Bob Brinker's Marketimer

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"There's a fine line between eccentrics and geniuses. If you're a little ahead of your time you're an eccentric, and if you're a little too late, you're a failure, but if you hit it right on the head, you're a genius."
... Thomas J. Watson Jr.

STOCK MARKET TIMING UPDATE **DJIA: 8601.69** **S & P 500: 908.60**

The **Marketimer** stock market timing model indicators have the potential to show significant improvement in 2003 based on the fact that many of the stock market excesses that were created by the bubble that ended early in Year 2000 have been reduced by the most severe bear market since the 1930's.

The Standard and Poor's 500 Index, the Wilshire 5000 Index, and the Dow Jones Industrial Average have registered three consecutive down years for the first time since 1939 through 1941. At that time investors were concerned that the expansionist policies of both Germany and Japan would lead to World War II, and their worst fears were realized in the form of a long and costly war that continued for several years.

The major indexes have registered four consecutive yearly declines on only one occasion, 1929 through 1932. However, at that time, the world was entering the worst economic period in history. We do not expect current economic conditions to lead to another depression, therefore we believe four straight down years can be avoided.

Our Economic Cycle indicators remain highly favorable, as the Federal Reserve has cut short–term rates to 42–year lows. Federal funds now trade at 1.25%, and federal funds adjusted for inflation now trade at a negative rate of almost 1%. Although the Fed has been unsuccessful to date in getting a major economic recovery started, aggressive monetary ease has prevented the economy from continuing to deteriorate. The absence of new jobs growth, coupled with the presence of widespread excess capacity, has kept the lid on economic growth prospects to date. New jobs growth is a critical component of economic growth, as new jobs create new paychecks which provide a key underpinning for sustainable economic recovery.

Our Valuation indicators continue to point to a stock market that is a long way from the bargain counter. This may become a factor in helping to determine the scope of the next cyclical bull market. For example, if our next buy signal occurs at a time when valuations are high, that would open the door to the possibility that the next cyclical bull market would be limited by valuation constraints that could come into play following a gain in the Standard and Poor's 500 Index in excess of 25%.

As we enter 2003, using our current estimate of $47.10 for Standard and Poor's 500 operating earnings, the index is trading at a P/E of 19.3. Based on our estimate of $42.10 in reported earnings for 2003, the P/E multiple is currently 21.6. The potential for gains in the next cyclical bull market will be a function of the corporate earnings gains coupled with the P/E ratio increases that develop. However, the P/E ratio expansion will be governed to some extent by the level of P/E multiples prevailing at the outset of the next cyclical bull market. As of now, P/E levels are not cheap, even after adjusting for the current low levels of inflation and interest rates.

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STOCK MARKET TIMING UPDATE ...continued from page 1

Although a higher level of bearish investment advisory sentiment was evident entering the fourth quarter of 2002, this condition has been reversed as the percentage of bears in the **Investors Intelligence** (New Rochelle, NY 10801) survey has declined into the mid–20's, a very complacent level. In addition, the four–week moving average of bulls as a percentage of bulls plus bears has recently been in the mid–60's, which is another indication of investor complacency. We do not believe that there has ever been a bear market of the magnitude and duration of this one wherein less fear of stock market investing has been evident. We would like to see more investor concern about the stock market than the current numbers are suggesting.

We continue to monitor the **Marketimer** stock market timing model indicators in search of an entry point that makes sense in terms of risk and reward. When our next buy signal develops, we anticipate a one–to–three year cyclical bull market money making opportunity will follow. We believe the probability of a buy signal is very good within the next several months. In the interim, we recommend a patient approach to the market. This includes holding existing stock market cash reserves until our timing model turns bullish. We also recommend holding existing positions at current levels, along with holdings of Nasdaq 100 (QQQ) shares. We expect the Nasdaq indexes to post gains well in excess of the Standard and Poor's 500 Index during the next cyclical bull market.

Marketimer subscribers may visit our website at www.bobbrinker.com to check the bulletin page on a weekday basis. Any major change in our recommended position that occurs between monthly newsletters will be posted there, and will also be mailed to all subscribers.

FEDERAL RESERVE POLICY UPDATE

The Federal Open Market Committee (FOMC) is scheduled to reconvene for a two–day meeting on January 28 and 29 to discuss monetary policy and the state of the economy. The federal funds rate is already trading at a negative real rate of close to 1%, therefore it is questionable as to whether further rate cuts would make a difference. A rarely used monetary tool which remains at the disposal of the Federal Reserve is a change in reserve requirements, which are the amounts that a depositary institution must hold in reserve against deposit liabilities. These reserves must be held in the form of vault cash or deposits with the Federal Reserve Banks. The Fed has sole authority over changes in reserve requirements. A reduction in reserve requirements would be aimed at increasing the rate of growth in the monetary aggregates. So far, the Fed has chosen not to take this aggressive easing step, however that could change if the ongoing economic malaise continues in 2003.

