FRONT BARNETT ASSOCIATES LLC
INVESTMENT COUNSEL

June 10, 2003

THE ECONOMIC OUTLOOK

In what is arguably the most important barometer of economic activity, the Labor Department reported last Friday that the nation's unemployment rate inched up to 6.1% in May, its highest level in nine years. While this headline number confirmed that we have yet to emerge from the deepest jobs slump since the early 1980's, other, less widely heralded details of the report showed the overall pace of layoffs has moderated during the last two months and reveal a number of encouraging underlying trends in the labor market.

First, the widely reported overall employment drop since April - - including a decline of 17,000 for last month - - was solely attributable to Government layoffs. Second, the Labor Department report also showed that businesses increased the number of temporary workers on their payrolls by 58,000, a typical response in the early stages of a recovery cycle. Also of interest in the jobs report were revisions to previously released data showing layoffs earlier this year have been far fewer than originally seen. Since December, 131,000 jobs have been lost, about one-third the size noted in earlier reports. Interestingly, because this includes 179,000 reservists called to active duty in Iraq and who will shortly return to the civilian sector, the economy may have actually created jobs in the private sector this year. Lastly, in two other signs of economic strength, weekly wages rose about 3% and the number of people working only part-time because they were unable to find full time employment fell from 4.7 million in April to 4.5 million last month. Earlier this year, wages were not keeping pace with inflation, and the number of part-time workers was rising. These trends suggest the economy has stabilized and support the notion we are not sliding into the "double dip" recession some economists had feared.

This latest Labor Department report, taken together with earlier University of Michigan surveys showing sharply improved consumer confidence, higher stock prices, and Institute of Supply Management data portraying both the manufacturing and non-manufacturing sectors as expanding moderately, are, we believe, early indications of a reacceleration in business activity following a sharp slowdown in the weeks leading up to and during the war in Iraq. Clearly, hints of an economic rebound have surfaced at other points over the past two years, only to fade. In this

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

go around, we have two developments which were not present earlier: the end to the long anticipated war and the enactment of a major piece of tax legislation. As data reflecting business and consumer spending decisions made following the war are released over the next several weeks, we will soon have a better idea of whether or not the economy has, indeed, turned the corner.

Meanwhile, a broad range of economic underpinnings are in place to support the turnaround we believe is brewing. These include:

- *Accommodative monetary policy.* In recent comments on the economic outlook, Fed Chairman Greenspan indicated that despite the fact the economy appears poised to pick-up, he has concerns over the possible emergence of "corrosive deflation" (i.e. deflation that essentially feeds on itself, creating falling asset prices and contracting profitability). To avert this possibility, the Fed has pledged to lean over backwards to make certain deflationary forces are well contained. The Fed has cut rates 12 times since the start of 2001 and there remains a strong probability (a 100% chance according to recent Federal Funds futures readings) the Fed will cut short-term rates another notch when its Open Market Committee meets later this month. This concern of the Fed implies it will be less inclined to raise rates until it has become clear the recovery is both vigorous and sustainable. Additionally, money supply growth has taken a sharp turn upward, increasing at a 25% annual rate over the past two months, following a long period of very modest growth.

- *More fiscal stimulus on the way.* The $350 billion tax-cut package President Bush signed into law at the end of May will provide a sizable boost to consumers' after tax income beginning in the third quarter of this year. For consumers alone the decline in marginal rates, along with rebate checks for the expanded child credit, should boost disposable personal income by more than $100 billion annualized in each of the next four quarters. Together with special depreciation incentives for small businesses, reductions in tax rates on earnings, dividend and capital gains, and aid to states, the Congressional Budget Office estimates the stimulus to the economy in the second half of this year to be $43 billion.

- *Weaker Dollar* The weaker dollar, which has fallen about 19% on a trade weighted basis in the past 13 months, boosts our economy by making our exports cheaper to foreign buyers, offsets domestic deflationary forces and helps stabilize our trade balance. Surprising to some, US financial assets can perform well in the face of a weak currency. For example, from 1985 to 1987, when the dollar fell roughly 50% against the deutschmark and the yen, bond yields were basically flat and stocks rallied as they have in recent weeks. Two factors explain this resilience. A weaker dollar boosts corporate profits as export volumes rise and overseas profits are converted to dollars from stronger foreign currencies. The weak dollar probably accounted for 3 percentage points of the 12% increase in reported corporate profits in this year's first quarter. In the fixed income market, foreign central banks provide a major offset to any selling of US assets by private investors fearing a further dollar decline.

