Bob Brinker's Marketimer

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"Riches are not an end of
life, but an instrument
of life."
...Henry Ward Beecher

STOCK MARKET TIMING **DJIA: 8862.57** **S & P 500: 934.53**

Investors have been concerned this year by uncertainties related to corporate earnings. The problem involves two areas of earnings measurement: (1) the question of which earnings should matter in terms of stock market valuation; and (2) the quality of corporate earnings in a world where many companies have used pro–forma methods in an effort to enhance results. In addition, many corporate accounting practices have been called into question.

So the question is, what is the best way to value the Standard and Poor's 500 Index, when there is so much confusion related to determining the true level of earnings. **Marketimer** continues to include operating earnings in our calculations of stock market valuation, however the new Standard and Poor's core earnings approach has the potential to gain credibility in the investment community over time.

Reported earnings is an alternate measure of corporate earnings that is widely accepted and is based on Generally Accepted Accounting Principles (GAAP). This measure excludes discontinued operations and extraordinary items, and has an extensive historical base. Use of reported earnings does away with the accounting gimmicks that are associated with the controversial pro–forma earnings approach. We believe investors are much more interested in real earnings, and have lost their appetite for pro–forma earnings.

In our view, the potential exists for growing interest in the newest form of corporate earnings measurement, which is the Standard and Poor's core earnings method. Core earnings consist of reported earnings, with several key adjustments. These include the following additions:

1) expensing of employee stock option grants
2) pension costs
3) restructuring charges from ongoing operations
4) writedowns of depreciable or amortizable operating assets
5) purchased research and development expenses

The following are excluded from core earnings:

1) goodwill charges
2) gains and losses on asset sales
3) pension gains
4) unrealized gains and losses from hedging activities
5) litigation and insurance settlements

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Regardless of which earnings measure one uses, the fact remains that stock market valuations remain well above those that have prevailed at most prior cyclical bear market bottoms. For example, during the secular bear megatrend that started February 9, 1966 and persisted through August 12, 1982, the four major cyclical bear market bottoms occurred when the trailing price/earnings ratio ranged between 7.3 and 13.6. When the 1966–1982 secular bear market ended, the trailing p/e ratio was 7.3, one of the lowest in U.S. history.

It does not appear likely that p/e ratios within that very low range will develop during the current cyclical bear market. In our view, it is more likely that an intervening cyclical bull market of approximately one–to–three years will be followed by another cyclical bear market. At that time, the long–term process of price/earnings ratio regression to the mean is likely to continue, within the context of the secular bear market that began during the first quarter of Year 2000, in our view.

Here is a look at key valuation comparisons as the market enters the final month of its historic third consecutive losing year:

Date	P/E Ratio	Comment
Oct. 7, 1966	13.4	cyclical bear market bottom
May 6, 1970	13.6	cyclical bear market bottom
Oct. 3, 1974	7.3	cyclical bear market bottom
Aug. 12, 1982	7.3	cyclical bear market bottom and secular bear market bottom
Oct. 9, 2002 (low–to–date)	17.3	based on operating earnings for 12–months ended 6–30–02.
Oct. 9, 2002	18.4	based on **Marketimer** estimated operating earnings for 2002
Oct. 9, 2002	29.0	based on reported earnings for 12–months ended 6–30–02.
Oct. 9, 2002	20.9	based on **Marketimer** estimated reported earnings for 2002
Oct. 9, 2002	42.0	based on Standard and Poor’s core earnings for 12–months ended 6–30–02
Dec. 2, 2002	20.8	based on operating earnings for 12–months ended 6–30–02.
Dec. 2, 2002	22.1	based on **Marketimer** estimated operating earnings for 2002
Dec. 2, 2002	34.9	based on reported earnings for 12–months ended 6–30–02.
Dec. 2, 2002	25.1	based on **Marketimer** estimated reported earnings for 2002
Dec. 2, 2002	50.6	based on Standard and Poor’s core earnings for 12–months ended 6–30–02

STOCK MARKET TIMING UPDATE ...continued from page 2

In our view, a case can be made that the combination of low inflation and low interest rates can support a price/earnings ratio range of 18 to 20 times trailing reported earnings for the Standard and Poor's 500 Index. However, in the absence of p/e multiple expansion, stock market potential would be limited to the rate of growth of aggregate earnings, for as long as the combination of low inflation and low interest rates prevailed. Additional return would be generated by the current cash dividend yield of 1.5% for the Standard and Poor's 500 Index. A price/earnings ratio of 18 to 20 times reported earnings would represent a generous price–to–growth ratio of 2.25 to 2.5 for the Index, assuming a long–term reported earnings growth rate of 8%.

