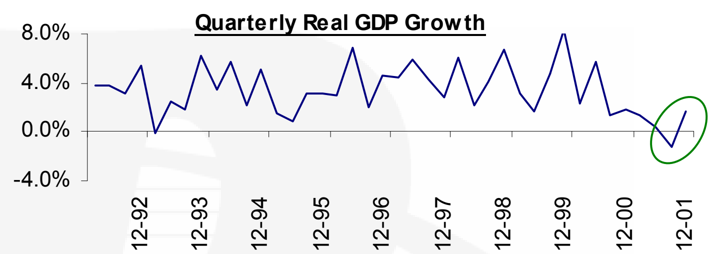
Your Quarterly Update on the Financial Markets
March 31, 2002

1st Quarter

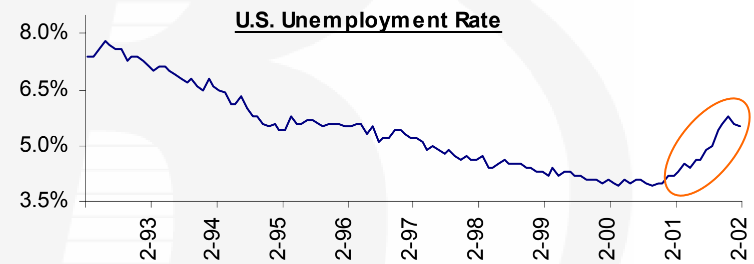
MARKET Recap

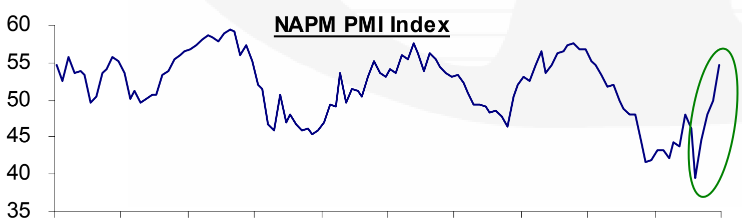
The Economy: *Surprising Growth with Risk from Abroad*

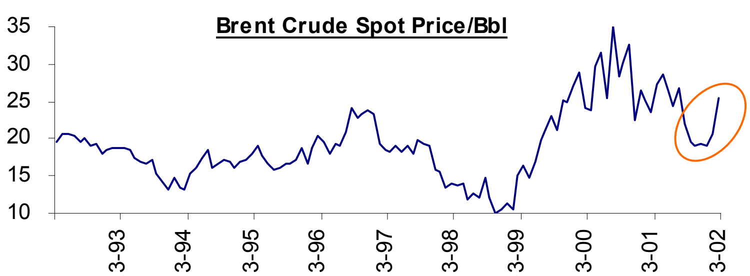
Amid turmoil and uncertainty abroad, the U.S. economy emerged from recession with unexpected vigor. Fourth quarter GDP growth was revised upward to 1.7% in March, buoyed by stronger than expected personal consumption expenditures and lower than expected imports. In light of positive economic signals the Federal Reserve ended its series of interest rate reductions by leaving rates unchanged at its March 19 meeting, and adopted a "balanced" outlook between the objectives of growth and inflation control. The Fed's action sets the stage for rising interest rates in 2002.



Unemployment fell slightly in February, but increased initial jobless claims in March lead us to believe the upward trend in unemployment will resume and continue for some time yet; as discussed in past issues, unemployment is a lagging indicator of the economy and tends to persist well into recoveries. Viewed in a broad historical context, unemployment in the United States remains quite low.







