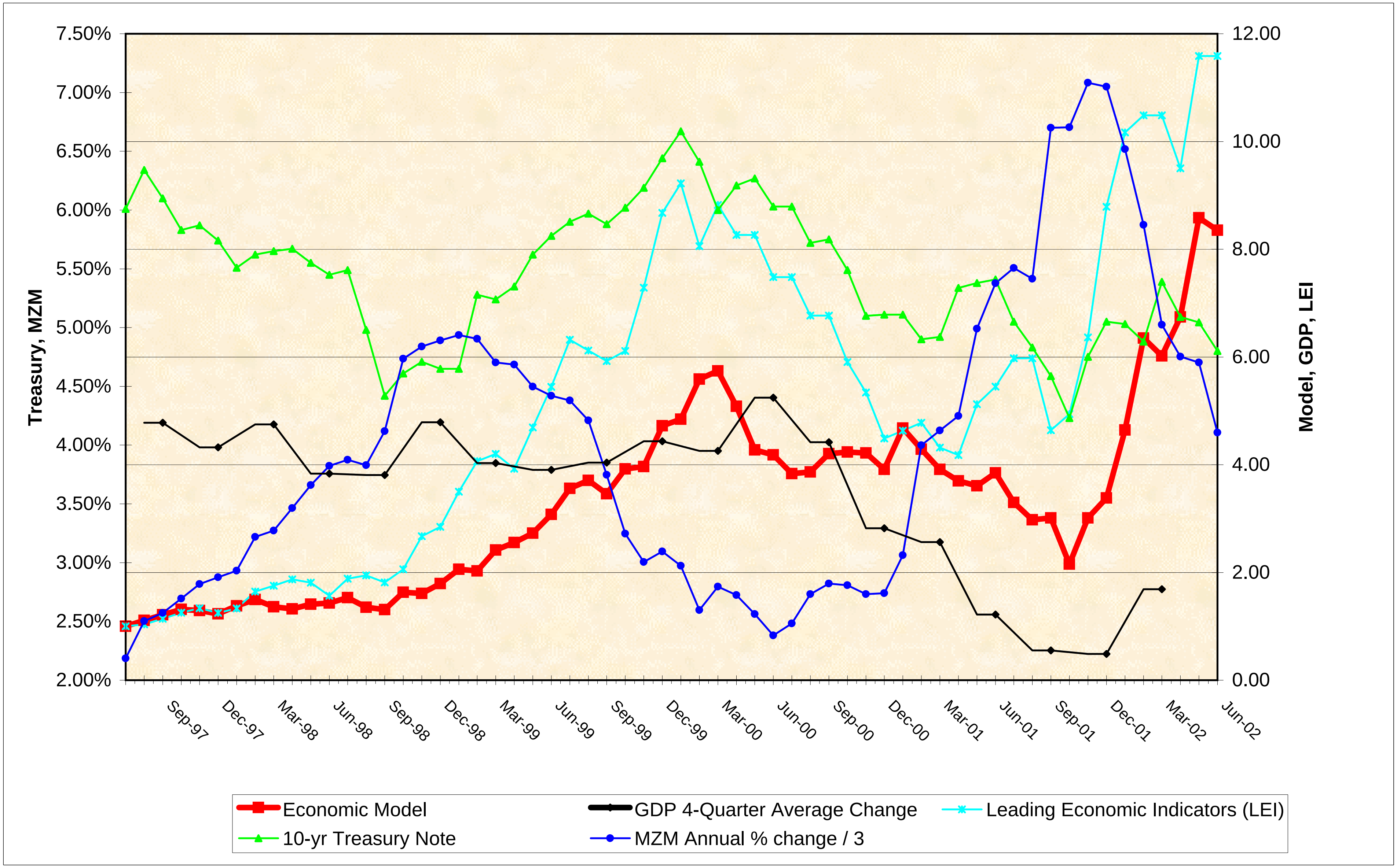
7/22/2002

Front Barnett Associates LLC
Economic Model



June 2002 Incomplete

Historical Returns Achieved by Various Asset Classes

Annual Returns Ranked in Order of Performance

1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1st Half 02
Fixed Income 32.63%	Small Cap Value 38.64%	Fixed Income 15.15%	Int'l 56.16%	Int'l 69.44%	Int'l 24.64%	Small Cap Value 29.47%	Large Cap Growth 36.40%	Fixed Income 8.96%	Small Cap Growth 51.19%	Small Cap Value 29.14%	Int'l 32.56%	Int'l 7.77%	Large Cap Growth 38.12%	Large Cap Growth 23.97%	Large Cap Growth 36.53%	Large Cap Growth 42.16%	Small Cap Growth 43.10%	Small Cap Value 22.80%	Small Cap Value 14.02%	Small Cap Value 7.26%
Small Cap Value 28.52%	Large Cap Value 28.89%	Large Cap Value 10.52%	Large Cap Growth 33.31%	Large Cap Value 21.67%	Large Cap Growth 6.50%	Int'l 28.27%	Large Cap Core 31.68%	Cash 7.77%	Small Cap Value 41.70%	Large Cap Value 10.59%	Small Cap Value 23.84%	Cash 3.85%	Large Cap Core 37.58%	Large Cap Core 22.97%	Large Cap Core 33.37%	Large Cap Core 28.59%	Large Cap Growth 28.25%	Fixed Income 11.63%	Fixed Income 8.44%	Fixed Income 3.80%
Large Cap Growth 22.03%	Int'l 23.69%	Cash 9.89%	Large Cap Core 31.76%	Large Cap Core 18.67%	Cash 5.45%	Large Cap Value 21.67%	Large Cap Value 26.13%	Large Cap Growth 0.20%	Large Cap Growth 38.37%	Small Cap Growth 7.77%	Large Cap Value 18.60%	Large Cap Growth 3.13%	Large Cap Value 36.99%	Large Cap Value 21.99%	Small Cap Value 31.78%	Int'l 20.00%	Int'l 26.97%	Large Cap Value 6.08%	Cash 4.46%	Cash 0.85%
Large Cap Core 21.53%	Large Cap Core 22.57%	Int'l 7.38%	Small Cap Value 31.01%	Fixed Income 15.24%	Large Cap Core 5.27%	Small Cap Growth 20.37%	Small Cap Growth 20.17%	Large Cap Core -3.10%	Large Cap Core 30.47%	Large Cap Core 7.62%	Small Cap Growth 13.36%	Large Cap Core 1.31%	Small Cap Growth 31.03%	Small Cap Value 21.36%	Large Cap Value 29.98%	Large Cap Value 14.67%	Large Cap Core 21.04%	Cash 5.86%	Small Cap Growth -9.23%	Int'l -1.62%