Marketimer continues to anticipate real GDP growth of 2.25% to 2.75% in calendar year 2003. If this forecast proves accurate, we estimate Standard and Poor's 500 operating earnings will increase 12%, from $42.20 this year to $47.10 next year. Our corresponding reported earnings estimates are $37.20 and $42.10 respectively. These numbers remain below more optimistic Wall Street projections due to our concerns about the very high ratio of consumer debt to personal income, and the growing consumer debt load. The recent increase in the consumer savings rate to 4% suggests the process of increasing savings at the expense of spending is now underway. Also, we are tracking the index of help–wanted advertising, which is a valuable tool for confirming an economic recovery. Right now, this index is at its lowest level in 40 years.

The key to meaningful and sustainable economic recovery is new jobs growth, and that continues to be an area in which very little progress has been made. We would like to see close to 150,000 new jobs added on an average monthly basis. The reality has been almost no jobs growth during 2002, and the outlook for new jobs growth remains uncertain in an economy that has almost 25% of factory space sitting idle. So far, the combination of sluggish economic activity and excess capacity has made it unnecessary for companies to launch major hiring programs, or to fund major capital spending projects. Corporate CEO's are likely to demand a significant improvement in real final demand visibility before embarking on new spending initiatives.

Marketimer recommends retaining existing equity market holdings at this time. This includes existing positions in the Nasdaq 100 (QQQ) shares. In addition, we recommend holding existing stock market cash reserves pending further improvement in our stock market timing indicators. The indicators showed no improvement during November. As a result, we are maintaining our cautious approach to the stock market at this time. If a major change in our view occurs between monthly issues, we will post a subscriber bulletin at bobbrinker.com, using the same access method used for the newsletter at the website. We will include our model portfolio recommendations for models one, two, three and active/passive. In addition, the information will be mailed to subscribers.

FEDERAL RESERVE UPDATE

The decision by the Federal Open Market Committee to reduce short–term interest rates by 0.50% at the November meeting has eliminated any need for a further rate cut at the upcoming FOMC meeting on December 10. The federal funds rate is now 1.25%, which means the inflation–adjusted federal funds rate is negative by 0.75%. It appears the Fed decided to do the 50–basis point rate reduction in November due to concern that a possible war against Iraq would further dampen consumer confidence. In the event the U.S. decides to "disarm" Iraq, the optimum time to start such an effort would be during the January–February period, when weather and atmospheric conditions in that region are most favorable for the use of advanced U.S. military technology. Although starting a war with Iraq during the month of December would introduce an element of surprise to the effort, it is not viewed as the most likely time to begin such a confrontation.

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BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.* OBJ.	SIZE MIL.$	% Total Return '97	'98	'99	'00	'01	'02 (11-30)	$1000 INV. 1-1-97=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 11-30-02
Baron Growth Fund 767 Fifth Avenue 49th Floor New York, NY 10153 800-992-2766	G BGRFX	$1070	31.1	0.1	44.7	(4.6)	12.7	(9.5)	$ 1848	0.0%	#	1.40%	27.77
Baron Small Cap Fund 767 Fifth Avenue 49th Floor New York, NY 10153 800-992-2766	CGA BSCFX	$ 726	-	2.2	70.8	(17.5)	5.2	(6.1)	---	0.0%	#	1.39%	13.90
Gabelli Asset Fund One Corporate Center Rye, NY 10580 800-422-3554	G GABAX	$ 1601	38.1	15.9	28.5	(2.4)	0.2	(10.0)	$ 1810	0.0%	Yes	1.37%	29.67
TIAA/CREF Equity Index 730 Third Avenue New York, NY 10017 800-223-1200	Russell 3000 TCEIX	$ 130	-	-	-	-	(11.6)	(16.8)	---	1.0%	Yes	0.26%	6.70
TIAA/CREF Growth&Income 730 Third Avenue New York, NY 10017 800-223-1200	G&I TIGIX	$ 488	-	30.5	24.5	(7.3)	(13.4)	(18.9)	---	1.0%	Yes	0.43%	9.72

* 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.

