"Waiting Patiently For A Buy Signal"
Market Commentary – March 2003

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Geopolitical uncertainty and the threat of terrorism have Wall Street on hold:

- The U.S. is on the brink of war with Iraq. Secretary of State Colin Powell presented the U.S. case for war with Iraq to the United Nations Security Council. France, Russia, and China continue to believe that diplomacy is the best way to resolve the Iraq issue. Since President Bush has indicated that the U.S. will remove Saddam Hussein, with or without U.N. approval, it seems likely that a U.S. attack is imminent.
- North Korea continues to make periodic headlines with the reactivation of a nuclear plant. They seem to rattle their sabers whenever the brewing conflict with Iraq heats up even more.
- An audiotape, supposedly by Osama Bin Laden, urged Muslims to fight the U.S. and Israel with suicide attacks. While no new attacks have occurred recently, the audiotape was viewed as a possible "call to action" for Al-Qaeda cells to act.
- The terror alert was recently lowered from orange to yellow. Conventional wisdom suggests that if/when the U.S. attacks Iraq, the U.S. will want to raise the national terror alert. To not have to raise the alert from orange to red, it seems logical that the U.S. first downgrade the alert to yellow, allowing for an upgrade to orange without indicating that another terrorist attack is nearly certain.

These bullet points are causing the market to tread with caution. In the 1990's, the financial markets enjoyed the geopolitical certainty provided by the end of the Cold War. The war on terrorism now constantly weighs on the minds of investors. We are adjusting. In time, people will come to accept this new reality and will become increasingly desensitized to it.

The economy is in the middle of a rocky recovery. On the positive side, orders to factories for big-ticket durable goods increased 3.3% in January from December. In 2002, productivity grew at 4.1%, its best pace since 1950. Based on the January Consumer Price Index, which climbed 0.3%, inflation is tame. New home sales were a mixed bag, slowing 15.1% from December's record pace, but still 5.1% above January 2002. Finally, consumers are still spending with retail sales surging 1.3% (excluding auto sales, which slumped 7.5%).

Economic negatives continue to mount. The January Producer Price Index rose a huge 1.6%, with core producer prices rising 0.9% (the largest jump since 1990). Over the past several months, oil has increased in price from $25 to nearly $40 per barrel. Unemployment is weighing on the economy, with initial benefit claims the highest in 10 weeks. The Conference Board's Consumer Confidence Index is at 64 in February, its lowest level since October 1993. For purpose of comparison, the peak in consumer confidence was approximately 140 in early 2000. The expectations component, looking six months out, fell sharply again from 81.1 to 65.6 on concerns about wages and job security.

The Dow Jones Industrials Average is slightly undervalued, but not significantly undervalued, in the upper 7000's. February was a month of consolidation for the market indexes. We continue to see low volume, as people are putting their investing on hold with all of the uncertainty. There still seems to be an absence of buyers more than an abundance of sellers.

Not much has changed with the positioning of our portfolios. We continue to enjoy covered call premiums and dividends from our stock holdings. Our combination of fundamental and technical analysis has done a good job protecting our long positions as best as possible in a difficult market. We are waiting patiently for a buy signal: a high volume rise in the market indexes.