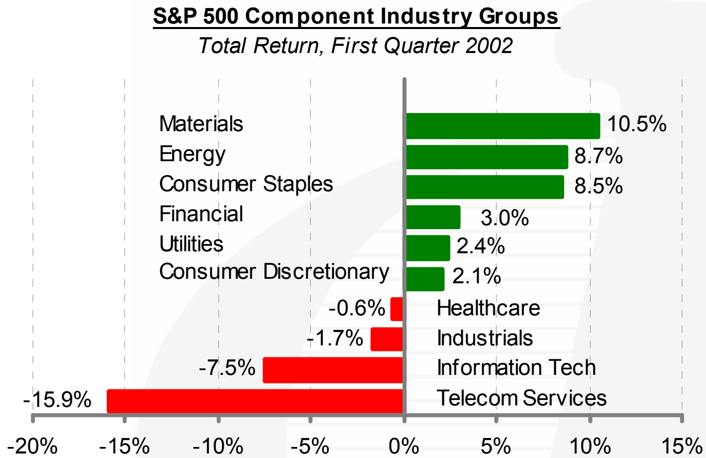
The outlook for corporate profits is somewhat mixed. NAPM purchasing managers data suggest increased demand, and worker productivity has continued to rise throughout the recession. However, close examination of the surprisingly strong GDP growth shows that the recovery is being led by the consumer. Business investment spending is particularly important to certain industry sectors including technology.

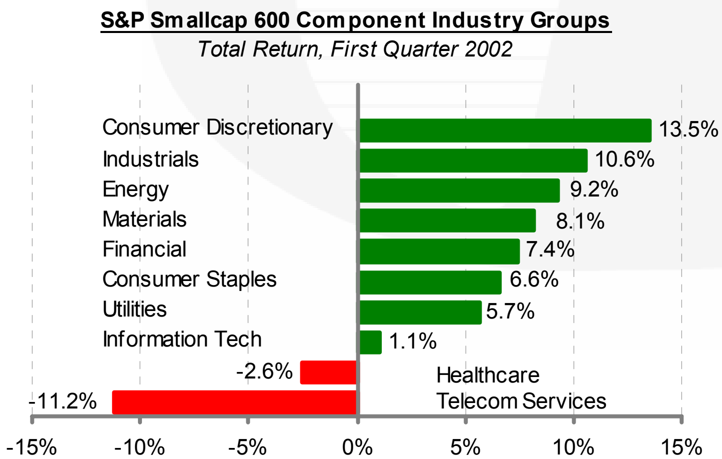
Crude oil prices rose 26% in the first quarter of 2002, after having fallen by 29% in 2001. Spot prices for gasoline were up 30%, while heating oil was up 16%. The return to pre-recession price levels is due in part to current tensions in the Middle East, and at least as much to current and anticipated rising demand for oil as the economy recovers. The United States has to date maintained a cautious stance toward the conflict in Israel/Palestine, and diversified the oil supply through improved relations with Russia and Mexico; however, substantial risk remains both for gradual pressure on inflation and growth as demand drives up crude prices, and for sudden supply shocks. We remain very much focused on oil as a key driver of the economy and, in our opinion, the primary near-term threat to an otherwise optimistic outlook. Please refer to the March 2001 *Market Recap* (available at www.bellwetherconsulting.net) for additional discussion of oil and the economy.

The U.S. Stock Market

U.S. equities pulled back from fourth quarter gains and ended the first quarter of 2002 with mixed results. Throughout the quarter, signs of a strengthening recovery battled the continued fallout from Enron and the high profile bankruptcies of Kmart and Global Crossing. The S&P 500 ended the quarter relatively flat, gaining only 0.28% (including dividends). Despite the neutral return, 69% of the stocks in the index posted gains, with materials stocks leading the way; Newmont Mining (+44.90%), Ball Corp. (+33.58%), and Hercules Inc. (+33.10%) were the sector's top performers. Conversely, the telecom services sector was the hardest hit, with Sprint Corp-PCS (-57.85%), WorldCom Inc. (-52.13%) and Nextel Communications (-50.91%) losing the most. Losses in the telecom sector are not new – the sector also lost ground in all four quarters of 2001.

Stock Indices - 1Q 2002 Total Return			
Large cap Stocks		**Midcap Stocks**	
S&P 500	0.28%	S&P Midcap 400	6.72%
Russell 1000	0.74%	Russell Midcap	4.25%
Growth	-2.59%	Growth	-1.77%
Value	4.09%	Value	7.90%
Broad Markets		**Small cap Stocks**	
NASDAQ Comp.	-5.30%	S&P Smallcap 600	6.97%
Wilshire 5000	0.96%	Russell 2000	3.98%
		Growth	-1.96%
		Value	9.58%





Continuing a trend that began in 2000, small cap and mid cap stocks outpaced their large cap peers, and the clear winners for the quarter were small and mid value stocks. The Russell 2000 Value and Russell Midcap Value Indexes returned 9.58% and 7.90% for the quarter, respectively.