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Dodge & Cox Stock 1 Sansome St. (35th Fl.) San Francisco,CA 94104 800-621-3979	G&I DODGX	$12374	28.4	5.4	20.2	16.3	9.3	(7.2)	$ 1919	1.7%	#	0.55%	91.12
Dodge & Cox Balanced 1 Sansome St. (35th Fl.) San Francisco,CA 94104 800-621-3979	G&I DODBX	$7489	21.2	6.7	12.0	15.1	10.0	(1.1)	$ 1814	3.1%	#	0.53%	63.16
Vanguard Calvert Social Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Social Index VCSIX	$ 101	---	---	---	(9.0)	(14.1)	(18.7)	---	0.8%	Yes	0.25%	6.31
Schwab 1000 (R) 101 Montgomery St. San Francisco, CA 94101 800-266-5623	G SNXFX	$ 3172	31.9	27.1	21.0	(8.2)	(12.3)	(16.4)	$ 1365	1.1%	Yes	0.46%	26.71
Vanguard Balanced Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	G&I VBINX	$3023	22.2	17.8	13.6	(2.0)	(3.1)	(7.1)	$ 1443	3.0%	No	0.22%	16.21
Vanguard Index 500 P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	S&P 500 VFINX	$59318	33.2	28.6	21.1	(9.1)	(12.0)	(17.3)	$ 1372	1.5%	No	0.18%	86.68

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

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BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.* OBJ.	SIZE MIL.$	'97	'98	'99	'00	'01	'02 (11-30)	$1000 INV. 1-1-97=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 11-30-02
			% Total Return										
Vanguard Index (x) Extended Market Portfolio P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Index VEXMX	$ 2665	26.7	8.3	36.2	(15.5)	(9.2)	(14.2)	$ 1230	1.1%	No	0.25%	19.80
Vanguard Index (x) Small Cap Stock Portfolio (address/phone above)	Russell 2000 NAESX	$ 3121	24.6	(2.6)	23.1	(2.7)	3.1	(15.3)	$ 1269	1.4%	No	0.24%	16.79
Vanguard Index Total Stock Market Portfolio (address/phone above)	Wilshire 5000 VTSMX	$ 14712	31.0	23.3	23.8	(10.6)	(11.0)	(16.3)	$ 1332	1.4%	No	0.20%	21.35
Vanguard International Growth Portfolio (address/phone above)	Non USA VWIGX	$ 5040	4.1	16.9	26.3	(8.6)	(18.9)	(13.5)	$ 985	1.8%	Yes	0.52%	12.98
Rowe Price European 100 East Pratt St. Baltimore, MD 21202 800-638-5660	Europe PRESX	$ 681	17.0	25.8	19.7	(6.7)	(20.7)	(15.6)	$ 1100	2.7%	Yes	1.01%	13.51
Longleaf Partner's Int'l 6410 Poplar Ave. Suite 900 Memphis, TN 38119 800-445-9469	Int'l Growth LLINX	$ 1065	---	---	24.4	25.9	10.5	(8.9)	---	1.1%	#	1.79%	10.88
Rydex OTC Fund 6116 Executive Blvd. Suite 400 Bethesda, MD 20852 800-820-0888	CGA RYOCX	$ 503	21.9	86.5	100.6	(37.8)	(34.7)	(29.9)	$ 1298	0.0%	Yes	1.15%	7.74

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

FEDERAL RESERVE UPDATE ...continued from page 3

Although monetary policy remains very easy, the growth rates of the key monetary aggregates remain slow to moderate. The monetary base shows real year—over—year growth of 5.6%, up from 5% last month. M—1, which consists primarily of currency in circulation and demand deposits, shows year—over—year real growth of only 2.4%, down from 2.6% last month. The broader M—2 aggregate shows year—over—year real growth of 4.8%, down from 5.2% last month.

Latest Monthly Data

($ billions)	November 2002	November 2001	Y-O-Y Changes	Real Y-O-Y* Changes
Monetary Base	$ 691.0	$ 641.9	+ 7.6%	+ 5.6%
M—1	$ 1,192.7	$ 1,142.9	+ 4.4%	+ 2.4%
M—2	$ 5,798.5	$ 5,428.0	+ 6.8%	+ 4.8%

* Real changes year—over—year, adjusted for consumer price index increase of 2.0% for the 12—month period through 10—31—02.