The slow to moderate pace of real monetary growth continues, despite one of the easiest monetary stances in Federal Reserve history. The monetary base shows real year–over–year growth of 5.7%, versus 5.6% last month. The narrowly defined money supply, M–1, shows real year–over–year growth of only 2%, down from 2.4% last month. The more broadly defined M–2 aggregate shows year–over–year real growth of 4.6%, versus 4.8% last month. So far these growth rates have been sufficient to avoid a double–dip recession, however the Federal Reserve is working overtime in order to keep the economy afloat in the absence of an improvement in overall employment conditions.

Latest Monthly Data
($ billions)

	December 2002	December 2001	Y-O-Y Changes	Real Y-O-Y* Changes
Monetary Base	$ 695.9	$ 645.0	+ 7.9%	+ 5.7%
M–1	$ 1,207.1	$ 1,157.9	+ 4.2%	+ 2.0%
M–2	$ 5,807.9	$ 5,440.6	+ 6.8%	+ 4.6%

* Real changes year–over–year, adjusted for consumer price index increase of 2.2% for the 12–month period through 11–30–02.

VANGUARD BALANCED INDEX FUND

Vanguard Balanced Index Fund (VBINX) has been added to the **Marketimer** No–Load Fund Recommended List on page five. This fund invests for current income and long–term growth of income and capital. The fund invests 60% of assets in order to replicate the investment performance of the Wilshire 5000 Index of common stocks. The fund invests 40% of assets in order to replicate the investment performance of the Lehman Brothers Aggregate Bond Index of fixed–income securities.

During the ten–year period ended December 31, 2002, Vanguard Balanced Index Fund had a cumulative total return of 123% and a compound annual rate of return of 8.3%. The fund has a low beta coefficient of 0.57, suggesting much less share price volatility than the Standard and Poor’s 500 Index. This is mainly due to the 40% bond weighting in the fund. Total assets are close to $3 billion. The fund is available in all states. The initial minimum investment requirement is $3000, with subsequent additions of $100 or more. For I.R.A. and Keogh accounts, the initial minimum is $1000. The annual expense ratio is very low at 0.22%, versus an average expense ratio of 1.25% for all balanced funds.

We now have two excellent balanced no–load funds on the **Marketimer** No–Load Fund Recommended List. They are Dodge & Cox Balanced, and Vanguard Balanced Index Fund.

MARKETIMER MODEL PORTFOLIO PERFORMANCE UPDATE

Although calendar year 2002 was a very difficult year for stock market investing, the **Marketimer** model portfolios were little changed as a result of large stock market cash reserve positions. Here are the results for each model portfolio as published in **Marketimer** over the past ten years through December 31, 2002:

Total Return	Model I	Model II	Model III*	Active/Passive	Wilshire 5000 **
10–years to 12–31–02	+260%	+190%	+127%	#	+128%
5–years to 12–31–02	+ 81%	+ 42%	+ 33%	+ 37%	(4%)
3–years to 12–31–02	(6.6%)	(7.9%)	+ 12.3%	(7.4)	(37%)
1–year to 12–31–02	(3.1%)	(3.3%)	+ 2.3%	(6%)	(21%)

* Model III is a balanced portfolio with a 50% fixed–income weighting
** Vanguard Total Stock Market Index (VTSMX) tracks the Wilshire 5000 Index
# Active/Passive portfolio started 3–01–97.

Hulbert Financial Digest has named **Marketimer** to its 2002 Newsletter Honor Roll. This is our third consecutive year on the Honor Roll. In order to make the Honor Roll, **Marketimer** had to earn above–average returns in both up and down markets since May of 1990.

ACTIVE/PASSIVE PORTFOLIO

Subscribers seeking a very low cost approach to investing may find our Active/Passive portfolio attractive. This portfolio gained 37% for the five–year period through 12–31–02, versus a loss of 4% for Vanguard Total Stock Market Index. This portfolio currently holds a 65% stock market cash reserve, 25% in Vanguard Total Stock Market Index, 5% in Vanguard or T. Rowe Price European, and 5% in Vanguard International. In addition to very low expenses, this portfolio is highly tax–efficient and features broad diversification and simplicity. All **Marketimer** model portfolios follow our long–term stock market timing model, which turned negative in January of Year 2000.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.* OBJ.	SIZE MIL.$	'97	'98	'99	'00	'01	'02	$1000 INV. 1-1-97=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 12-31-02
Baron Growth Fund 767 Fifth Avenue 49th Floor New York, NY 10153 800-992-2766	G BGRFX	$ 991	31.1	0.1	44.7	(4.6)	12.7	(12.3)	$ 1790	0.0%	#	1.40%	26.90
Baron Small Cap Fund 767 Fifth Avenue 49th Floor New York, NY 10153 800-992-2766	CGA BSCFX	$ 685	-	2.2	70.8	(17.5)	5.2	(9.7)	---	0.0%	#	1.39%	13.37
Gabelli Asset Fund One Corporate Center Rye, NY 10580 800-422-3554	G GABAX	$ 1498	38.1	15.9	28.5	(2.4)	0.2	(14.3)	$ 1724	0.0%	Yes	1.37%	28.25
TIAA/CREF Equity Index 730 Third Avenue New York, NY 10017 800-223-1200	Russell 3000 TCEIX	$ 131	-	-	-	-	(11.6)	(21.5)	---	1.0%	Yes	0.26%	6.23
TIAA/CREF Growth&Income 730 Third Avenue New York, NY 10017 800-223-1200	G&I TIGIX	$ 496	-	30.5	24.5	(7.3)	(13.4)	(23.9)	---	1.0%	Yes	0.43%	9.09