Within the NASDAQ Composite, five of the seven industry sectors were positive for the quarter and many stocks made strong showings, but the Index closed the quarter with a 5.30% loss. Again, telecom stocks were the biggest drag on overall results, losing over 26%. As an indication of the breadth of losses within the sector, sixty stocks lost more than 50%. Computer-related stocks also fared poorly, down 7.55%.

On a brighter note, the Dow closed the quarter with a positive return (+4.24%), benefiting from investors favoring "tried and true" blue-chip stocks. Eighteen of the thirty stocks in the index posted gains. Boeing (+24.42%), GM (+24.38%), and Philip Morris (+14.87%) were the top performers while IBM (-14.02%), AT&T (-13.45%) and Hewlett-Packard (-12.66%) posted the largest losses.

Our view on equities remains virtually unchanged from last quarter. We feel the imminent economic recovery will revive corporate profits, but do not expect the recovery to translate into huge stock market gains. With equities continuing to trade at rich prices relative to earnings, we believe the growth in earnings would have to be sizeable to justify significant growth in stock prices. We continue to expect more modest equity returns, in line with historical averages.

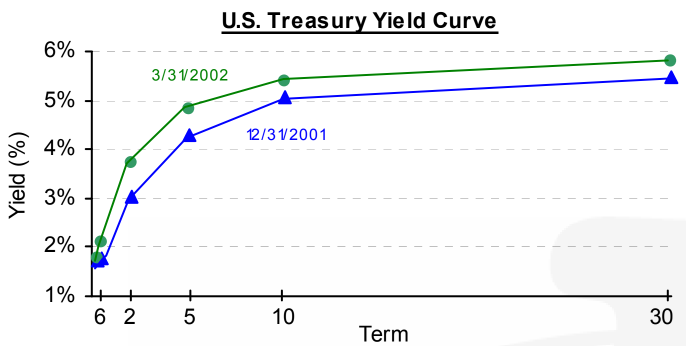
The U.S. Bond Market

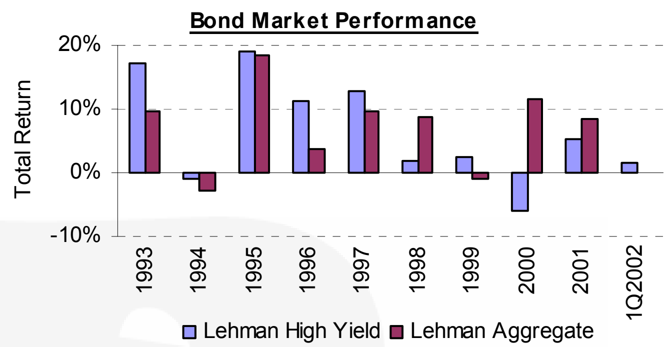
Bonds fell out of favor last quarter as better than expected economic data and a growing belief the Fed will tighten credit later in the year pushed yields higher. (Note: The Fed has not increased rates since May 2000, when it in raised the Fed Funds rate 50 basis points to 6.50%). Although yields increased considerably across all maturities, the back-up in rates was concentrated at the short end of the curve (70 basis points for the 2-year) versus the long end (approximately 35 basis points for the 10- and 30-year bonds). However, if inflation fears intensify, yields for longer-term bonds will likely be pushed higher. Increasing yields for the first quarter translated into lower returns, with

Bond Indices - 1Q 2002 Total Return	
Lehman Aggregate	0.09%
Lehman Interm. Gov't	-0.26%
Lehman Long Gov't	-1.67%
Lehman Interm. Credit	-0.17%
Lehman Long Credit	-0.59%
Lehman High Yield	1.68%

several bond indexes losing ground. The Lehman Aggregate posted a flat return for the second consecutive quarter, kept in positive territory by mortgage-backed securities (36% of the Aggregate Index), which posted a 1% return.

