Bob Brinker's Marketimer

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"Undertake something difficult; it will do you good. Unless you try to do something beyond what you have already mastered, you will never grow." ...Ronald E. Oshorn

**STOCK MARKET TIMING** **DJIA: 10259.74** **S & P 500: 1172.52**

Investors continue to have high expectations for the stock market based on the generous valuation levels that persist, despite the prolonged bear market over the last seven quarters. If we overlook the historic record high valuation levels that exist today based on depressed calendar year 2001 earnings, we can focus on calendar year 2002. However, valuations are also generous based on projected earnings for 2002. We are currently estimating $45 to $47 in earnings for the Standard and Poor's 500 Index this year, with a single point estimate of $46. At the current price level, the index is trading at 25.5 times these projected earnings.

Excluding last year, the highest price/earnings ratio for the Standard and Poor's 500 Index was 28.1 in July of 1999. That multiple was based on our estimated 1999 earnings estimate for the index of $50.00, which was very close to the final earnings figure reported at the end of 1999.

There are several key economic indicators that we monitor that suggest it will take more time for the ongoing recession to play itself out. These include:

1) Real wages have entered negative territory on a year–over–year basis, as has been the case during every recession in the past four decades. However, there is no evidence that the downward trend in real wages has ended, as layoffs continue and unemployment remains in an uptrend;

2) Historically, consumers increase personal savings markedly during a recession. This behavior is based on the natural tendency to restore health to household balance sheets with the help of increased savings rates during periods when net worth remains under pressure from the forces of recession;

3) The combination of severely depressed corporate profits and very low capacity utilization rates provides a difficult backdrop for capital spending budgets;

4) Based on our projection of very little global real GDP growth during calendar year 2002, U.S. exports are likely to experience lukewarm demand;

5) The ratio of consumer debt to personal income remains close to historic record levels. When combined with declining real wages on a year–over–year basis, this sets the stage for disappointing retail sales in 2002.

In our view, the key to economic recovery is the emergence of rising incremental consumer demand for goods and services. Despite considerable progress in reducing excess inventories, the absence of rising consumer demand remains conspicuous.

We do not believe the gradual replenishing of reduced inventories will be sufficient to lead the economy out of the recession. We see very little motivation for corporate decision makers to enthusiastically build inventories while incremental consumer demand remains absent. Of course, this will change when consumer demand begins to rebuild anew, however we do not believe such a turnaround is imminent.

**STOCK MARKET TIMING** (continued from page 1)

It is important to note that a recession is a process that restores health to the economy by draining excesses that are created by a boom cycle such as the U.S. enjoyed during the decade of the 1990's. We believe this process has moved along to the point where a new cyclical bull market opportunity will materialize during the mid–term off–presidential election year of 2002. Our expectation is that the next cyclical bull market will last for a period of approximately one to three years.

When the Marketimer stock market timing model returns to bullish territory, we will recommend reinvestment of stock market cash reserves. Until that time, we remain cautious and recommend maintaining existing cash reserves. In the case of Nasdaq 100 (QQQ) shares, we prefer to hold existing positions in the expectation that the next cyclical bull market will provide a much better price level for the Nasdaq 100 Index.

**FEDERAL RESERVE UPDATE**

The Federal Open Market Committee lowered short–term rates for the eleventh consecutive time in December. The federal funds rate, the overnight bank lending rate, was reduced to 1.75%, and the discount rate fell to 1.25%. These are the lowest short–term rates in the United States in over forty years, and suggest the recession has been a very difficult problem for the Fed to solve. The next FOMC meeting is scheduled for January 29 and 30. Any further rate reductions will depend entirely on the state of the economy when the FOMC convenes. In the event further economic deterioration occurs during January, an additional rate reduction is possible on January 30.

Partisan division in an almost evenly divided Congress resulted in no additional fiscal stimulus package at yearend. As we indicated last month, the direction the fiscal stimulus package was taking was not likely to provide the kind of jumpstart to the economy that many of the V–shaped recovery advocates were counting on this winter. Measures such as extending health care benefits for unemployed workers and reducing corporate taxes may be good politics, but such measures would do little to turn around an economy now entering its tenth month of recession.