- *Lower Energy Prices* give both consumers and businesses more disposable income. Crude oil prices have declined about 25% since early March.

- *Credit Problems at US Banks Have Peaked.* Recent checks with contacts and other anecdotal evidence indicate credit problems at most banks peaked this winter and that demand for business loans at banks that serve small and mid-sized companies, the principal creators of new jobs, is on the rise. In addition, the banking industry emerged from the last recession in January 2002 with a much stronger capital position than was the case following prior economic setbacks.

- *Refinancings help support consumer spending.* The decline in home mortgage rates has triggered the largest wave of refinancings in history. With rates at 40 year lows, analysts estimate that 90% of all existing mortgages have been or could be profitably refinanced, providing consumers with an increase in disposable income greater than that of the recently enacted tax cut.

Given these tailwinds, we see real GDP growth up slightly to 2% in the current quarter (from 1.9% in the first quarter) and then accelerating to 3.6% in the third quarter and 3.8% in the fourth quarter - - generally in line with our prior expectations. This forecast, which envisions a *doubling* in real GDP growth from the 1st quarter through year-end, augurs well for a significant corporate profits recovery.

Equities

Despite a torrent of pessimistic prognostications from Wall Street analysts, the US stock market has staged a remarkable recovery since the end of the bear market early last October. The table below details the extent of this rebound for each of the major market sectors, which are ranked in order of the returns they have produced since 10/09/02, and the S&P 500 stock index, which is highlighted.

	% Total Return	10/31/02 % Sector Weightings	
Sector	10/9/02 – 6/6/03	S&P 500	FBA Model
Technology	51.4	14.3	20.3
Utilities	44.8	2.6	0
Financials	36.2	20.7	23.0
Telecommunications	32.9	4.4	3.0
Consumer Discretionary	28.7	13.6	19.0
S&P 500 Index	27.2		
Basic Industries	27.0	2.6	0
Industrial Capital Goods	26.8	11.3	10.9
Energy	17.4	5.8	2.2
Health Care	13.5	14.9	15.0
Consumer Staples	0.5	9.8	6.6

Our firm's decision to remain fully invested, combined with having 65% of the portfolio in sectors outperforming the overall market during this snapback in stock prices, has materially added to our client's equity performance this year.

We believe US equities remain attractive for several reasons including:

- *Corporate profits are recovering more rapidly than forecast* largely due to very aggressive cost cutting. First quarter 2003 profits rose 12% as compared with analyst's estimates of only a 5% gain. We believe that as business conditions strengthen and volumes begin to increase, analysts will be forced to raise their very conservative estimates.

- The recent *tax rate reductions* on dividends and capital gains uniquely favor equities. For example, the current after-tax yields on blue chip stocks such as General Electric, J.P. Morgan, Merck, and Exxon, to name only a handful, now exceed the after-tax yield on a 10 Year Treasury bond giving no weight to the likelihood of rising dividends and of some appreciation over time in these shares.

- *Stocks remain undervalued relative to bonds.* (See attached Exhibit I)

- *The Presidential Election Cycle.* (See attached Exhibit II) Stocks have provided their best returns in pre-election and election years, declining in only 5 of the pre-election years since 1888, never since 1939 falling in a pre-election year. This remarkable cycle is the logical outgrowth of our political process.

- *Reversion to mean returns.* As we discussed in detail in our March 19th client letter, the equity market is due for a reversion to its mean long-term return of 10.2%. This reversion has already begun.

- Technology, financials and economically sensitive stocks are now providing the *strong market leadership* lacking earlier.

- *Supply/Demand considerations are positive.* Investors are sitting on huge cash positions earning negative real returns. Short interest, representing shares that eventually need to be repurchased by speculators and hedge funds betting on a market decline, remains high. The public has begun to accumulate equity mutual funds again following months of net redemptions. There is a dearth of initial public offerings of stock. And public pension funds are reallocating their assets in favor of equities.

