

FRONT BARNETT ASSOCIATES LLC

I N V E S T M E N T C O U N S E L

May 14, 2004

To: Clients and Friends of the Firm

Subject: Presentation at the 52nd Annual University of Chicago GSB
Management Conference

Attached is an outline of Marshall Front's remarks today at the annual University of Chicago GSB Management Conference which we believe you will find interesting.

Marshall's presentation contains many themes and observations which should be familiar to readers of our *Economic Outlook*. In view of the high likelihood of a tightening by the Federal Reserve this summer, over which the financial markets have been agonizing for the last six weeks, we have included an exhibit which shows how various stock market industry groups have performed in the year subsequent to a Fed rate hike over the past three tightening cycles. It is interesting to note that many of the best performing groups have been technology-related and media companies which are well represented in portfolios under our supervision.

As always, please feel free to be in touch with Marshall or your FBA portfolio manager if the enclosure raises any questions.

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University of Chicago GSB
52nd Annual Management Conference

Mid-Year Economic Outlook

May 14, 2004

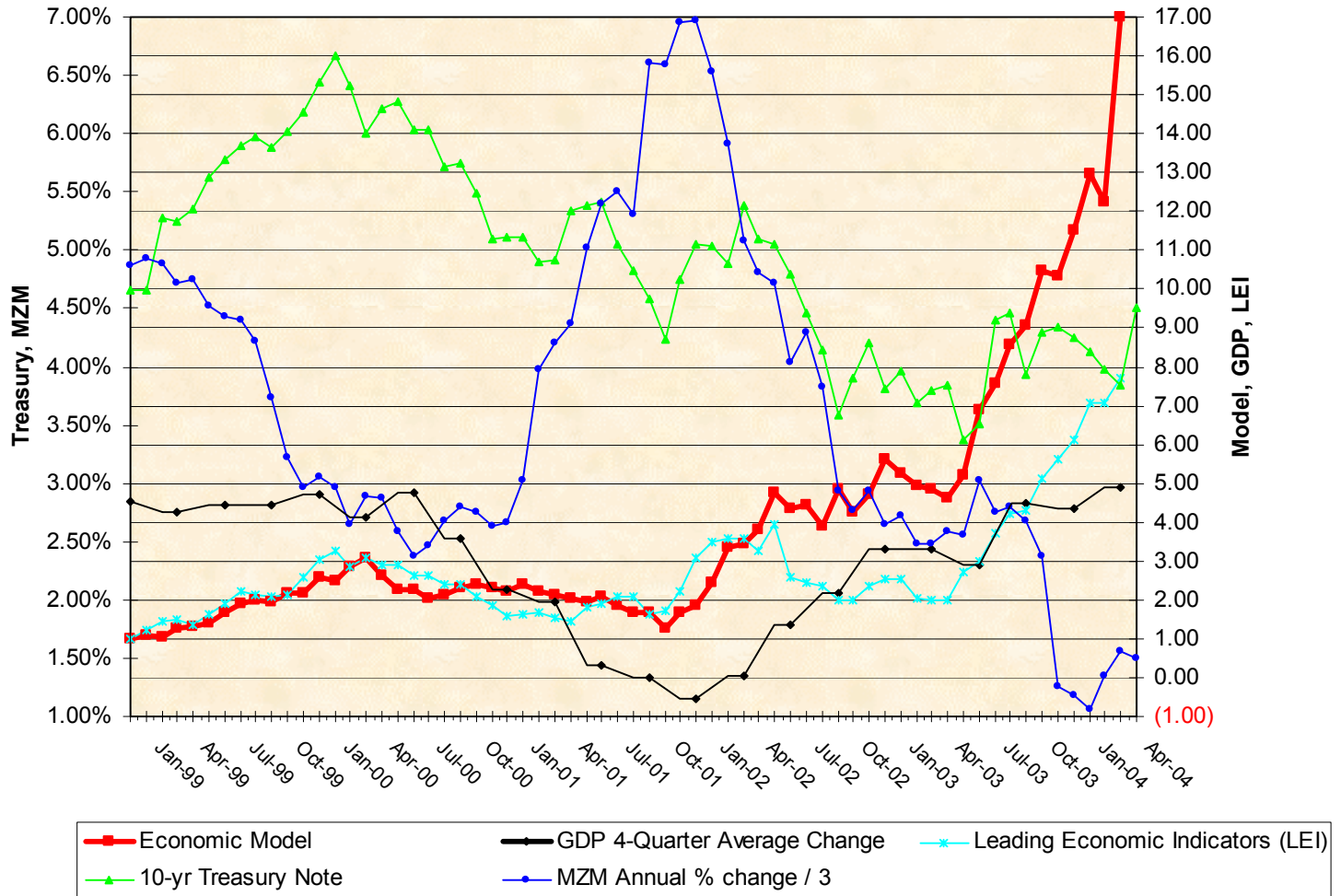
**Marshall B. Front
Chairman**

Economic Outlook Mid-Spring 2004

A Vigorous Economic Expansion is Underway

- Fiscal and monetary policy will remain stimulative
- Job creation is accelerating
- Economic growth is now more *balanced* between consumer spending and corporate outlays
- Profit levels are at all-time highs, continuing to outstrip expectations
- Export growth has strengthened
- Record corporate free cash flows support dividend hikes, future capital spending, share buybacks, M&A activity, and improved debt ratings
- Federal and state budget deficits have peaked
- Productivity gains remain well above long-term trend, allowing for both wage and profit growth and at the same time dampening inflation
- Our proprietary *Economic Model*, as well as the LEI, are flashing positive signals

Front Barnett Associates Economic Model



Economic Outlook Mid-Spring 2004

But There Are Risks to The Outlook

- *Rising rates* could choke off the expansion
- *Unwinding of speculative bets* on interest rates could cause a financial market hiccup
- *Inflation* might flare beyond Fed expectations
- *Protectionism* could go beyond election year rhetoric
- *Geopolitical tensions* and *terrorism* fears might crimp global activity