The monetary figures continue to reflect the easy money policy which the Fed has promoted for the past year. Last month, year–over–year real growth in the monetary base was 6.9%, while this month it was 7%. Last month, year–over–year real growth in M-1 was 3.8%, while this month it increased to 6.6%. Year–over–year real growth in M–2 remains firm at 9%. The Federal Reserve is doing its best to provide liquidity during this recession, however the absence of incremental corporate and consumer demand is retarding economic growth. We expect the Fed to remain fully accommodative until the economy enters its next recovery cycle.

Table A
Latest Monthly Data
(Billions)

| | December 2001 | December 2000 | Y-O-Y Changes | Real Y-O-Y* Changes |
|---|---|---|---|---|
| Monetary Base | $ 647.8 | $ 595.1 | + 8.9% | + 7.0% |
| M–1 | $ 1,172.2 | $ 1,080.3 | + 8.5% | + 6.6% |
| M–2 | $ 5,467.7 | $ 4,929.0 | +10.9% | + 9.0% |

* adjusted for consumer price index increase of 1.9% for the year ended 11–30–01.

**MODEL PORTFOLIO CHANGES**

The following model portfolio changes are effective at the close on January 14:

Model Portfolio I:
SELL: 5% position in Strong Growth, thereby eliminating this holding;
BUY: 5% position in Baron Growth, establishing a position in this fund.

**MODEL PORTFOLIO CHANGES** (continued from page 2)

Model Portfolio II:
SELL: 5% position in Strong Growth, thereby eliminating this holding;
BUY: 5% position in Dodge & Cox Stock Fund, adding this fund to the portfolio.

Strong Growth has been deleted from the Recommended List due to the fund’s disappointing performance during calendar year 2001.

**BARON GROWTH FUND**

Baron Growth Fund (800—992—2766) has been added to the **Marketimer** No Load Fund Recommended List on page four, and will be added to model portfolio I on January 14. Baron Growth Fund, managed by Ron Baron, invests for capital growth through equity securities of small and medium—sized companies with favorable growth prospects or undervalued assets. The fund was organized in 1995 as Baron Growth and Income, however the objective was changed to capital appreciation in May of 1999.

During the three year period ended December 31, 2001, Baron Growth Fund recorded compound annual growth of 15.9%. During the same period, Vanguard Small Cap Index recorded compound annual growth of 7.3%, while the Vanguard Total Stock Market Index recorded a negative compound annual return of 0.5%. The fund has $567 million in assets and is available for purchase in all states. The initial minimum investment requirement is $2000, with no subsequent minimum. Individual Retirement Accounts are available and the fund offers telephone redemption. The annual expense ratio is 1.40%.

The five largest holdings in the fund at the end of the third quarter were Choicepoint, Southern Union, Extended Stay America, OM Group and Ethan Allen Interiors. We regard Baron Growth as a high—quality no—load fund vehicle for long—term growth.

**MARKETIMER MODEL PORTFOLIO PERFORMANCE**

The year 2001 was another difficult one for the stock market. During the year, our model portfolios were little changed as a result of stock market cash reserves. Here are the results for each model portfolio over the last five years through December 31, 2001:

| Total Return | Model One | Model Two | ** Model Three | * Active/Passive | *** Wilshire 5000 |
|---|---|---|---|---|---|
| 5—years ended 12—31—01 | +114.3% | + 72.0% | + 50.4% | --- | + 59.1% |
| 4—years ended 12—31—01 | + 87.4% | + 47.1% | + 30.3% | + 46.4% | + 21.5% |
| 3—years ended 12—31—01 | + 53.2% | + 27.4% | + 21.6% | + 21.9% | — 1.5% |
| 2—years ended 12—31—01 | — 3.5% | — 4.8% | + 9.8% | — 1.5% | — 20.4% |
| 1—year ended 12—31—01 | — 2.4% | — 3.7% | + 3.6% | — 2.0% | — 11.0% |

* Active/Passive portfolio’s first full calendar year was 1998.
** Balanced Portfolio includes 50% fixed—income weighting
*** Vanguard Total Stock Market Index (VTSMX)

SUBSCRIBER MESSAGE - As **Marketimer** begins its seventeenth year, we wish each of our subscribers a healthy and happy New Year. We will continue our work to identify major market trends going forward, and we appreciate the support of our subscribers.