The risks to a better stock market are well known. Ever present geopolitical issues top the list. While aggregate consumer debt is high, debt service has been manageable and is more so now following the recent wave of refinancings and marginal tax rate reductions. The Fed is following a well reasoned course to preemptively avert deflation. And SARS, now under control, has killed fewer people than die in a single week in the U.S. due to traffic fatalities.

Equity Strategy

With a doubling in economic growth in prospect for this year, we remain fully invested in equities despite the probability of a modest pullback in stock prices as the market digests its recent gains. As to the balance between *growth* and *value* shares within the equity component of client's portfolios, a style which distinguishes us from other investment management firms, we remain tilted toward *growth* with about 62% now in the *growth* category following the shift we made toward *growth* last fall. With corporate profits on the mend and expectations still quite muted, we expect *growth* stocks to outperform *value* in the next leg of the recovery in stock prices.

Fixed Income Strategy

Our fixed income investment strategy has become increasingly cautious as interest rates have fallen to generational lows. Bond portfolio durations have been shortened and reserves for the future purchase of bonds are being maintained with the expectation of a reversal in the course of bond yields once the financial markets see convincing signs of a sustainable economic rebound. The return to significant government deficits coupled with renewed money supply growth and a better economy, is likely to eventually stoke inflation fears, driving bond yields higher and bond prices lower.

