FRONT BARNETT ASSOCIATES LLC

INVESTMENT COUNSEL

Below are summarized recent comments of Marshall Front regarding the economic and financial market outlook.

January 8, 2002

Notes on the Outlook in Early January, 2002

Looking ahead, absent another massive terrorist attack, the consensus of economic forecasts, including our own, foresees a consumer led business recovery commencing by the middle of this year. Continued benign inflation, low energy costs, the rebuilding of depleted business inventories, substantial fiscal stimulus and still moderate interest rates will trigger a sequential recovery in corporate profits starting with this year's second calendar quarter. This outlook stands in sharp contrast with concerns of a year ago at this time when investors were still preoccupied with pregnant chads, how far and fast the Federal Reserve would need to ease credit conditions to avert a sharp business slowdown, how deeply and for how long corporate profits would be eroded and, whether, if elected, George Bush could govern effectively. We believe the improved business outlook we foresee will serve as an increasingly favorable backdrop for long-term stock investors as we move further into this year. We, therefore, continue to remain fully invested in equities. Our investment policy with regard to bonds remains more cautious. Since we continue to expect interest rates to work their way higher as the economic recovery we envision unfolds, we anticipate better bond buying opportunities will arise in the months ahead and we hold substantial reserves in balanced portfolios for that purpose.

Newly released economic data and anecdotal evidence, including the following, provides further support for our constructive view:

- The Institute of Supply Management (formerly National Association of Purchasing Managers) Manufacturing index rose to 48.2 and its Non-Manufacturing index rose to an even-stronger 54.2 in December, not only reversing all of the contraction from 9/11 but reaching a level not seen since the fourth quarter of 2000. The Production component of both surveys exceeded 50, signaling future expansion.

- Productivity growth, or output for hours worked, has averaged 1.8% during the first two quarters of the current recession as compared with an average of only 0.14% in the first two quarters of the prior six recessions.

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- The holiday selling season, while far from robust, has exceeded dismal expectations, propped up in part by the explosion in housing refinancing, lower energy prices, and the tax rebate. Vehicle sales in 2001 reached 17.1 million units, down just 1.3% from 2000's record pace.

- While non-farm jobs fell by 124,000 in December (the fifth consecutive month of declines) and unemployment hit a five-and-half year high, weekly hours worked last month rose sharply to 40.7, the longest since last August. The work week often expands prior to and upturn in the overall economy.

- The S&P 500 stock index, a leading indicator, has rallied almost 25% from its September 21st low.

- Spreads between corporate bond and US Treasury yields have narrowed as expectations for a rebound in economic activity have taken hold.

- All recent measures of Consumer Confidence have exceeded forecasts and have more than rebounded from their 9/11-inspired freefalls.

- Commodity prices, often a harbinger of future economic activity, have continued to firm, with particular strength in lumber and DRAM chip prices.

- Incipient signs of restocking after massive inventory liquidation are appearing. Inventories at both GM and Ford are one-third below those of one year ago, prompting both manufacturers to ramp up production plans for the first quarter of 2002. Corning announced resumption of fiber optic cable production at two recently idled plants due primarily to low inventory levels.

- The Index of Leading Economic Indicators, after three consecutive months of increases, is back at its August 2001 level and our firm's proprietary Economic Model has confirmed this movement.

- The Federal Reserve has given no signal of a reversal of their aggressively accommodative monetary policy, now entering its 13th month.

- Residential sales in Manhattan, which had plunged following the 9/11 attack, appear to be bouncing back with a number of brokers reporting sharply increased sales in December.

- U.S. air travel continued to rebound in December with Christmas travel proving to be more robust than Thanksgiving.

All in all, then, we are optimistic 2002 will be a positive year for stock investors. Client's portfolios, now tilted 60/40 in favor of *growth* stocks, should fully participate in the new bull market born amidst the gloom of the terrorist attacks last fall.