

# Bob Brinker's **Marketimer**

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www.bobbrinker.com

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"Beware of ignorance. The market must be studied and learned, not in a casual fashion but seriously and deeply. The stock market, with its allures of easy money and fast action, induces people into the foolish mishandling of their money like no other entity. The reverse of ignorance is knowledge, and knowledge is power."

... Jesse Livermore

**STOCK MARKET TIMING UPDATE**

**DJIA: 8069.86**

**S & P 500: 858.47**

On March 11, the **Marketimer** stock market timing model returned to bullish territory for the first time since January of Year 2000. In our view, on March 11 (DJIA 7568; S & P 500 Index 807), the market reached the vicinity of a major cyclical bear market bottom following an historic three-year cyclical bear market that saw the Standard and Poor's 500 Index lose over 45% of its value, excluding dividends. Although additional testing of the area of the lows can occur, we believe the risk/reward ratio favors the development of a cyclical bull market going forward.

**Marketimer** projects eventual gains greater than 25%, as measured from the March 11 price level, over the next one-to-three years, based on the Standard and Poor's 500 Index. We anticipate gains in the Nasdaq indexes will be greater than gains in the Standard and Poor's 500 Index during the cyclical bull market period.

All **Marketimer** model portfolio stock market cash reserves were reinvested at the market close on March 11 (DJIA 7524; S & P 500 Index 800). Here are the reinvestment prices for each of the no-load funds included in our model portfolios:

Baron Growth Fund	24.63	Vanguard Total Stock Market	18.36
Baron Small Cap Fund	12.57	Rydex OTC Fund	6.60
T. Rowe Price European	11.18	Gabelli Asset Fund	25.23
Vanguard Int'l. Growth	10.93	Dodge & Cox Stock	78.67
TIAA-CREF Equity Index	5.71	TIAA-CREF Growth & Income	8.29

The return of the **Marketimer** stock market timing model to bullish territory occurred as a result of several factors falling into place. Our Economic indicators are positive due to our expectation that conditions are favorable for an improvement in the economic growth outlook within the next six months. If we are correct in this expectation, the stock market should be expected to begin the process of discounting future economic improvement in advance.

Another key **Marketimer** stock market timing indicator, Monetary Policy, is now more accommodative than at anytime in modern history. Short-term interest rates are at their lowest level in four decades, and we do not expect short-term rates to increase materially anytime soon. In addition, fiscal policy is highly stimulative, with federal government deficits in the hundreds of billions of dollars with no end in sight. This powerful combination of extraordinary monetary ease and fiscal policy stimulus has created favorable conditions for an economic recovery cycle beginning within the next six months in our view.

Continued on page 2...

While it is true that valuation levels are not as low as they have been at many bear market bottoms in the past, it is also true that very low levels of inflation along with low short-term and long-term interest rates can allow for valuation levels similar to those we are now seeing in the broad stock market. It is certainly possible that the potential upside in the next cyclical bull market may be limited by the fact that valuations are not as low as they could be. However, this in and of itself would not prevent equities from staging a cyclical bull market.

Looking at the stock market from a very long-term viewpoint, **Marketimer** believes the secular bear megatrend that started in early 2000 will last for 8 to 20 years, and will include a series of cyclical bear and cyclical bull markets. In our view, the first cyclical bear market has established the vicinity of a major bottom, and that bottom area is essentially within the 780 to 810 range for the Standard and Poor's 500 Index. We regard the market as attractive for purchase anytime prices are trading within or below that price range.

**Marketimer** defines a cyclical bull market as one that gains in excess of 25% in the broadly defined Standard and Poor's 500 Index over a period of approximately one to three years. Cyclical bull markets begin when investors start to discount future improvement in the economy and corporate earnings. It is important to note that stock market improvement begins in advance of real evidence that the economy and earnings are going to recover.

We believe the extraordinary cyclical bear market that we saw from first quarter 2000 into March of this year served an important purpose. Many of the excesses of the prior mania were purged from the marketplace, and the important element of fear of stock market risk was reintroduced into the human psyche. Importantly, investors are now refocusing their attention away from nonsensical myths such as "new eras" and "new paradigms" and returning to investment basics such as company fundamentals, real earnings and valuation.