VANGUARD BALANCED INDEX FUND

Vanguard Balanced Index Fund (800—662—2739) has been added to the **Marketimer** No—Load Fund Recommended List on page five. This fund invests 60% of assets in the Wilshire 5000 Index, and 40% in an index of fixed—income securities. **Marketimer** will include a writeup on Vanguard Balanced Index Fund in the next issue.

INTEREST RATES / FIXED-INCOME SECURITIES

Marketimer's fixed—income recommendations have a current average yield of 4.44%, an average maturity of 6.65 years, and an average duration of 3.35.

Fund (Symbol)	Weighting	Yield	Avg. Mat.	Duration
Vanguard Ginnie Mae Fund (800—662—7447)(VFIIX)	50%	5.31%	2.7	2.2
Vanguard Inflation-Protected Securities (VIPSX)	25%	2.19%*	13.0	5.0
Dodge & Cox Income Fund (800—621—3979) (DODIX)	25%	4.95%	8.2	4.0

* plus adjustments for inflation; the next distribution will be paid in late December for the fourth quarter.

INDIVIDUAL ISSUES

Specific stock holdings should be limited to 4% or less of equities in order to manage individual company risk in our view. The following issues are rated hold:

Issue (Symbol)	Beta	Exchange	12-2 Close	Estimated earnings per share	
Microsoft (MSFT)	1.27	Nasdaq	57.69	2.00 (6-03)	2.15 (6-04)
Vodafone/AirTouch (VOD)	1.10	NYSE	19.43	0.93 (3-03)	1.05 (3-04)
S&P Dep. Receipts (SPY)	1.00	AMEX	94.13	4.22 (2002)	4.71 (2003)
Total Market VIPERs (VTI)	1.02	AMEX	87.73	n/a	
DJIA Diamonds (DIA)	0.86	AMEX	88.87	4.90 (2002)	5.35 (2003)
Nasdaq 100 Index (QQQ)	1.67	AMEX	28.00	*	

* **Marketimer** estimates that the 40 largest companies in the Nasdaq 100 Index are trading at an average P/E ratio of 31.8 times projected 2003 operating earnings. These companies account for 80% of the Nasdaq 100 Index market capitalization.

ACTIVE/PASSIVE PORTFOLIO

The **Marketimer** active/passive portfolio, which has long—term growth objectives similar to model portfolio two, remains 65% in stock market cash reserves, 25% in Vanguard Total Stock Market Index, 5% in T. Rowe Price or Vanguard European, and 5% in Vanguard International Growth. This portfolio features broad diversification, very low aggregate expenses, tax efficiency, and risk management. All of our model portfolios follow the **Marketimer** stock market timing model which remains cautious at this time.

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 11-30-02	% Change
Baron Growth	BGRFX	05	1.00	$ 4,341	
Baron Small Cap.	BSCFX	05	1.05	3,659	
Rowe Price European	PRESX	05	0.69	2,449	
Vanguard Int'l. Growth	VWIGX	05	0.70	2,051	
TIAA/CREF Equity Index	TCEIX	15	1.02	13,875	
Money Market		65	0.00	102,416	
		100%	0.33	$ 128,791	+ 544%

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

Current Holdings	Symbol	%	Beta	Value 11-30-02	% Change
Gabelli Asset Fund	GABAX	05	0.74	$ 3,833	
Rowe Price European	PRESX	05	0.69	2,733	
Dodge & Cox Stock Fund	DODGX	05	0.60	4,596	
Vanguard Int'l. Growth	VWIGX	05	0.70	2,085	
TIAA/CREF Equity Index	TCEIX	15	1.02	9,840	
Money Market		65	0.00	82,774	
		100%	0.29	$ 105,861	+ 429%

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

Current Holdings	Symbol	%	Beta	Value 11-30-02	% Change
Vanguard Inflation Protected Securities	VIPSX	25	0.00	$ 28,597	
Vanguard Ginnie Mae Fund	VFIIX	25	0.00	34,992	
Rowe Price European	PRESX	02.5	0.69	2,126	
Dodge & Cox Stock Fund	DODGX	05	0.60	8,845	
TIAA/CREF Growth & Income	TIGIX	07.5	1.02	7,770	
Vanguard Int'l. Growth	VWIGX	02.5	0.70	1,798	
Money Market		32.5	0.00	39,786	
		100%	0.14	$ 123,914	+ 210%

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