## *BOB BRINKER'S* RECOMMENDED LIST OF NO-LOAD FUNDS

| FUND | INV.* OBJ. | SIZE MIL.$ | % Total Return '96 | '97 | '98 | '99 | '00 | '01 (12-31) | $1000 INV. 1-1-96= | EST.[a] YD. | TEL. SWCH | ANN.[b] EXP. | PRICE 12-31-01 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Baron Growth Fund<br>767 Fifth Avenue<br>49th Floor<br>New York, NY 10153<br>800-992-2766 | G<br>BGRFX | $ 567 | 27.7 | 31.1 | 0.1 | 44.7 | (4.6) | 12.7 | $ 2607 | 0.0% | # | 1.40% | 30.67 |
| Baron Small Cap Fund<br>767 Fifth Avenue<br>49th Floor<br>New York, NY 10153<br>800-992-2766 | CGA<br>BSCFX | $ 711 | - | - | 2.2 | 70.8 | (17.5) | 5.2 | --- | 0.1% | # | 1.39% | 15.21 |
| Gabelli Asset Fund<br>One Corporate Center<br>Rye, NY 10580<br>800-422-3554 | G<br>GABAX | $1864 | 13.4 | 38.1 | 15.9 | 28.5 | (2.4) | 0.2 | $ 2281 | 0.7% | Yes | 1.37% | 32.97 |
| Gabelli Growth Fund<br>One Corporate Center<br>Rye, NY 10580<br>800-422-3554 | G<br>GABGX | $3106 | 19.4 | 42.6 | 29.8 | 46.3 | (10.6) | (24.1) | $ 2194 | 0.0% | Yes | 1.37% | 28.68 |
| TIAA/CREF Growth Equity<br>730 Third Avenue<br>New York, NY 10017<br>800-223-1200 | G<br>TIGEX | $ 672 | - | - | 36.0 | 33.0 | (20.3) | (23.0) | --- | 0.2% | Yes | 0.45% | 9.85 |
| TIAA/CREF Growth&Income<br>730 Third Avenue<br>New York, NY 10017<br>800-223-1200 | G&I<br>TIGIX | $ 644 | - | - | 30.5 | 24.5 | (7.3) | (13.4) | --- | 0.9% | Yes | 0.43% | 12.07 |

* Investment Objective Codes: CGA = Capital Gains Aggressive; G = Growth; G&I = Growth & Income
a) Estimated annual yield represents approximate investment income for last 12-months expressed as percentage of fund assets.
b) Annual expense ratio reflects investment advisory fees and other expenses expressed as percentage of total fund assets.
# Telephone redemption available.

