

October 15, 2003

Dear Client,

The past quarter was the second consecutive quarter with positive performance for all major indices, unseen in years. NASDAQ, where most high-tech stocks are traded, posted its second consecutive quarter of double-digit gains. The market recovery finally seems to be based on identifiable improvements in economic fundamentals.

Index	3rd Quarter	Year to Date
Dow Jones Industrial Average	+3.22%	+11.19%
Standard & Poor's 500	+2.20%	+13.20%
NASDAQ Composite	+10.11%	+33.80%
Russell 2000	+8.77%	+27.30%
Morgan Stanley EAFE	+7.57%	+15.82%
Merrill Lynch Corporate/Government Bond	-0.47%	+4.53%

As you know, we have been optimistic about the potential for economic and market recoveries for several quarters. The market has recovered strongly from its October 2002 trough, with the Standard & Poor 500 Index up 30% and NASDAQ up 61%. We believe that by reducing the excesses in production capacity, inventories, and payrolls, many companies have restored their financial health and boosted productivity. It appears that economic conditions have improved sufficiently to provide the potential for a strong and lasting up-cycle and stock prices could continue the current uptrend.

A major concern, however, continues to be a sluggish job market, with nearly three million people having lost their jobs in the past two years. If this were a typical cycle, we would be going through the historical process of shedding old jobs and creating new ones, and job recovery could be forthcoming soon. However, there is the possibility that employment and under-employment will not improve quickly, limiting the strength of economic recovery.

One factor casting some doubt on the job market recovery is the explosion in the growth of global outsourcing. In a low-inflation environment, companies continue to cut costs and improve efficiency to maintain their domestic and international competitiveness. To help accomplish this goal, companies have been outsourcing some services previously performed in-house. The growth of outsourcing to China, India, and elsewhere has been significant, as many of these countries offer large, highly educated work forces at wage levels far below those typically paid in the United States. As a result, many companies are able to substantially reduce costs while maintaining quality.

The full impact of this trend is uncertain and warrants continuing attention as the effects could be mixed. Low inflation business conditions may remain due to global competition and cost control. In addition, companies that constantly lower the costs of doing business and improve their competitiveness could be major beneficiaries. On the other hand, there is clearly a substantial impact associated with job losses in the U.S., although difficult to fully assess.



NEW PURCHASES IN THIRD QUARTER OF 2003

Applied Materials Inc (AMAT)

Applied Materials is the world's largest supplier of manufacturing equipment for the semiconductor industry, with 20-25% worldwide share. Applied Materials is a one-stop shop for chip equipment. It has continued focusing on research and development during market downturns, thanks to a strong balance sheet, which has distanced it from weaker rivals. The new CEO, Michael Splinter, who spent 20 years at Intel (Applied Materials' largest and most influential customer) will give the company the customer focus it may have lacked. As we believe a cyclical recovery is underway, Applied Materials is best positioned in the industry to grow.

Bed Bath & Beyond (BBBY)

Bed Bath & Beyond Inc. operates a nationwide chain of over 500 superstores selling better-quality domestics merchandise and home furnishings. The company maintains an everyday low prices pricing policy, with prices on many items substantially below those charged by department stores. Bed Bath & Beyond is one of the top retailers across all sectors in terms of profitability and growth.

Staples (SPLS)

Staples is a leading retailer of office products and services. The company operates approximately 1,300 stores in North America. Also, Staples has mail-order (Quill), e-commerce (Staples.com), and contract stationery businesses. In Europe, Staples operates approximately 190 retail stores. With a solid track record, we view Staples as one of the best-run retailers in America and the clear leader in the office supply sector. As Staples focuses on small business, it could be a big beneficiary as the economy continues to improve and small businesses start to expand.

SPECIAL NOTE

It is my pleasure to introduce Alejandro Guarin, who has joined us as a Research Analyst and Portfolio Manager Associate. Previously, Alejandro worked for Charles Schwab & Co. Inc. in several positions, including Relationship Manager at the Latin American Center in Miami. Alejandro earned a Master of International Affairs with a focus on International Finance and Business from Columbia University in New York and a B.A. in Finance and International Relations from Universidad Externado, Colombia. Alejandro is a Level I candidate in the Chartered Financial Analyst Program.

Sincerely,

Joseph T. Lai, CFA
Chief Portfolio Manager