Note: columns '97 through '02 are under the heading "% Total Return".

* 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 '97	'98	'99	'00	'01	'02	$1000 INV. 1-1-97=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 12-31-02
Dodge & Cox Stock 1 Sansome St. (35th Fl.) San Francisco,CA 94104 800-621-3979	G&I DODGX	$13305	28.4	5.4	20.2	16.3	9.3	(10.5)	$ 1851	1.7%	#	0.55%	88.05
Dodge & Cox Balanced 1 Sansome St. (35th Fl.) San Francisco,CA 94104 800-621-3979	G&I DODBX	$7521	21.2	6.7	12.0	15.1	10.0	(2.9)	$ 1781	3.1%	#	0.53%	60.75
Vanguard Calvert Social Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Social Index VCSIX	$ 95	---	---	---	(9.0)	(14.1)	(24.2)	---	0.8%	Yes	0.25%	5.82
Schwab 1000 (R) 101 Montgomery St. San Francisco, CA 94101 800-266-5623	G SNXFX	$ 3156	31.9	27.1	21.0	(8.2)	(12.3)	(21.2)	$ 1287	1.1%	Yes	0.46%	24.86
Vanguard Balanced Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	G&I VBINX	$2946	22.2	17.8	13.6	(2.0)	(3.1)	(9.5)	$ 1404	3.0%	No	0.22%	15.65
Vanguard Index 500 P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	S&P 500 VFINX	$55866	33.2	28.6	21.1	(9.1)	(12.0)	(22.1)	$ 1293	1.5%	No	0.18%	81.15

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 '97	'98	'99	'00	'01	'02	$1000 INV. 1-1-97=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 12-31-02
Vanguard Index (x) Extended Market Portfolio P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Index VEXMX	$ 2532	26.7	8.3	36.2	(15.5)	(9.2)	(18.1)	$ 1174	1.1%	No	0.25%	18.74
Vanguard Index (x) Small Cap Stock Portfolio (address/phone above)	Russell 2000 NAESX	$ 2938	24.6	(2.6)	23.1	(2.7)	3.1	(20.0)	$ 1199	1.4%	No	0.24%	15.66
Vanguard Index Total Stock Market Portfolio (address/phone above)	Wilshire 5000 VTSMX	$ 13961	31.0	23.3	23.8	(10.6)	(11.0)	(21.0)	$ 1257	1.4%	No	0.20%	20.07
Vanguard International Growth Portfolio (address/phone above)	Non USA VWIGX	$ 4685	4.1	16.9	26.3	(8.6)	(18.9)	(17.8)	$ 936	1.8%	Yes	0.52%	12.16
Rowe Price European 100 East Pratt St. Baltimore, MD 21202 800-638-5660	Europe PRESX	$ 646	17.0	25.8	19.7	(6.7)	(20.7)	(18.7)	$ 1060	2.7%	Yes	1.01%	12.88
Longleaf Partner's Int'l 6410 Poplar Ave. Suite 900 Memphis, TN 38119 800-445-9469	Int'l Growth LLINX	$ 977	---	---	24.4	25.9	10.5	(16.5)	---	1.1%	#	1.79%	9.97
Rydex OTC Fund 6116 Executive Blvd. Suite 400 Bethesda, MD 20852 800-820-0888	CGA RYOCX	$ 593	21.9	86.5	100.6	(37.8)	(34.7)	(38.6)	$ 1137	0.0%	Yes	1.15%	6.79

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 SECURITIES

Marketimer's fixed—income recommendations had outstanding returns in 2002. The Vanguard Ginnie Mae Fund generated a total return of 9.7%, the Vanguard Inflation—Protected Securities Fund had a total return of 16.6%, and Dodge and Cox Income Fund earned a total return of 10.7%.

Our fixed—income recommendations have a current average weighted yield of 4.3%, an average weighted maturity of 7 years and an average weighted duration of 3.5.

