FRONT BARNETT ASSOCIATES LLC
INVESTMENT COUNSEL

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2000 Investment Comment

Despite the year-long hand wringing of financial market gurus over tight labor markets, incipient inflation, preemptive Federal Reserve interest rate hikes, Y2K, adverse balance of trade figures, the weak dollar, the short lived rebound in gold prices, and the bifurcated stock market, equity investors enjoyed an unprecedented fifth consecutive year of returns in excess of 20% as measured by the S&P 500. In fact, since 1994 this index has returned an astounding 28.5% per annum as compared with about an 11% annual return since 1926. By comparison, conservative bond investors barely broke even in 1999.

As we pointed out in our December letter to clients, the *long-term* fundamentals remain quite favorable, with no recession in sight. Over the *intermediate term*, the equity market will continue to benefit from strong productivity-led economic growth. In addition, low inflation and election year politics will keep the Federal Reserve from changing monetary policy to such a degree that this could become a significant negative for the stock market. This year's strong economic growth will be led by manufacturing firms as they restock unusually low inventories and as demand for exports increase.

Despite the favorable fundamentals, market history shows that investor sentiment over any *shorter period* of time will run the gamut from excessive fear to unbounded greed. How long the current correction will last is anyone's guess. Markets inevitably go to extremes which defy precise forecasting. Our best guess is that the stock market in general will cool somewhat during the first half of this year with unseasoned, illiquid, highflying technology stocks eventually absorbing a disproportionate share of whatever correction eventually takes place. Longer term though, well run technology companies with solid business models, will strengthen their positions as market leaders. Clearly, we have only begun to see the economic benefits to our society of the computing and communications revolution now underway.

Finally, the two tier market has, in our judgement, driven financial services shares and certain industrial stocks to very attractive levels from which they should advance once investors' fears over higher interest rates abate. Despite their under-

70 WEST MADISON STREET · SUITE 4920 · CHICAGO, ILLINOIS 60602
(312) 641-9000 · FAX (312) 641-9009

performance in the last few months of 1999, we continue to maintain and increase holdings in these *value* groups as a balance to our clients' already large positions in high quality, large cap technology and telecommunications shares which remain important *growth* components in portfolios under our supervision.

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