BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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FINANCIAL MARKET OVERVIEW

I believe it's safe to say that all investors are happy to see the end of 2000 and 2001. What is the likelihood that investors must endure yet another down year in 2002? Well, it could happen, but we should be comforted by the knowledge that it has been 60 years since the major stock indices fell three consecutive years. And, as unpleasant as the past two years have been, our economy and financial markets are not at all similar to the conditions that existed in the 1940's and 1930's. More importantly, there are many positive indicators pointing to an end to the economic decline and negative stock market performance. Furthermore, given a choice between 3% or less interest return on certificates of deposits or government bonds verses 3% or greater potential stock price appreciation, most investors will choose the latter.

Those investors who stayed calm and did not sell after the September 11th tragedy were rewarded during the 4th quarter of 2001, but everyone knows the past two years were awful, so let's view the numbers and move on. Below are sample returns for the fourth quarter 2001, and the entire 2001 calendar year.

The only U.S. stock category we could find that posted a negative return during the fourth quarter of 2001 was Utility funds. The biggest performance stories for the entire year 2001 were individual bonds and bond mutual funds. While interest income is miserably low, the price or value of bonds increased as interest rates moved lower. Therefore, the total return (interest income plus price appreciation) ranged from 4% to 8%.

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4th Quarter	*2001*	*2000*	
+ 13.3%	- 7.1%	- 6.2%	*Dow Jones Industrial Average*
+ 10.3%	- 13 %	-10.1%	*Standard & Poor's 500 Index*
+ 12.4%	- 11 %	-11 %	*Wilshire 5000 (broad market)*
+ 31.7%	- 21 %	-39.3%	*NASDAQ (dominated by tech)*
+ 14.2%	- 22 %		*Large-company growth*
+ 8.8%	- 8 %		*Large-company value*
+ 21.1%	- 21 %		*Mid-size growth*
+ 16.3%	+10.3%		*Mid-size value*
+ 23.6%	- 10.8%		*Small-company growth*
+ 20.1%	+16.4%		*Small-company value*
+ 8.4%	-21.7%		*International*
+ 36.2%	-37.5%		*Technology*
+ 11.0%	-12.7%		*Health/Biotechnology*
+ 4.8%	+ 8.8%		*Real Estate*

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FUTURE PROSPECTS AND PERSPECTIVE

Looking forward, we do not anticipate a repeat performance of any of the above categories in 2002. In our opinion, rearview mirror investing in 2002 will not be successful. Additionally, our financial markets have recently experienced such a high level of speculation and enthusiasm, it takes a while for it to completely go away. During this time period it leaves behind a very subdued investment community. Speculation and irrational behavior led to a serious correction compared to traditional stock market declines that are led by real economic problems. Regardless of your personal views on the outlook of our economy and the possibility of further terrorist attacks, it should not cause investors to change their general investment strategies. If terrorist attacks continue on a large scale, such as disrupting oil flows around the world, then we will respond appropriately.

The hard part to figure out is what is a reasonable expectation for economic activity and corporate earnings in the future. We don't have a specific forecast that includes a high level of certainty. But we do have a strategy and plan on what to do and how to handle the uncertainty.

Expect reasonable growth in earnings – about one-half of the 15% average over the 1997 through 1999 period. Forget about trying to successfully guess which sector (technology, Internet, healthcare, etc.) will be the next ticket to get ahead of the market. It has been proven time and time again that this short-term strategy results in poor overall investment performance. Diversification does make sense and it always has for time periods longer than a few months or a few years. Investors should not bet their retirement assets on a market-timing judgement, recommendations made in magazine articles, conversations from social gatherings, or hot sector selections. Maintain a diversified and balanced portfolio. Expect lower average returns (compared to the late nineties) from the stock and real estate markets. Returns should revert to a more normal range. Don't try to win the game – try to stay in the game. It shouldn't take a long time for lower interest rates, lower income tax rates, lower estate tax rates, larger allowable retirement plan contributions, and the fading memory of the tech/internet market correction and terrorist attack to work its way into the U.S stock market. It makes much more sense to be established in the right place before the advance begins.

There are changes in behavior that investors have control over: spending and saving. If you moderate your investment rate of return assumptions as suggested above, then it is probably wise to control your spending and save more than you thought was necessary (compared to your thoughts in 1999) in order to reach your goals. Investors simply have to accept the truism that most of us can become wealthy or see our earnings grow over time through compounding (reinvesting our dividends and appreciation), not through the magic of short-term bursts of individual stock trading that somehow create instant wealth. Unless you are the lucky one, the key to experiencing the results investors are after is a long-term pattern of compounding your savings and diversification. This is the smart advice that somehow was thrown out the window over the past few years. Fortunately many of the new tax law changes that take effect in 2002 are specifically geared toward savings.

TAX LAW CHANGES EFFECTIVE 2002

The Tax Act boosts deductible contributions to IRAs and other retirement accounts beginning in 2002.

IRA Contribution Limits

Year	*Limit*
2002-2004	*$ 3,000*
2005-2007	*$ 4,000*
2008	*$ 5,000*

for Age 50 or older

Year	*Limit*
2002-2005	*$ 3,500*
2006 -	*$ 5,000*

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Other Retirement Plans (401(k), 403(b) 457, SEP

Year	*Limit*
2002	*$11,000*
2003	*$12,000*
2004	*$13,000*
2005	*$14,000*
2006	*$15,000*

Starting in 2002, the annual benefit limit under *defined benefit pension plans* increases from $ 140,000 to $160,000. Participants in *defined contribution plans* can put in up to $40,000 in 2002 and employers may contribute and deduct a maximum of 25% of compensation of covered employees (up from 15% in 2001). The amount of compensation on which pay-ins to qualified plans can be based rises to $200,000 in 2002.

Income tax rates have been reduced. In addition to the new 10% beginning tax bracket, the long-term capital gains rate is 8% for those individuals in the lowest tax bracket and a holding period that exceeds five years. This reduced rate is a great gift idea for parents and grandparents gifting appreciated assets to teenagers and college students who aren't concerned about meeting income tests for college loans and grants. Also, contributing to a Roth IRA (non-taxable upon withdrawal) for a child with a job is a great present. If the child makes $2,000 or more in a job, $2,000 placed in a Roth IRA will start a nice nest egg.

College education funding is more attractive. The Coverdell education savings account (formerly known as education IRA) maximum contribution used to be $500. Now the maximum is $2,000 and all payouts used for tuition are tax free. Note the Section 529 state savings plans allow higher contributions than a Coverdell education savings account, and the withdrawals are tax free if used for tuition as well. But, withdrawals from the Coverdell account can be used for tuition for ages K through 12 including private or religious schools. The section 529 Plan is for college expenses only. More importantly, there is an unlimited break for tuition that donors pay directly to schools. If parents or grandparents pay the tuition bill directly to the school, the amount does not count against the new annual gift exclusion of $11,000 per year (used to be $10,000).

Many other changes were incorporated in the 2001 Tax Act too. Refer to our July 2001 newsletter on our website *bdlowder.com*.

THANK YOU

Once again, we thank you for your patience and calm during the past two years. Everyone now realizes how crazy the technology mania was and hopefully all have gained valuable experience. We thank you too for the abundant referrals we have received over the past four months. We value the trust and confidence you have placed with us and will work hard to maintain that confidence in the future.

Best Regards & Happy New Year

Best regards

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