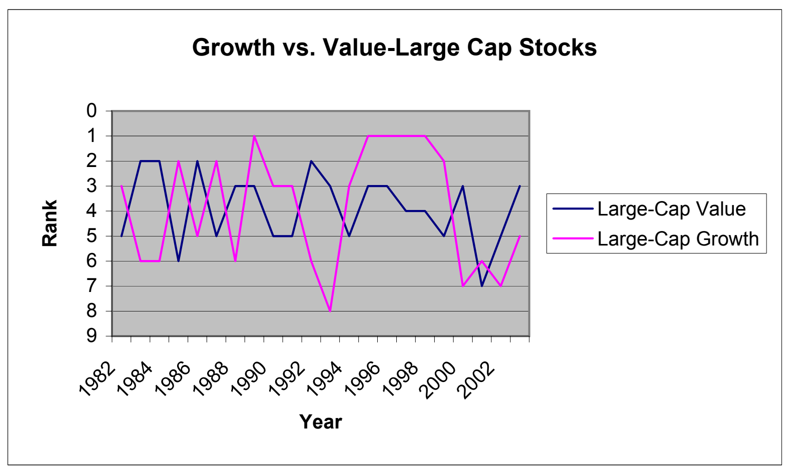
* * * *

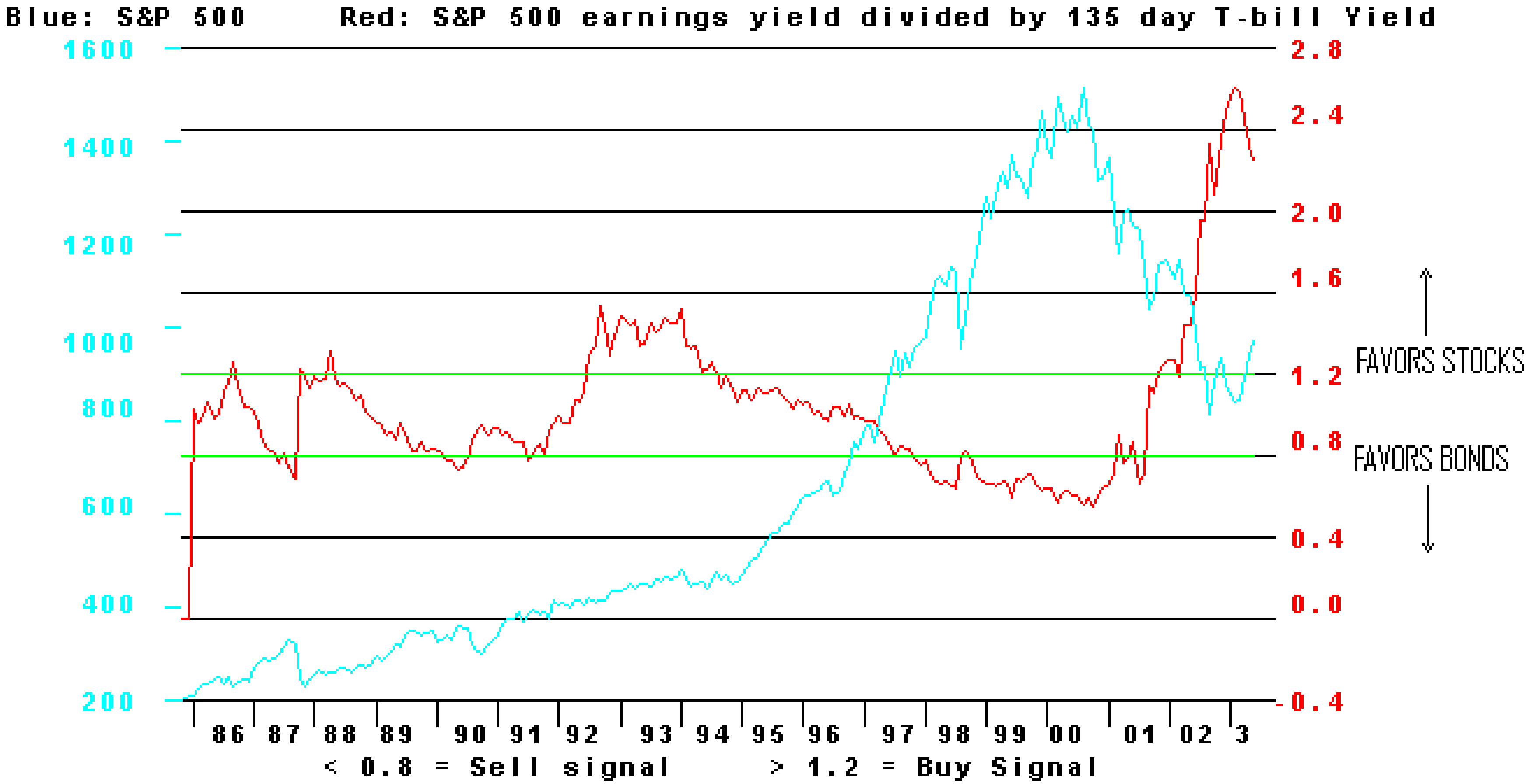
Historical Returns Achieved by Various Asset Classes
Annual Returns Ranked in Order of Performance

1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Fixed Income 32.63%	Small Cap Value 38.64%	Fixed Income 15.15%	Int'l 56.16%	Int'l 69.44%	Int'l 24.64%	Small Cap Value 29.47%	Large Cap Growth 36.40%	Fixed Income 8.96%	Small Cap Growth 51.19%	Small Cap Value 29.14%
Small Cap Value 28.52%	Large Cap Value 28.89%	Large Cap Value 10.52%	Large Cap Growth 33.31%	Large Cap Value 21.67%	Large Cap Growth 6.50%	Int'l 28.27%	Large Cap Core 31.68%	Cash 7.77%	Small Cap Value 41.70%	Large Cap Value 10.59%
Large Cap Growth 22.03%	Int'l 23.69%	Cash 9.89%	Large Cap Core 31.76%	Large Cap Core 18.67%	Cash 5.45%	Large Cap Value 21.67%	Large Cap Value 26.13%	Large Cap Growth 0.20%	Large Cap Growth 38.37%	Small Cap Growth 7.77%
Large Cap Core 21.53%	Large Cap Core 22.57%	Int'l 7.38%	Small Cap Value 31.01%	Fixed Income 15.24%	Large Cap Core 5.27%	Small Cap Growth 20.37%	Small Cap Growth 20.17%	Large Cap Core -3.10%	Large Cap Core 30.47%	Large Cap Core 7.62%
Large Cap Value 21.03%	Small Cap Growth 20.06%	Large Cap Core 6.27%	Small Cap Growth 30.97%	Large Cap Growth 14.49%	Large Cap Value 3.68%	Large Cap Core 16.60%	Fixed Income 14.54%	Large Cap Value -6.85%	Large Cap Value 22.56%	Fixed Income 7.40%
Small Cap Growth 20.95%	Large Cap Growth 16.23%	Large Cap Growth 2.33%	Large Cap Value 29.68%	Small Cap Value 7.41%	Fixed Income 2.77%	Large Cap Growth 11.95%	Small Cap Value 12.43%	Small Cap Growth -17.41%	Fixed Income 16.00%	Large Cap Growth 5.14%
Cash 10.55%	Cash 8.82%	Small Cap Value 2.27%	Fixed Income 22.12%	Cash 6.16%	Small Cap Value -7.11%	Fixed Income 7.88%	Int'l 10.54%	Small Cap Value -21.78%	Int'l 12.13%	Cash 3.55%
Int'l -1.86%	Fixed Income 8.37%	Small Cap Growth -15.83%	Cash 7.72%	Small Cap Growth 3.58%	Small Cap Growth -10.48%	Cash 6.38%	Cash 8.21%	Int'l -23.45%	Cash 5.61%	Int'l -12.17%

