

July 15, 2002

Dear Client,

The DJIA, S&P 500 and NASDAQ all declined sharply in the second quarter and year-to-date, as illustrated in the table below. Distrust of corporate management and financial statements are undoubtedly impacting the financial markets, more than offsetting growing signs of economic recovery.

Index	2nd Quarter	YTD
Dow Jones Industrial Average	-11.16%	-7.77%
Standard & Poor 500	-13.73%	-13.78%
NASDAQ	-20.71%	-24.98%
Russell 2000	-8.65%	-5.29%
Morgan Stanley EAFE	-3.27%	-2.77%
Merrill Lynch Corporate/Government Bond	3.76%	3.13%

Recent accounting scandals and highly questionable, and possibly illegal, behavior by some management teams combined with the failure of their corporate boards in protecting shareholders' interests surely have had an effect on investor confidence. In addition, international unrest related to the Middle Eastern conflict and terrorism provides further concerns.

The severity of the breakdown in corporate credibility has triggered strong responses in Washington and throughout the financial world, with new and tougher proposals surfacing on a daily basis. The SEC has already announced a new rule requiring CEOs and CFOs to certify financial statements. They will be subject to criminal as well as civil charges, with the prospect of prison sentences, if significant inaccuracies subsequently surface.

A dramatic drop in tolerance for actual or even perceived financial misconduct has created an atmosphere requiring much tighter regulation with far more severe consequences for those who commit violations in the future. Obviously overdue, we believe these actions can be effective in restoring investor confidence. However, we cannot discount the possibility that additional accounting scandals could be revealed in the near future given the fact that corporate CEOs and CFOs must certify financial statements and make any necessary disclosures or suffer the consequences. However, once this "cleansing" is completed a far more appealing environment for investment should become evident – perhaps quickly.

Some people now believe that the decline in corporate ethical standards and honesty could have a longer lasting shock effect that might discourage investors from restoring their previous confidence level. To consider this issue realistically, it is important to bear in mind that economic and financial history has many examples of equal and even worse scandals. This did not prevent the economy and markets from subsequently reaching far greater heights. For instance, in the 1980s, the savings and loan crisis cost taxpayers hundreds of billions of dollars, and stock manipulation and insider trading scandals were at the expense of other investors. In the late 1920's and 1930's, the widespread financial crimes increased the population of numerous penal institutions. One high-profile prisoner was Richard Whitney, the once esteemed president of the New York Stock Exchange.

Although the duration of current negativity on the part of investors is difficult to predict, it can be expected to subside as the tougher regulations are implemented or possibly to some extent as they are anticipated. Concurrently, clear evidence of an upturn in economic activity and corporate profits could become too obvious to ignore.

We remain confident about the long-range outlook for the U.S. economy and intend to take advantage of the present market weakness. The S&P 500 and NASDAQ have declined 19% and 30%, respectively, year-to-date as of July 11th, and we consider a number of stocks attractive at current prices.

NEW PURCHASES IN SECOND QUARTER OF 2002

Cintas Corp. (CTAS)

Cintas, a Cincinnati-based company, is the No.1 participant in the \$8.5 billion uniform rental and sales market. It also offers ancillary services including entrance mats, sanitation supplies, first aid products and services. Cintas provides services across the United States and Canada through a comprehensive network of facilities (laundry processing plants, distribution centers, and branches) and truck routes, typically visiting customers on a weekly basis. Its customers include leading companies, such as Marriott, Hyatt, Hilton, Avis, DHL, Delta Air Lines, and Albertson's.

Dell Computer (DELL)

Dell is the leading direct, build-to-order PC vendor worldwide. Its desktops account for roughly 11% of worldwide sales, while portables and servers account for 14% and 15%, respectively. For the standardized PC market, Dell's efficient direct model makes the company a clear leader in terms of profitability, financial strength, and increasing share gains. Now, Dell is using its cost advantage to quickly move upstream toward a richer mix (servers, storage and Internet-related services), as these products commoditize.

Wal-Mart Stores (WMT)

Wal-Mart Stores, Inc. is the world's largest retailer and the largest company in the U.S., with \$218 billion in annual sales. The company operates four retail concepts:

- Wal-Mart Discount Stores – 1,636 stores, offering a variety of quality, value-priced general merchandise and a pleasant, convenient shopping experience, since 1962.
- Wal-Mart Supercenters – 1,093 stores, offering one-stop family shopping and 24-hour convenience, since 1988.
- Wal-Mart Neighborhood Markets – 31 stores, supplementing a strong food distribution network to a Wal-Mart Supercenter, since 1998.
- SAM's Clubs – 502 clubs, offering members only a broad selection of general merchandise and large-volume items at value prices, since 1983.

In addition, the company operates 1,183 stores internationally in countries such as, Mexico, U.K., Canada and Germany.

Sincerely,



Joseph T. Lai
Chief Portfolio Manager