BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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BRIAN D. LOWDER, INC.

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FINANCIAL MARKET OVERVIEW

We appreciate your telephone calls and the frank discussions regarding the financial markets. It is very important for us to hear from you during uncertain times and we encourage you to call us. Likewise, it's important for us to communicate our perspective on the markets to our clients. Communication, reassurance and a review of your investment strategy and your risk tolerance are necessary over time, especially during periods of uncertainty and low investor confidence.

Despite the perseverance and hopes of millions of investors, the stock market has failed to respond. Consequently, the pounding stock investors have taken over the past two years has left many investors psychologically unable to stay invested. In hindsight, there were plenty of warnings and reasons to get out of the U.S. stock market both on the way up (1999 – March 2000) and on the way down (April 2000 to present). But, investors have always demonstrated their tendency to be overly optimistic, confident, and highly risk tolerant on the way up, but also suddenly pessimistic and very risk averse on the way down. Let's review our present circumstances and both sides of the argument to the following two questions: Why should you stay invested in stocks with the threat of future terrorist attacks, relatively weak corporate profits, geopolitical instability, and continued revelations of corporate malfeasance? Shouldn't we be doing *something* to protect our future retirement nest egg?

Presently, investors and journalists list several reasons to stay away from the stock market. First, stock market performance has been terrible since March 2000 and Americans have a tendency to view the future as a continuation of the current environment. Below are sample returns for the 30 large U.S. Companies (Dow Jones), the 500 largest U.S. Companies (S&P 500), the broad stock market dominated by technology (NASDAQ), and other specific sectors of the financial markets:

Investment Performance

	1/1/02 – 6/30/02	*Record Close 3/2000 – 6/30/02*
Dow Jones Industrial Av.	***-10%***	***-23%***
S & P 500 Index	***-17%***	***-38%***
NASDAQ	***-30%***	***-73%***

Second Quarter, 2002

- 11.2%	*Dow Jones Industrial Average (30 large U.S. companies)*
- 2.9%	*International (Excludes U.S.)*
- 13.7%	*Standard & Poor's 500 Index (500 largest U.S. companies)*
- 13.5%	*Wilshire 5000 (broad U.S. market)*
- 14.1%	*Small-Company Stock- Growth*
- 4.1%	*Small-Company Stock- Value*
- 14.6%	*Mid-Size Stocks – Growth*
- 7.3%	*Mid-Size Stocks – Value*
- 20.7%	*NASDAQ Composite*
- 28.4%	*Telecommunication*
- 14.6%	*Science & Technology*
+ 5.0%	*Real Estate*
+ 11.1%	*Gold*

Source: Wilshire and WSJ Market Data group

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The NASDAQ Index is now down to its lowest level since May 1997. In other words, the stock prices of many (technology) companies are now valued and trading below where they were five years ago. All of the new technologies employed and advancements made in preparation for the New Millennium 2000 are no longer reflected in the stock prices of these companies. Investor psychology and confidence has a powerful short-term impact on the U.S. stock market. When the stock market is down by this magnitude, investors have a natural hesitancy to commit to stocks. Two years of bear-market conditioning and false rallies have damaged their belief that the market might run higher and leave noncommittal investors behind. Their fears are supported by a growing number of stories in the financial press suggesting that the best one can hope for now is several years of single-digit returns in U.S. stocks. What the articles do not tell you is that we have been in a single-digit return environment for years now! Over the past five years covering both the technology stock rally from mid-1997 through March 2000 and the awful decline over the past two years, the annualized return of the S&P 500 Index was a measly **1.65%**.

We agree that investor psychology (confidence) is a dominant factor in determining stock price movement over the short-term. Investors did not pay attention to economic or fundamental valuation principles when the stock market reached its peak levels in March 2000 and these principles and economic trends are being ignored today in favor of more gloom and distrust of corporate America. Over the previous five years, we have experienced extreme levels of both overconfidence and pessimism one after the other. If we haven't experienced "normal market conditions" over the past five years, why should we consider fundamental or economic principles in our investment decisions for the future? The short answer is because the likelihood of achieving long-term investment success based on short-term indicators and investor confidence levels diminishes the longer you play the game. What is driving your investment decisions today? Uncertainty? Fear? Lack of trust in corporate America?

Our position is that prior stock price performance has very little importance when formulating strategy and deciding what to do in the future. The factors that caused prior stock market declines are important. Where are current valuations today, and do they present an opportunity over the next five years?

Simply stated, we believe current stock prices present more of an opportunity at these levels to earn "normal equity returns" over the next 5 years. Our position is based on current and future economic trends and fundamental reasons. Yes, the average P/E ratio (price per share divided by earnings per share) is relatively high. But, that assessment is being made at the tail end of a two-year period of depressed corporate earnings. Inflation and interest rates are low. Unemployment appears to have stopped rising and the current level is only 5.9%. Personal income is still strong. Auto sales are still climbing and real estate home prices are escalating at a torrid pace. Annualized first quarter GDP (Gross Domestic Product) growth was revised higher to 6.1% from 5.8%. These indicators are not suggesting an imminent or prolonged economic decline or recession.

The problem for investors is adjusting to a long-overdue market correction followed by a series of disappointments, corporate malfeasance and acts of terrorism. Your feelings are real and are not being discounted or ignored in this discussion. We are simply providing you with our perspective based on the fundamental factors that impact the financial markets over the long-term. You will always make the final decision whether to follow our recommendations.

Several clients have called and asked whether making some adjustments over the short run are worth considering. In other words, shouldn't we be doing *something* to protect our portfolio or switch to other investments that offer upside potential? Nearly everyone has suggested allocating a larger portion of their portfolio to real estate investments or liquidating a portion of the portfolio "until things get better". Thankfully, no one has suggested buying gold.