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	YTD to 5/31/03
Int'l 32.56%	Int'l 7.77%	Large Cap Growth 38.12%	Large Cap Growth 23.97%	Large Cap Growth 36.53%	Large Cap Growth 42.16%	Small Cap Growth 43.10%	Small Cap Value 22.80%	Small Cap Value 14.02%	Fixed Income 10.26%	Small Cap Growth 16.70%
Small Cap Value 23.84%	Cash 3.85%	Large Cap Core 37.58%	Large Cap Core 22.97%	Large Cap Core 33.37%	Large Cap Core 28.59%	Large Cap Growth 28.25%	Fixed Income 11.63%	Fixed Income 8.44%	Cash 1.78%	Small Cap Value 13.60%
Large Cap Value 18.60%	Large Cap Growth 3.13%	Large Cap Value 36.99%	Large Cap Value 21.99%	Small Cap Value 31.78%	Int'l 20.00%	Int'l 26.97%	Large Cap Value 6.08%	Cash 4.46%	Small Cap Value -13.20%	Large Cap Value 10.40%
Small Cap Growth 13.36%	Large Cap Core 1.31%	Small Cap Growth 31.03%	Small Cap Value 21.36%	Large Cap Value 29.98%	Large Cap Value 14.67%	Large Cap Core 21.04%	Cash 5.86%	Small Cap Growth -9.23%	Int'l -17.50%	Large Cap Core 10.30%
Large Cap Core 10.07%	Large Cap Value -0.64%	Small Cap Value 25.75%	Small Cap Growth 11.26%	Small Cap Growth 12.95%	Fixed Income 8.67%	Large Cap Value 12.73%	Large Cap Core -9.10%	Large Cap Core -11.76%	Large Cap Value -22.50%	Large Cap Growth 8.60%
Fixed Income 9.75%	Small Cap Value -1.55%	Fixed Income 18.47%	Int'l 6.04%	Fixed Income 9.68%	Cash 4.80%	Cash 4.60%	Int'l -14.16%	Large Cap Growth -13.96%	Large Cap Core -23.40%	Int'l 5.90%
Cash 2.94%	Small Cap Growth -2.43%	Int'l 11.21%	Cash 5.03%	Cash 5.14%	Small Cap Growth 1.23%	Fixed Income -0.83%	Large Cap Growth -22.08%	Large Cap Value -14.71%	Large Cap Growth -24.50%	Fixed Income 4.14%
Large Cap Growth 1.68%	Fixed Income -2.92%	Cash 5.54%	Fixed Income 3.61%	Int'l 1.78%	Small Cap Value -6.45%	Small Cap Value -1.49%	Small Cap Growth -22.43%	Int'l -23.39%	Small Cap Growth -30.70%	Cash 0.50%

		CAGR 83-02	CAGR 93-02
Cash	90 Day Treasury Bills	5.66%	4.39%
Fixed Income	Lehman Aggregate Index	9.59%	7.51%
Small-Cap Valu	Russell 2000 Value Index	12.53%	10.63%
Small-Cap Gro	Russell 2000 Growth Index	5.78%	2.56%
Large-Cap Valu	S&P/BARRA Value Index	12.46%	8.78%
Large-Cap Gro	S&P/BARRA Growth Index	12.05%	8.51%
Large-Cap Cor	S&P 500 Index	12.62%	9.18%
Int'l	Morgan Stanley Capital Int'l EAF	9.93%	3.55%





6/10/03

Source: Bridge Information Systems