Financial Market Outlook Mid-Spring 2004

Fixed Income: bonds remain unattractive despite the recent rise in rates

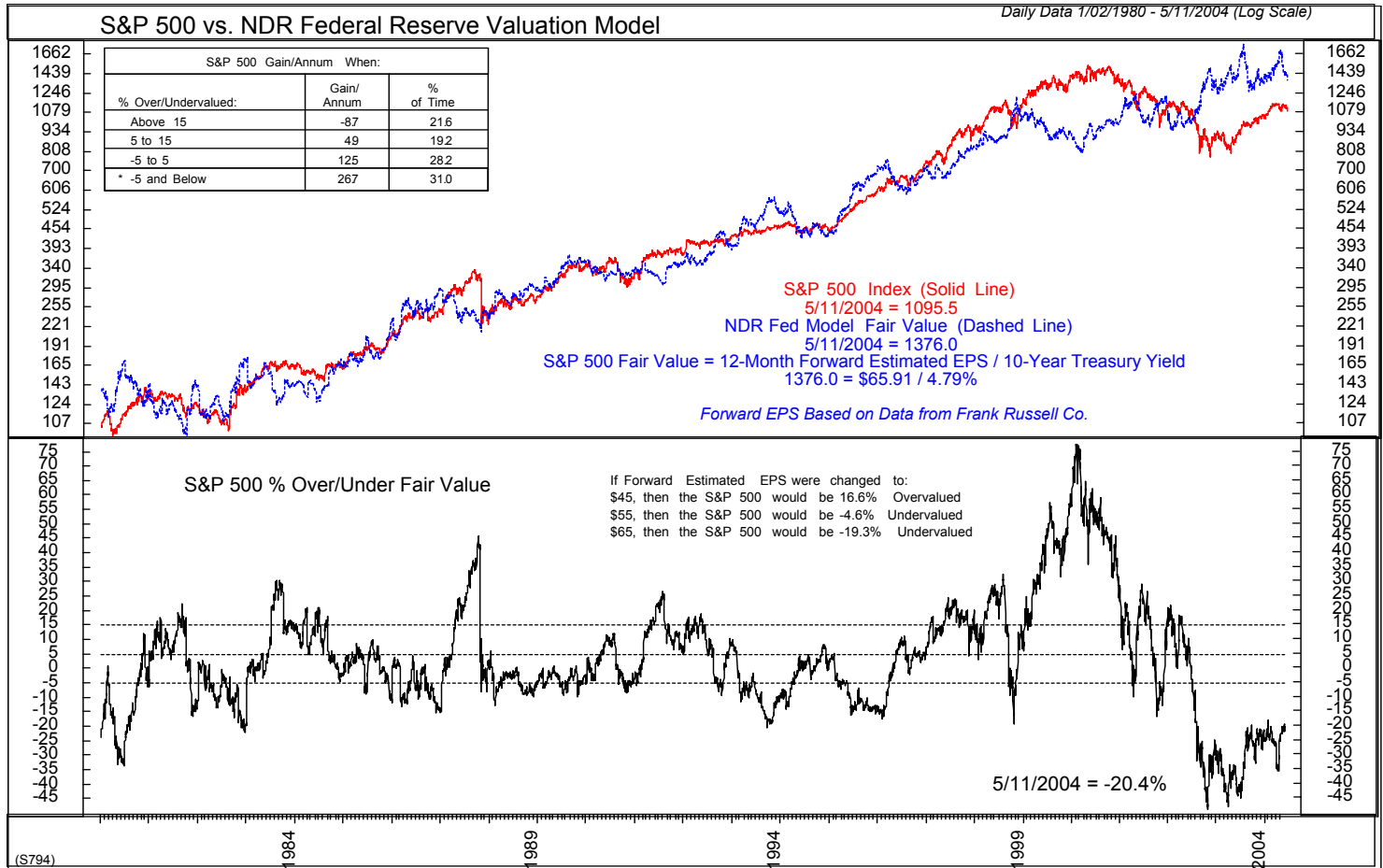
- The Fed has signaled its intention to raise rates
- Economy is forecast to grow at an above trend rate at least through year-end
- With inflation expectations rising, we believe a 5%+ yield on 10 year U.S. Treasury obligations is warranted

Equities are attractive: we remain tilted toward *growth* stocks

- Fed model shows stocks to be undervalued relative to bonds by about 20%
- At 17 times estimated 2004 earnings, stocks are reasonably valued
- Corporate profits are rising more rapidly than analysts' expectations
- Stock prices generally should advance in line with expected mid-teens corporate profit growth
- High quality, large cap *growth* stocks should provide stock market leadership after four years of under performance. As interest rates rise, P/E multiples will come under pressure and companies with superior earnings growth prospects should outperform.

Fed Valuation Model

The Fed stock market valuation model, which incorporates the yield on 10 year US Treasury Notes and estimated S&P 500 profits, shows stocks remain undervalued.