In the investment-grade corporate sector, issuance was surprisingly high in the first quarter, up about 2% to $196.8 billion. This occurred as many companies restructured their debt programs to reduce their reliance on commercial paper, in anticipation of higher rates. According to Bloomberg, commercial paper outstanding fell $44.8 billion to $1.36 trillion at the end of March, the lowest level since October 1999. In the mutual fund world, allocations to corporate bonds have been increasing as many fund managers are assuming more credit risk in an effort to capture spread income.





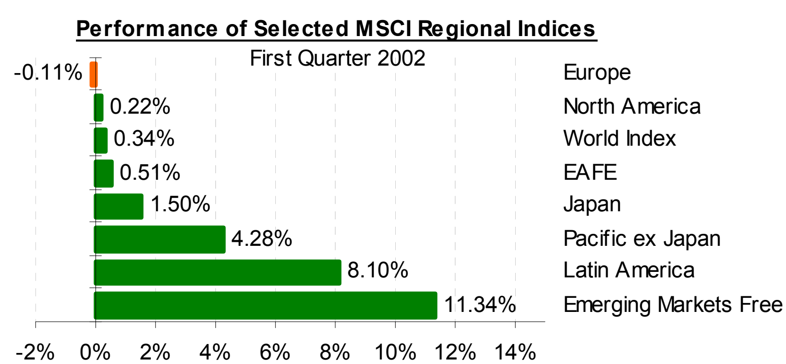
High yield bond returns pulled back a bit from last quarter, but closed in the black at 1.68%. Generally speaking, high yield bonds have suffered for several years now, plagued by high default rates and bankruptcies. According to Moody's, the default rates for high yield bonds appeared to turn around in the first quarter. The global default rate fell to 10.5% in February from 10.7% in January, the first decrease in 19 months. Many investors are optimistic that the improving economy and leveling-off of default rates bode well for riskier bonds, and are sending their dollars into the market. According to Bear Stearns, the high yield market received $6 billion in new cash flows already this year, $4 billion in March alone. This is compared to $10 billion of inflows for all of last year.

Looking forward, bond investors will be paying close attention to economic releases in an effort to gauge the strength of the economic revival. If the data supports growth at the pace seen in the first quarter, rising yields are likely to continue, and bond returns will suffer. On the other hand, any signs of weakness will likely support the bond market.

Overseas

Global market performance was mixed in the first quarter of 2002. There have been encouraging signs in many of the world's markets that the global recession is slackening and we are rotating into a growth cycle.

The major European economic sectors continue to move in sync with the US economy. Growth in Europe is expected to be positive, ending a year-long downturn in economic output, but will most likely lag the US as consumer confidence in the region has remained low. Manufacturing was strongest in the eurozone's three largest countries, Germany, Italy and France. All three countries experienced strong positive performance in March, with each country's market up over 5%, but performance for the quarter was mixed. Both German business confidence and French industrial sentiment measures increased through the quarter. Excess capacity in the European sector may prove to be a blessing, as growth can occur without inflationary fears. However, rising oil prices have the potential to shutdown any economic recovery.



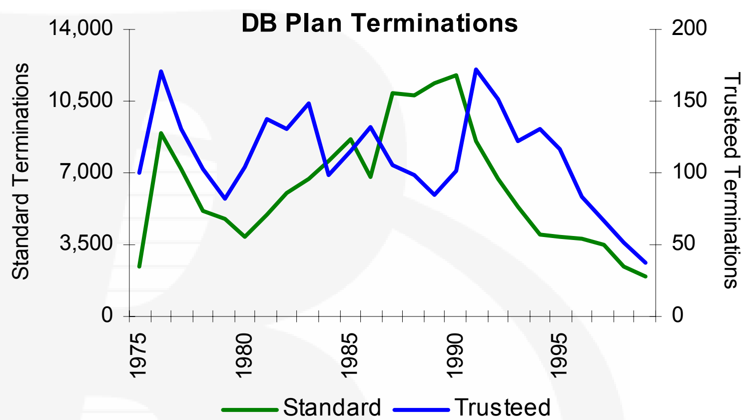
The Japanese financial system continues to cry out for reform. Prime Minister Koizumi's anticipated reforms have been slow to take effect and have come under a critical eye. While bad loans have come down to 7% of total loans outstanding, government debt continues to increase as the central government has become the country's primary financial intermediary. Although the Bank of Japan has maintained a zero interest rate, Japanese consumers continue to be the world's greatest savers. Given all of the above, Japanese stocks surprisingly returned 1.5% for the quarter. Growth for the rest of the year is expected to be modest as Japan continues to restructure its economy.

