

April 15, 2002

Dear Client,

First-quarter stock market results were mixed. The more cyclical Dow Jones Industrial Average was up 3.82%, while the high-growth, more technology-oriented NASDAQ Composite Index was down 5.39%. This performance is a reversal of the fourth quarter of 2001, when the NASDAQ outperformed the Dow Jones Industrials by 16.86 percentage points.

Index	First Quarter
Dow Jones Industrial Average	+3.82%
Standard & Poor 500	-0.06%
NASDAQ Composite	-5.39%
Russell 2000	+3.68%
Dow Jones World (ex. U.S.)	+1.85%
Merrill Lynch Corporate/Government Bond	-0.67%

Recently released economic data increasingly confirms that economic recovery is on the way. In fact, much of the data turned out to be much stronger than previously thought. For example, real Gross Domestic Product in the fourth quarter was recently revised to 1.7%, from a previously reported 1.4%. Corporate profits in Q4 were up 17.9%, bouncing back from the negative numbers we have seen in previous quarters. Both manufacturing and non-manufacturing activities continue to improve and the consumer confidence level also has started to rise.

While economic momentum is building, inflation is not seen as an issue in the near future. Based on the Personal Consumption Expenditure (PCE) deflator, the Fed's preferred measure of inflation, the inflation rate is at its lowest point in four decades. With improving economic growth in sight and low inflation anticipated, we would expect stock prices to increase. As such, we have committed to being fully invested and continue to research new ideas. We are confident in the current state of our portfolios which we believe are well positioned to benefit from economic recovery.

However, some concerns have developed that are contributing to current market volatility:

- Accounting Practices – Enron has created a huge storm in the financial world since last November. Many companies with aggressive accounting practices or incomplete accounting information have been punished severely. Fed Chairman Alan Greenspan has stated that he believes that the vast majority of companies are quite honest in their financial statements and that the market should penalize only those public entities that posted opaque or misleading numbers. We think there should be long-term benefits from this issue, as reported financial results will provide more accurate information about business operations, thus providing a basis for more accurate analysis and valuation.

- The War Factor – Resolution of the issues in the Mid East remain uncertain, causing very serious concern. However, we do not believe that our investment decisions should be influenced by war or politics, as these issues are not predictable and usually are temporary.

- **Rising Interest Rates** – There is little doubt that as economic recovery continues, the Fed eventually will raise interest rates. However, the thought that higher interest rates will automatically cause a weak stock market is contrary to history. This logic ignores the fact that the key to drive stock prices up or down is earnings growth. In fact, in the past, higher rates during early stages of economic recovery have not penalized the market.
- **High Valuation** – In absolute terms, current market multiples are historically high. As valuations remain high, so is risk. However, current price-earnings ratios are based on earnings impacted by weak economic conditions. As economic expansion starts, earnings growth is likely to accelerate and valuations should become less expensive.

NEW PURCHASES IN FIRST QUARTER OF 2002

Costco Wholesale Corp. (COST)

Costco is the largest membership warehouse club operator in the U.S., followed by Sam's Clubs (a division of Wal-Mart) and BJ's Wholesale. Out of total 383 warehouse clubs, 282 are located in the U.S. Costco's business model is to achieve high sales volumes and rapid inventory turnover by offering a limited assortment of merchandise in a wide variety of product categories at very competitive prices. The company focuses on a somewhat more upscale format relative to its competitors. It has a long-term track record of innovation, quality of services, and financial performance. Costco has initiated an aggressive expansion program starting in the fourth quarter of fiscal 2000. We view this as opportunistic for the long-term.

Convertible Securities

We have purchased some convertible securities for certain clients during the past two quarters. Our objective was to generate some interest and dividends in the near term during a period of relative uncertainty and low interest rates, while looking for some long-term growth opportunities. While the yields on these products are attractive relative to current interest rates, these products might involve higher risks or lower upside potential than more traditional securities and thus are not suitable for all clients.

Sincerely,



Joseph T. Lai
Chief Portfolio Manager