



**To: All Clients**

**From: Ken Winans**

**Date: September 4, 1998**

**RE: Current Market Situation**

As you all know, the world economy has been jolted by recessionary conditions that exist in Asia, Latin America and Russia. Unfortunately, this has "spilled over" into the U.S. economy by slowing corporate earnings growth by 3-5% thus causing the U.S. stock markets to have significant declines.

Since its record high set on July 20<sup>th</sup>, the Dow Jones industrial Average has declined 19.5% to this year's low of 7,539 on August 31<sup>st</sup>. In other words, the Dow is back near the level it was on December 30, 1997. Although we do not invest in these areas, it is important to note that international stocks and small U.S. stocks have fared much worse with declines of 30-50%.

On a positive note, the bond markets have held up quite well throughout this year do to low inflation.

Due to my concern about the situation, I decided to "rebalance" the stock holdings during the second week of August by raising cash positions through selling stocks that were expected to have sales and earnings growth declines for 1998. In other words, I sold a significant number of "weaker" stocks prior to last week's historic 512 drop in the Dow.

Looking forward, I believe that U.S. stock markets have over-reached to the actual effect that these global issues are having on the U.S. economy. In other words, even though the economy has slowed down this year, I don't believe it will "sink" into a recession due to the strength of the domestic economy and low interest rates.

In light of this, I have started buying stocks and bond that are expected to post sound earnings growth in the next twelve months.

Within the week you will be receiving your brokerage statements and they will show that your portfolios have been effected by the events described in this letter. It is important to remember that stock investing can be volatile at times, but history has shown that over the long run it is a profitable way to invest.

If you have any questions or concerns, please don't hesitate to call me directly.