Elsewhere in Asia, the recovery has come quicker and has been stronger than expected. Stock markets in South Korea and China are expected to lead the region, although first quarter results were mixed, with Korea finishing up over 29% and China down over 3% for the quarter. Foreign investment is expected to help boost performance in the region this year.

In Latin America the focus continues to be on Argentina, where the stock market was down over 46% in dollar terms for the quarter. Government instability continues to undermine confidence and consumers continue to buy dollars as skepticism over the government's ability to manage the economy reigns. "Argentine Contagion" has not spread in Latin America as the markets in Mexico and Brazil, the region's two largest economies, were up over 17% and 7%, respectively. A trade surplus has helped Brazil as a weak local currency has curbed imports. In Mexico, the unemployment rate has fallen as manufacturers begin to hire on expectations that US demand will rise, further demonstrating the strengthening link between the two economies.

Focus On: *Bankruptcy and the Safety of Pension Benefits*

In the wake of the Enron scandal the media have made much ado about the safety of retirement plans, citing 401(k) losses with the implication that pension plans are at risk. Given these circumstances, and a newly found scrutiny by employees, we feel it is the right time to look at the process surrounding pension plan terminations and the organization responsible for oversight of the process.



There are three ways for a defined benefit pension plan to cease. A *standard termination* occurs when the plan sponsor discontinues a plan and has sufficient assets to cover all benefits. A *distress termination* occurs when a company in financial distress voluntarily terminates its plan. An *involuntary termination* occurs when a plan has insufficient assets to cover its liabilities and termination is initiated by the Pension Benefit Guaranty Corporation (PBGC). These last two categories are both considered "trusteed terminations". In each of the above circumstances accrued benefits become 100 percent vested, and there are specific procedures that must be followed

Bankruptcies			
	Firms	With Funded Plans	With Underfunded Plans
1980	86	25	1
1981	76	30	2
1982	93	23	3
1983	86	22	6
1984	113	23	1
1985	128	35	1
1986	128	30	7
1987	95	20	3
1988	122	26	5
1989	150	29	8
1990	149	45	9
1991	145	41	5
1992	99	24	3
1993	114	27	6
1994	60	15	-
1995	94	20	5
1996	69	12	4
1997	105	23	1
1998	104	25	2
	2,016	495	72

Source: PBGC Databook 1999

In the case of a standard termination, a plan sponsor decides to discontinue the current plan, merge it with another plan, or convert to a defined contribution format. Under these circumstances, there are usually adequate assets available to cover pension liabilities. The plan sponsor purchases an annuity to cover benefit payments. To initiate a standard termination, the plan sponsor must fulfill certain requirements including: participant notification of termination, participant notification of accrued benefits and notice to the PBGC.

A distress termination may occur when a company enters Chapter 7 liquidation or Chapter 11 reorganization. The greater risk of termination is in the Chapter 7 liquidation. When a company liquidates its assets to pay creditors, normally the plan terminates since the corporate entity no longer exists. Many of the procedures from the standard termination, including notification, are the same for a distress termination. A company must also satisfy PBGC-defined criteria regarding bankruptcy or reorganization petitioning, or demonstration that the entity cannot continue as a viable business unless the plan is terminated.

The PBGC also has the legal authority to involuntarily terminate a pension plan if:

- The plan has not met the minimum funding requirements.
- The plan cannot pay current benefits when due.
- The loss to PBGC is expected to increase unreasonably if the plan is not terminated.