# *BOB BRINKER'S* RECOMMENDED LIST OF NO-LOAD FUNDS

| FUND | INV.* OBJ. | SIZE MIL.$ | % Total Return '96 | '97 | '98 | '99 | '00 | '01 (12-31) | $1000 INV. 1-1-96= | EST.[a] YD. | TEL. SWCH | ANN.[b] EXP. | PRICE 12-31-01 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dodge & Cox Stock<br>1 Sansome St. (35th Fl.)<br>San Francisco,CA 94104<br>800-621-3979 | G&I<br>DODGX | $8207 | 22.3 | 28.4 | 5.4 | 20.2 | 16.3 | 9.3 | $ 2529 | 1.6% | # | 0.55% | 100.51 |
| Dodge & Cox Balanced<br>1 Sansome St. (35th Fl.)<br>San Francisco,CA 94104<br>800-621-3979 | G&I<br>DODBX | $5417 | 14.7 | 21.2 | 6.7 | 12.0 | 15.1 | 10.0 | $ 2102 | 3.2% | # | 0.53% | 65.42 |
| Neuberger & Berman<br>Focus Fund<br>605 Third Avenue<br>New York, NY 10158<br>800-877-9700 | CGA<br>NBSSX | $1551 | 16.2 | 24.1 | 13.2 | 26.0 | 12.4 | (6.7) | $ 2157 | 0.0% | Yes | 0.85% | 34.30 |
| Vanguard Calvert Social<br>Index Fund<br>P.O. Box 2600<br>Valley Forge, Pa 19482<br>800-662-2739 | Social<br>Index<br>VCSIX | $ 90 | --- | --- | --- | --- | (9.0) | (14.1) | --- | 1.0% | Yes | 0.25% | 7.76 |
| Schwab 1000 (R)<br>101 Montgomery St.<br>San Francisco, CA 94101<br>800-266-5623 | G<br>SNXFX | $4236 | 21.6 | 31.9 | 27.1 | 21.0 | (8.2) | (12.3) | $ 1986 | 0.8% | Yes | 0.46% | 31.95 |
| Vanguard Index 500<br>P.O. Box 2600<br>Valley Forge, Pa 19482<br>800-662-2739 | S&P<br>500<br>VFINX | $90126 | 22.9 | 33.2 | 28.6 | 21.1 | (9.1) | (12.0) | $ 2039 | 1.0% | No | 0.18% | 105.89 |

R) 0.50% redemption fee on shares held less than six months.

# *BOB BRINKER'S* RECOMMENDED LIST OF NO-LOAD FUNDS

| FUND | INV.* OBJ. | SIZE MIL.$ | % Total Return '96 | '97 | '98 | '99 | '00 | '01 (12-31) | $1000 INV. 1-1-96= | EST.[a] YD. | TEL. SWCH | ANN.[b] EXP. | PRICE 12-31-01 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Vanguard Index (x)<br>Extended Market Portfolio<br>P.O. Box 2600<br>Valley Forge, Pa 19482<br>800-662-2739 | Index<br>VEXMX | $4712 | 17.6 | 26.7 | 8.3 | 36.2 | (15.5) | (9.2) | $ 1686 | 1.0% | No | 0.25% | 23.09 |
| Vanguard Index (x)<br>Small Cap Stock Portfolio<br>(address/phone above) | Russell 2000<br>NAESX | $4633 | 18.1 | 24.6 | (2.6) | 23.1 | (2.7) | 3.1 | $ 1770 | 1.0% | No | 0.24% | 19.82 |
| Vanguard Index Total<br>Stock Market Portfolio<br>(address/phone above) | Wilshire 5000<br>VTSMX | $24503 | 21.0 | 31.0 | 23.3 | 23.8 | (10.6) | (11.0) | $ 1925 | 1.0% | No | 0.20% | 25.74 |
| Vanguard International<br>Growth Portfolio<br>(address/phone above) | Non USA<br>VWIGX | $6892 | 14.6 | 4.1 | 16.9 | 26.3 | (8.6) | (18.9) | $ 1306 | 1.1% | Yes | 0.52% | 15.01 |
| Rowe Price European<br>100 East Pratt St.<br>Baltimore, MD 21202<br>800-638-5660 | Europe<br>PRESX | $ 876 | 25.9 | 17.0 | 25.8 | 19.7 | (6.7) | (20.7) | $ 1641 | 1.0% | Yes | 1.01% | 16.01 |
| Longleaf Partner's Int'l<br>6410 Poplar Ave.<br>Suite 900<br>Memphis, TN 38119<br>800-445-9469 | Int'l Growth<br>LLINX | $ 785 | --- | --- | --- | 24.4 | 25.9 | 10.5 | --- | 2.3% | # | 1.79% | 12.34 |
| Rydex OTC Fund<br>6116 Executive Blvd.<br>Suite 400<br>Bethesda, MD 20852<br>800-820-0888 | CGA<br>RYOCX | $1009 | 43.5 | 21.9 | 86.5 | 100.6 | (37.8) | (34.7) | $ 2658 | 0.0% | Yes | 1.15% | 11.05 |

x) Vanguard Index Extended and Small Cap funds charge purchase fees of 0.5% or less to defray expenses of broad diversification; annual expense ratios on these funds are extraordinarily low.
#) telephone redemption available

