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Report: The 2st Quarter of 1999
Editor: Joseph Lai, Chief Portfolio Manager

The equity market ended a volatile quarter with a solid gain in all capitalization tiers. The small-capitalization group represented by the Russell 2000 Index, ended the quarter with a strong 15.1% return, finally becoming the best performer among all capitalization tiers, after a series of underperforming quarters.

While the equity market enjoyed a strong return, the bond market continued suffering from expectations of a tightening monetary policy. On June 30, the Federal Reserve finally raised the Fed Funds rate from 4.75% to 5.0% in a much-anticipated move. This was the first increase since March 1997.

Index	**2nd Quarter**	**Year to Date**
Dow Jones Industrial Average	+12.1%	+19.5%
Standard & Poor's 500	+6.7%	+11.7%
NASDAQ	+9.1%	+22.5%
Russell 2000	+15.1%	+8.5%
Dow Jones World (ex. U.S.)	+4.8%	+6.8%
Merrill Lynch Corporate/Government Bond	-1.1%	-2.2%

After two years of a global financial crisis, a major turnaround is in process. Even the Japanese economy could be coming out of recession with the help of corporate restructuring and public spending. The U.S. "New Economy", as referred to in our last quarterly report, continues to work. With improving world trade, we believe that corporate earnings could continue to grow and an upside surprise appears possible.

As the S&P 500 trades over 28 times the consensus 1999 earnings per share estimate, we recognize that the equity market has little margin of safety unless earnings pick up dramatically. However, we believe the recent market rotation is healthy since stocks with high and low valuations moved somewhat closer to equilibrium. Therefore, with careful investigation, there is usually something we can buy at relatively reasonable prices.

There was a higher level of activity in many of our clients' accounts during the quarter in response to opportunities created by market volatility. Some stocks that, in our opinion, represented superior long-term opportunities became exceptionally attractive during dips in the market, due in part to price weakness created by market rotation. Conversely, we raised cash by selling several stocks with relatively high valuations that were approaching our price targets, or were in industry groups that became overweighted as a result of price appreciation. However, this does not reflect any change in our investment policy and, as in the past, we continue to emphasize our focus on long-term strategies.

NEW PURCHASES IN SECOND QUARTER OF 1999

Bristol-Myers Squibb Co.
Bristol-Myers Squibb is one of the largest pharmaceutical companies in the world. The company has four industry segments: medicines, beauty care, nutritionals, and medical

devices. The company continues to refocus to higher-margin medicines from lower-margin nutritionals and medical devices.

Fannie Mae
The Federal National Mortgage Association, or Fannie Mae, is a U.S. government-sponsored mortgage company with the mission to increase the availability and the affordability of housing for low-, moderate-, and middle-income Americans. The government connection makes the company a very strong competitor in this market.

Masco Corp.
Masco is a leading worldwide manufacturer of home improvement and building products, such as faucets, plumbing supplies, kitchen cabinets and many others. The company is an exceptionally efficient manufacturer with an outstanding long-term record. As a manufacturer, Masco invests heavily in plant and equipment, but the company's capital expenditures accounted for less than 30% of its cash flow in 1998.

Microsoft Corp.
Microsoft is the largest computer software company in the world. With SQL Server 7.0, Windows 2000, and Office 2000, the company is entering what could be its greatest set of product cycles in its history. With $13.9 billion cash and no debt, the company's 38% return on equity and 26% return on assets are extraordinary and are expected to remain far above average.

Protective Life Corp.
Protective Life is one of a few remaining mid-size life insurance companies. It provides life and health insurance, annuities and guaranteed investment contracts. As evidenced by a consistent top-tier return-on-equity in its industry, Protective is clearly one of the most efficient operators.