Fund (Symbol)	Weighting	Yield	Avg. Mat.	Duration
Vanguard Ginnie Mae Fund (800—662—7447)(VFIIX)	50%	5.03%	3.3	2.5
Vanguard Inflation-Protected Securities (VIPSX)	25%	2.18%*	13.1	4.7
Dodge & Cox Income Fund (800—621—3979) (DODIX)	25%	4.95%**	8.2	4.0

* plus inflation adjustments; December quarterly distribution of $0.21 was paid 12-26-02.
** as of 9-30-02; December quarterly distribution of $0.21 was paid 12-27-02.

Duration is the weighted average of the times that interest payments and the final return of principal are received. The academic rule of thumb is that the percentage change in the price of a bond or bond fund is the duration multiplied by the change in interest rates. Applying duration to the Vanguard Ginnie Mae Fund, the current duration of 2.5 suggests that a one percent increase in corresponding interest rates would result in an estimated 2.5% decline in the fund's net asset value.

Our favorite money market funds are Vanguard Prime Money Market, with a current yield of 1.25%, and for tax—exempt income, Vanguard Tax—Exempt Money Market Fund, with a current yield of 1.2%. For tax—exempt income, we prefer state general obligation bonds with maturities in the 10—to—12 year range.

INDIVIDUAL ISSUES

Marketimer suggests holdings in any one stock of no more than four percent of total equities. By controlling specific stock risk, you protect yourself against the risk that one company may experience difficulty or even bankruptcy. The law of unintended consequences has driven many companies into bankruptcy. The best recent example of this is the string of asbestos related bankruptcies that have eliminated many companies which at one time had good quality ratings, only to see everything change due to asbestos. Other failures include the recent collapse of Enron, K—Mart, Worldcom and UAL Corporation.

The following issues are rated "hold" at this time:

Issue (Symbol)	Beta	Exchange	1-03 Price	Estimated earnings per share	
Microsoft (MSFT)	1.27	Nasdaq	53.79	2.00 (6-03)	2.15 (6-04)
Vodafone/AirTouch (VOD)	1.10	NYSE	18.86	0.96 (3-03)	1.08 (3-04)
S&P Dep. Receipts (SPY)	1.00	AMEX	91.35	4.22 (2002)	4.71 (2003)
Total Market VIPERs (VTI)	1.02	AMEX	84.95	n/a	
DJIA Diamonds (DIA)	0.86	AMEX	86.36	4.75 (2002)	5.30 (2003)
Nasdaq 100 Index (QQQ)	1.67	AMEX	25.68	*	

* **Marketimer** estimates that the 40 largest companies in the Nasdaq 100 Index are trading at an average P/E ratio of 29.2 times projected 2003 operating earnings. These stocks account for about 80% of the Nasdaq 100 Index market capitalization.

SUBSCRIBER MESSAGE — As **Marketimer** begins its eighteenth year, we wish each of our subscribers a healthy and happy New Year. We will continue our work aimed at identifying major market trends going forward, always recognizing our task as a challenging endeavor. We appreciate the support of our subscribers as we continue our efforts.

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	Symbol	%	Beta	Value 12-31-02	% Change
Baron Growth	BGRFX	05	1.00	$ 4,205	
Baron Small Cap.	BSCFX	05	1.05	3,520	
Rowe Price European	PRESX	05	0.69	2,261	
Vanguard Int'l. Growth	VWIGX	05	0.70	1,950	
TIAA/CREF Equity Index	TCEIX	15	1.02	13,083	
Money Market		65	0.00	102,526	
		100%	0.33	$ 127,645	+ 538%

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

Current Holdings	Symbol	%	Beta	Value 12-31-02	% Change
Gabelli Asset Fund	GABAX	05	0.74	$ 3,652	
Rowe Price European	PRESX	05	0.69	2,635	
Dodge & Cox Stock Fund	DODGX	05	0.60	4,431	
Vanguard Int'l. Growth	VWIGX	05	0.70	1,982	
TIAA/CREF Equity Index	TCEIX	15	1.02	9,277	
Money Market		65	0.00	82,863	
		100%	0.29	$ 104,840	+ 424%

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

Current Holdings	Symbol	%	Beta	Value 12-31-02	% Change
Vanguard Inflation Protected Securities	VIPSX	25	0.00	$ 29,584	
Vanguard Ginnie Mae Fund	VFIIX	25	0.00	35,343	
Rowe Price European	PRESX	02.5	0.69	2,049	
Dodge & Cox Stock Fund	DODGX	05	0.60	8,528	
TIAA/CREF Growth & Income	TIGIX	07.5	1.02	7,292	
Vanguard Int'l. Growth	VWIGX	02.5	0.70	1,710	
Money Market		32.5	0.00	39,829	
		100%	0.14	$ 124,335	+ 211%