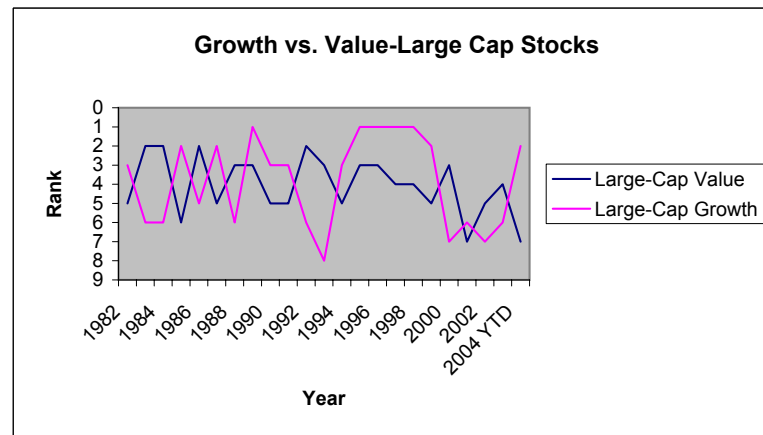


Investment Style Migration is Inevitable

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

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	YTD Thru 5/11
Small Cap Value	38.64%	15.15%	56.16%	69.44%	24.64%	29.47%	36.40%	8.96%	51.19%	29.14%	32.56%	7.77%	38.12%	23.97%	36.53%	42.16%	43.10%	22.80%	14.02%	10.26%	48.20%	0.34%
Large Cap Value	28.89%	10.52%	33.31%	21.67%	6.50%	28.27%	31.68%	7.77%	41.70%	10.59%	23.84%	3.85%	37.58%	22.97%	33.37%	28.59%	28.25%	11.63%	8.44%	1.78%	44.50%	-0.20%
Int'l	23.69%	9.89%	31.76%	18.67%	5.45%	21.67%	26.13%	0.20%	38.37%	7.77%	18.60%	3.13%	36.99%	21.99%	31.78%	20.00%	26.97%	6.08%	4.46%	-13.20%	35.30%	-0.90%
Large Cap Core	22.57%	7.38%	31.01%	15.24%	5.27%	20.37%	20.17%	-3.10%	30.47%	7.62%	13.36%	1.31%	31.03%	21.36%	29.98%	14.67%	21.04%	5.86%	-9.23%	-17.50%	30.30%	-0.90%
Small Cap Growth	20.06%	6.27%	30.97%	14.49%	3.68%	16.60%	14.54%	-6.85%	22.56%	7.40%	10.07%	-0.64%	25.75%	11.26%	12.95%	8.67%	12.73%	-9.10%	-11.76%	-22.50%	28.70%	-1.20%
Large Cap Growth	16.23%	2.33%	29.68%	7.41%	2.77%	11.95%	12.43%	-17.41%	16.00%	5.14%	9.75%	-1.55%	18.47%	6.04%	9.68%	4.80%	4.60%	-14.16%	-13.96%	-23.40%	24.70%	-1.28%
Cash	8.82%	2.27%	22.12%	6.16%	-7.11%	7.88%	10.54%	-21.78%	12.13%	3.55%	2.94%	-2.43%	11.21%	5.03%	5.14%	1.23%	-0.83%	-22.08%	-14.71%	-24.50%	4.10%	-1.60%
Fixed Income	8.37%	-15.83%	7.72%	3.58%	-10.48%	6.38%	8.21%	-23.45%	5.61%	-12.17%	1.68%	-2.92%	5.54%	3.61%	1.78%	-6.45%	-1.49%	-22.43%	-23.39%	-30.70%	1.14%	-3.60%

		CAGR 84-03	CAGR 94-03
Cash	90 Day Treasury Bills	5.27%	4.21%
Fixed Income	Lehman Aggregate Index	9.37%	6.94%
Small-Cap Value	Russell 2000 Value Index	12.76%	12.35%
Small-Cap Growth	Russell 2000 Growth Index	6.90%	5.34%
Large-Cap Value	S&P/BARRA Value Index	12.52%	9.81%
Large-Cap Growth	S&P/BARRA Growth Index	12.45%	10.74%
Large-Cap Core	S&P 500 Index	12.90%	10.90%
Int'l	Morgan Stanley Capital Int'l EAFE	10.42%	3.76%



Economic Outlook Mid-Spring 2004

Stock Market Leaders and Laggards Subsequent to an Initial Fed Rate Increase

<u>Leaders</u>	<u>Average 12 Month Return</u>	<u>Laggards</u>	<u>Average 12 Month Return</u>
Semiconductors	51.2%	Homebuilders	-33.3%
Electronics & Instrumentation	38.4%	Leisure Time Products	-29.7%
Aluminum	15.3%	Electronics (Defense)	-27.5%
Computers	13.4%	Building Materials	-27.2%
Communication Equipment	12.8%	Household Furnishings	-25.7%
Gold & Precious Metals	11.8%	Trucks & Parts	-24.2%
Entertainment	10.3%	Banks (Money Center)	-24.1%
Broadcasting	10.0%	Insurance (Life/Health)	-21.8%
Electrical Equipment	9.7%	Truckers	-19.9%
S&P 500	2.5%	Textiles (Apparel)	-18.3%