Large Cap Value 21.03%	Small Cap Growth 20.06%	Large Cap Core 6.27%	Small Cap Growth 30.97%	Large Cap Growth 14.49%	Large Cap Value 3.68%	Large Cap Core 16.60%	Fixed Income 14.54%	Large Cap Value -6.85%	Large Cap Value 22.56%	Fixed Income 7.40%	Large Cap Core 10.07%	Large Cap Value -0.64%	Small Cap Value 25.75%	Small Cap Growth 11.26%	Small Cap Growth 12.95%	Fixed Income 8.67%	Large Cap Value 12.73%	Large Cap Core -9.10%	Large Cap Core -11.76%	Large Cap Value -9.47%
Small Cap Growth 20.95%	Large Cap Growth 16.23%	Large Cap Growth 2.33%	Large Cap Value 29.68%	Small Cap Value 7.41%	Fixed Income 2.77%	Large Cap Growth 11.95%	Small Cap Value 12.43%	Small Cap Growth -17.41%	Fixed Income 16.00%	Large Cap Growth 5.14%	Fixed Income 9.75%	Small Cap Value -1.55%	Fixed Income 18.47%	Int'l 6.04%	Fixed Income 9.68%	Cash 4.80%	Cash 4.60%	Int'l -14.16%	Large Cap Growth -13.96%	Large Cap Core -13.16%
Cash 10.55%	Cash 8.82%	Small Cap Value 2.27%	Fixed Income 22.12%	Cash 6.16%	Small Cap Value -7.11%	Fixed Income 7.88%	Int'l 10.54%	Small Cap Value -21.78%	Int'l 12.13%	Cash 3.55%	Cash 2.94%	Small Cap Growth -2.43%	Int'l 11.21%	Cash 5.03%	Cash 5.14%	Small Cap Growth 1.23%	Fixed Income -0.83%	Large Cap Growth -22.08%	Large Cap Value -14.71%	Large Cap Growth -16.92%
Int'l -1.86%	Fixed Income 8.37%	Small Cap Growth -15.83%	Cash 7.72%	Small Cap Growth 3.58%	Small Cap Growth -10.48%	Cash 6.38%	Cash 8.21%	Int'l -23.45%	Cash 5.61%	Int'l -12.17%	Large Cap Growth 1.68%	Fixed Income -2.92%	Cash 5.54%	Fixed Income 3.61%	Int'l 1.78%	Small Cap Value -6.45%	Small Cap Value -1.49%	Small Cap Growth -22.43%	Int'l -23.39%	Small Cap Growth -17.35%

		CAGR
Cash	90 Day Treasury Bills	5.99%
Fixed Income	Lehman Aggregate Index	10.54%
Small-Cap Value	Russell 2000 Value Index	14.77%
Small-Cap Growth	Russell 2000 Growth Index	7.54%
Large-Cap Value	S&P/BARRA Value Index	14.05%
Large-Cap Growth	S&P/BARRA Growth Index	13.36%
Large-Cap Core	S&P 500 Index	14.07%
Int'l	Morgan Stanley Capital Int'l EAFE Index	10.52%