**INTEREST RATES/FIXED-INCOME INVESTING**

The evidence continues to confirm that inflation remains benign as the New Year commences. The year—over—year increase in the consumer price index has receded to only 1.9%, and the ongoing recession should continue to restrain inflation going forward. Academic studies show that justifiable real returns on Treasuries should fall within a range of 3% to 3.25%. Adding 1.5% to 2.5% inflation to the academically derived real return assumption brings the potential rate on 10—year Treasuries into the 4.5% to 5.75% range. By adding together the current one—year inflation rate of 1.9% and the normalized real return of 3% to 3.25%, the 10—year Treasury should trade at about 5% to 5.2%. The current yield on the 10—year Treasury stands at 5.1%, right on target with this analysis.

Our fixed—income recommendations currently have an average yield of 5% and an average maturity of 3.85 years. This portfolio did very well in year 2001 while taking very little risk, and generated a total return for the calendar year of 8.25%. Short—Term Federal earned 8.6% for the year, while Ginnie Mae earned 7.9%.

| Fixed-Income Investments | % Weighting | Current Yield | Average Maturity |
|---|---|---|---|
| Vanguard Fixed-Income Short-Term Federal VSGBX | 50% | 4.07% | 2.7 years |
| Vanguard Ginnie Mae Fund (800-662-7447) VFIIX | 50% | 5.85% | 5.0 years |

We are also adding Vanguard Inflation Protected Securities Fund to our favorite taxable no—load funds. The fund earned 7.7% during calendar year 2001. (symbol VIPSX)

Subscribers seeking tax—exempt investment income can purchase state general obligation bonds with 1O—to—12 year maturities. Quality tax—free no—load funds we like include:
Vanguard Long—Term Tax—Exempt, yield 4.65%, average maturity 10.1 years; VWLIX
Vanguard Intermediate Tax—Exempt, yield 4.06%, average maturity 5.9 years; VWITX
Vanguard California Insured Tax—Exempt, yield 4.34%, average maturity 10.5 years; VCITX
Vanguard California Insured Intermediate, yield 3.88%, average maturity 7.3 years. VCAIX

**INDIVIDUAL ISSUES**

All individual issues are rated “hold” at this time. The maximum exposure in any one stock should not exceed 4% in order to control specific stock risk. This guideline does not apply to exchange—traded—funds such as SPY, VTI, DIA or QQQ, which are linked to the performance of underlying stock indexes.

| ISSUES | Beta | Exchange | Symbol | 1-04 Close | Est. earnings per share | |
|---|---|---|---|---|---|---|
| Microsoft | 1.25 | Nasdaq | MSFT | 68.90 | 1.85 (6-02) | 2.10 (6-03) |
| Vodafone/AirTouch | 1.05 | NYSE | VOD | 26.62 | 0.52 (3-02) | 0.80 (3-03) |
| S&P Dep. Receipts | 1.00 | AMEX | SPY | 117.62 | 3.75 (2001) | 4.60 (2002) |
| Total Market VIPERs | 1.03 | AMEX | VTI | 108.10 | n/a | |
| DJIA Diamonds | 0.85 | AMEX | DIA | 102.82 | 4.35 (2001) | 4.75 (2002) |
| Nasdaq 100 Index | 1.75 | AMEX | QQQ | 41.67 | * | |

* **Marketimer** estimates the 40 largest profitable companies in the Nasdaq 100 Index are trading at a weighted average price/earnings ratio of 48.7 based on projected earnings for 2002. These companies represent 73.5% of the total market value of the index as of December, 2001.