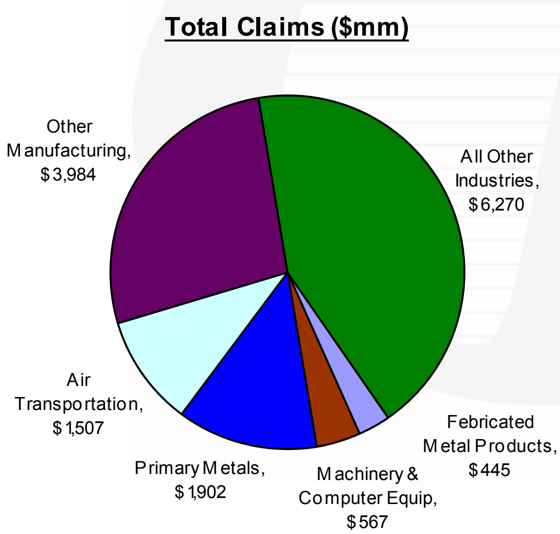
If a plan is unable to meet its obligations and becomes trusteed by the PBGC, the process is straightforward. The plan's assets and liabilities are valued as of the termination date and remaining plan assets are allocated across benefit priority categories until exhausted. Once assets are exhausted, the call against PBGC assets is made and remaining unfunded guaranteed benefits are covered. There are statutory limitations on the level of benefits provided by the agency. For the year 2001, the maximum benefit guarantee for participants in trusteed plans was $3,392.05 per month.

The PBGC was formed to safeguard retirement income security, ensure the continuation and maintenance of private pension plans, protect pension benefits in on-going plans and provide timely payments of benefits in the case of terminations. Currently the PBGC insures approximately 38,000 pension plans, covering roughly 1 in 4 American workers. The agency receives no tax revenues, financing its operations through insurance premiums paid by plan sponsors and through investment returns. Single-employer pension plans pay a flat-rate premium of $19 per participant per year. Underfunded plans pay an additional charge of $9 per $1,000 of unfunded vested benefits. This premium structure provides strong incentive for plan sponsors to ensure that plans are fully funded.

	Top 10 Firms	Plans	Termination Years	Claims ($mm)	
1	Pan American Air	3	1991,1992	841	13%
2	Eastern Air Lines	7	1991	553	9%
3	Wheeling Pitt Steel	7	1986	495	8%
4	Sharon Steel	5	1994	291	5%
5	Liv Republic Steel	1	1986	222	4%
6	Kaiser Steel	4	1987,1988	222	4%
7	Allis-Chalmers	11	1985,1986	186	3%
8	CF&I Steel	1	1992	184	3%
9	Uniroyal Plastics	1	1992	150	2%
10	Blaw-Knox	6	1992,1994	119	2%
	Top 10 Total	46		3,262	52%
	All Other Total	2,729		3,016	48%
	TOTAL	2,775		6,278	100%

Source: PBGC Databook 1999

Most claims against PBGC are due to bankruptcies, but most bankruptcies don't actually lead to claims. Data through 1998 shows that of the 2,016 bankruptcies reported, less than 4% of companies had underfunded pension plans. The top ten firms with claims against the PBGC through 1999 make up over 50% of the total assets being claimed.



Of these ten firms, most are in the steel and airline industries. During the first 10 years of the agency's existence, steel companies had most of the large claims. Deregulation of the airline industry in the early 1990's led to the largest claims during the next ten years. Today, claims come from many different sectors of the economy.

The PBGC has implemented an "Early Warning Program" to try to strengthen pension plans and protect participants. The program mainly looks at plans with over 5,000 participants or at least $25 million in underfunding, focusing on corporate transactions that have the potential to weaken underfunded plans. For example, PBGC would review a transaction where a company is spinning off a subsidiary with large pension liabilities. By tracking transactions such as this, the agency can preemptively enter into agreements with companies to attempt to protect participant benefits.

In summary, defined benefit pension plans are safe. Benefits are guaranteed first by the sponsor, backed by the sponsor's own solvency. Bankruptcies are rare, and when they occur the pension plan is rarely underfunded. Finally, the PBGC stands ready to backstop plans in need up to the statutory limits.

The following links can provide you with more information regarding pension plan funding, premium payments and plan terminations: Department of Labor (www.dol.gov), Pension Welfare Benefits Agency (www.dol.gov/dol/pwba), and the Pension Benefit Guaranty Corporation (www.pbgc.gov).