Our job is to chart a course for each client through good times and bad to achieve a specific objective. For most of our clients, that objective is to achieve financial independence at a specific age and maintain that lifestyle throughout their life expectancy. The best approach is to remain focused on long-term strategies. We will gladly comment on the current status of the financial markets, but readily admit that we cannot predict the short-term direction of the financial

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markets. Looking back, there have been several frightful events and market corrections over the past 15 years. October 1987 was the biggest percentage drop in stock prices that most investors have experienced in their lifetimes. Many investors thought the end was near and Americans couldn't possibly recoup losses anytime soon. Desert Storm in early 1990 was another scary scenario. Oil supplies could be disrupted and the world economy may be held hostage to the decisions and actions of Middle East countries. The New Millennium (Year 2000) caused much panic and concern that the world economy would be unable to function on January 1st, 2000. Airplanes, water supplies, trains, computers etc. were not expected to function properly on January 1st, 2000. Then, the tech/internet bubble began to burst in March 2000. Even though other stocks (mid-size and small companies) went up in value, many investors were caught with an overweighting in technology, Internet and other large-company growth stocks. By August 2001, the financial markets had, in our opinion, adjusted to proper valuation levels. Unfortunately, the September 2001 terrorist attack smashed already fragile investor confidence levels and the market continued to tumble. By this time, economic trends and fundamental principles were ignored and fear of what could happen next took over. Next came announcements from primarily telecommunications companies (WorldCom, Global Crossing etc.) and Enron that aggressive accounting methods were hiding losses and overstating revenues.

These recent events do impact the financial markets over short-term time periods and are very difficult to deal with. Clients and friends, only you should decide whether to pull out of stocks and retreat to cash, money market funds and Treasury bonds. From an economic and fundamental perspective, we do not agree that is the best course of action. However, each individual and family should address this issue independently.

Has your employment compensation level changed dramatically? Do you have large expenditures approaching soon (home purchase, college funding etc.)? Are you retired and cannot sleep at night because each time you make a partial investment liquidation to support your lifestyle the sale price is lower than it was last month? Has your *long-term* risk tolerance truly changed? If you find yourself answering yes to any of these questions, then your decision whether to liquidate a portion of your stock portfolio is NOT based on economics. Instead, selling your stocks may be a prudent decision based on changes in employment, risk tolerance or liquidity needs. But for most individuals, the decision whether to liquidate is based on concern about the financial impact on their lives if the stock market continues to fall, emotion and fear. Shouldn't I be doing *something* to protect some portion of my portfolio? What if this is the big decline that takes years to recover from and you did absolutely nothing to protect a portion of the portfolio?

One suggestion or middle-ground approach is to liquidate a specified percentage of the total portfolio. For retirees and others who make periodic withdrawals from their portfolio to meet a portion of their living expenses, we suggest liquidating up to two year's worth of expected withdrawals. This suggestion allows the client to stay invested, ride out this adjustment period, have ready access to a safe pool of funds for two years, but won't require continual liquidations (and reminders of how bad the stock market is) at potentially lower prices along the way.

In any case, you are in control of the decision whether to liquidate – we won't make that decision or recommendation for you. If our perspective and assessment on future *economic trends* and *fundamental principles* that drive long-term performance become negative and are expected to remain poor for several years, then we will communicate that vision to you as well as a recommendation to sell. Until then, we see one of the best opportunities for maintaining a long-term growth stock portfolio in over 10 years. On the negative side, we believe the increase in residential real estate prices over the past 5 years is overstated and not based on economic reality. We see the same pattern today of unsustainable price increases and unbridled investor enthusiasm for real estate as we experienced in technology and large-company growth stocks during the late 1990's. In our view, the only question or uncertainty is when the adjustment will begin and how long will it take? The previous residential real estate decline (in California) began in 1990 and finally reached a bottom in Spring 1997.

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California Conforms to Federal Tax and Pension Law Changes

On Thursday, May 8, 2002 Governor Davis signed into State law conformity to all changes made by the federal Economic Growth and Tax Relief Reconciliation Act of 2001. These bills will, among other things, permit California taxpayers to increase contributions to 401(k), 457, and 403(b) retirement plans, Roth and traditional IRA's and defined benefit plans effective in 2002 as outlined in our January 2002 newsletter. California taxpayers may now increase their contributions to the above mentioned retirement plans without worrying whether the State of California would conform to federal law. Without conformity, Calif. taxpayers who elect to maximize their 2002 retirement plan contributions under federal laws would have made over-contributions to their plans under state law.

This means millions of taxpayers may increase their 401(k), IRA and other defined benefit contributions effective this year. In addition, those taxpayers who will attain age 50 by the end of 2002 may contribute an additional $500 to their IRA accounts and an additional $1,000 to 401(k), 457, 403(b) and SEP. If you would like to have your personal retirement plan options reviewed, please call us for a discussion.

Announcements

We are pleased to announce the newest member to our advisory team, Michael Kinnear, who joined the firm on April 15th, 2002. Mr. Kinnear earned his Bachelor's Degree in Accounting from National University and a Master's Degree in Business Administration and a Master's Degree in Financial Services from San Diego State University. He is a Certified Financial Planner practitioner and has ten years experience in the financial services industry. Mike's responsibilities include maintaining our investment management software system, quarterly reporting and financial planning analysis and preparation for our clients.

Best regards

Brian Lowder Clinton Winey Michael Kinnear Remette Martinson Pam Priest