**ACTIVE/PASSIVE PORTFOLIO**

The **Marketimer** active/passive portfolio is designed to provide active management in the areas of long—term market timing while maintaining an indexed approach to the U.S. equity market. The portfolio has very low expenses and a high level of tax efficiency. Based on our current cautious market viewpoint, this portfolio consists of a 65% stock market cash reserve, 25% in Vanguard Total Stock Market Index, 5% in Vanguard International Growth and 5% in T. Rowe Price or Vanguard European. During the past four years this portfolio has gained 46.4% while Vanguard Total Stock Market Index has gained 21.5%. The first full calendar year for this portfolio was 1998.

## MARKETIMER NO-LOAD MUTUAL FUND MODEL PORTFOLIOS

The *Marketimer* no-load model portfolios are designed to provide investors seeking aggressive, growth and balanced objectives with a strategic approach to investing in no-load funds over the long-term.

Model Portfolio I is designed for investors with *aggressive growth* investment objectives. Such investors seek maximum returns and are willing and able to accept high levels of risk and volatility. Current income is not a factor in this portfolio.

Model Portfolio II is designed for investors with *long-term growth* objectives. Such investors seek to enhance the value of capital over time and assume a reasonable level of diversified market risk. Current income is not an important factor.

Model Portfolio III is designed as a *balanced* portfolio for current investment income along with capital preservation and modest growth. The portfolio is allocated evenly between equities and fixed-income securities. This portfolio is best suited to investors nearing or already enjoying a retirement lifestyle.

### MARKETIMER MODEL PORTFOLIO I ($20,000 value on 1-1-88)

| Current Holdings | % | Beta | Value 12-31-01 | % Change |
|---|---|---|---|---|
| Strong Growth | 05 | 1.16 | $ 4,761 | |
| Baron Small Cap. | 05 | 1.15 | 3,896 | |
| Rowe Price European | 05 | 0.65 | 2,902 | |
| Vanguard Int'l. Growth | 05 | 0.70 | 2,372 | |
| TIAA/CREF Growth Equity | 10 | 1.38 | 7,207 | |
| TIAA/CREF Growth Income | 05 | 1.04 | 9,764 | |
| Money Market | 65 | 0.00 | 100,875 | |
| | 100% | 0.37 | $ 131,777 | + 559% |

### MARKETIMER MODEL PORTFOLIO II ($20,000 value on 1-1-88)

| Current Holdings | % | Beta | Value 12-31-01 | % Change |
|---|---|---|---|---|
| Gabelli Asset Fund | 05 | 1.33 | $ 4,260 | |
| Rowe Price European | 05 | 0.65 | 3,239 | |
| Strong Growth | 05 | 1.16 | 4,941 | |
| Vanguard Int'l. Growth | 05 | 0.70 | 2,411 | |
| TIAA/CREF Growth Equity | 10 | 1.38 | 7,073 | |
| TIAA/CREF Growth Income | 05 | 1.04 | 4,972 | |
| Money Market | 65 | 0.00 | 81,532 | |
| | 100% | 0.38 | $ 108,428 | + 442% |

### MARKETIMER MODEL PORTFOLIO III ($40,000 value on 3-1-90)

| Current Holdings | % | Beta | Value 12-31-01 | % Change |
|---|---|---|---|---|
| Vanguard Short-Term Federal | 25 | 0.01 | $ 27,509 | |
| Vanguard Ginnie Mae Fund | 25 | 0.01 | 31,083 | |
| Rowe Price European | 02.5 | 0.65 | 2,520 | |
| Dodge & Cox Stock Fund | 05 | 0.65 | 9,533 | |
| TIAA/CREF Growth & Income | 07.5 | 1.04 | 9,577 | |
| Vanguard Int'l. Growth | 02.5 | 0.70 | 2,079 | |
| Money Market | 32.5 | 0.00 | 39,188 | |
| | 100% | 0.15 | $ 121,489 | + 204% |

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