There is an old Wall Street adage that states "good news accompanies tops, and bad news accompanies bottoms." In our view, this is as true now as it has always been. However, given the length and scope of the extraordinary cyclical bear market that nearly cut the broad stock market indexes in half over a period of three years, the potential for additional testing of the area of the cyclical bear market lows as measured by the Standard and Poor's 500 Index remains a possibility if the potential for economic recovery is pushed out in response to geopolitical developments. Such uncertainties make the timing of the next cyclical economic recovery more difficult to project than would normally be the case. This is a simple reality of the post 9-11 world in which we live and invest.

Due to the significant stock market rebound that began a few days after our March 11 buy signal, we recommend that subscribers who did not take advantage of the price weakness at that time take a disciplined approach to new purchases. For example, a gradual dollar-cost-averaging strategy allows for investment into the market during periods of stock market weakness in an environment that remains volatile and sensitive to changing geopolitical developments.

Subscribers are reminded that the 1966-1982 secular bear megatrend, the last complete secular bear market period, included four separate cyclical bull markets. The durations ranged from 21 to 38 months, and the gains ranged from 32% to 75%. Whether current valuation considerations will hold the next cyclical bull market gains within the lower portion of that range remains to be seen. The key variable in this regard will be the degree to which corporate earnings recover, and the risk premium investors adopt as they decide how much they are willing to pay for corporate earnings in the ever evolving post 9-11 geopolitical climate.

Continued on page 3...

Model portfolios I, II and III on page eight, along with our Active/Passive portfolio, now reflect the fully invested weightings we adopted on March 11. We appreciate the patience **Marketimer** subscribers have shown during the past three years, as we have worked to identify the area of a well-established cyclical bear market bottom. As we have often said, anticipatory stock market timing presents a challenge that is as difficult as any in the investment arena, but it can also provide opportunity when accompanied by perseverance and patience.

**FEDERAL RESERVE POLICY UPDATE**

The Federal Open Market Committee decided to hold short-term interest rates steady at their March meeting. In addition, the committee decided to withhold comment on the outlook for the economy due to "unusually large uncertainties clouding the geopolitical situation in the short run, and their apparent effects on economic decision making." However, the committee went on to say that they believe "as uncertainties lift, as most analysts expect, the accommodative stance of monetary policy, coupled with ongoing growth in productivity, will provide support to economic activity sufficient to engender an improving economic climate over time."

We view the current combination of easy money and fiscal stimulus as the ideal underpinning for future economic recovery. However, it is clear that the timing of an economic recovery will be a function of geopolitical developments, especially as they impact oil prices. The recent decline in oil prices should act as a tax-cut for consumers, thereby freeing more money to spend in other areas of the economy.

The Federal Reserve continues to promote monetary stimulus at a level that is unprecedented in the modern era. The nominal federal funds rate is 1.25%, however the inflation-adjusted federal funds rate is negative 1.75% after allowing for the current year-over-year consumer price index increase of 3%.

Monetary growth figures are very close to last month's levels, however the Fed's commitment to monetary ease remains solidly in place. The monetary base shows real year-over-year growth of 4.1%, versus 4.6% last month. The narrowly defined M-1 money supply, which consists mainly of currency in circulation and demand deposits, shows year-over-year real growth of 1.3%, up from 1% last month. The more broadly defined M-2 aggregate shows year-over-year real growth of 4.2%, versus 4.3% last month.

**Latest Monthly Data**

(\$ billions)			Y-O-Y	Real Y-O-Y*
	March 2003	March 2002	Changes	Changes
Monetary Base	\$ 713.3	\$ 666.0	+ 7.1%	+ 4.1%
M-1	\$ 1,229.2	\$ 1,178.8	+ 4.3%	+ 1.3%
M-2	\$ 5,890.0	\$ 5,493.5	+ 7.2%	+ 4.2%

\* Real changes year-over-year, adjusted for consumer price index increase of 3% for the 12-month period through 2-28-03.

**ACTIVE / PASSIVE PORTFOLIO**

The **Marketimer** active/passive portfolio returned to a fully invested position with the reinvestment of all stock market cash reserves at the market close on March 11. The portfolio currently holds 90% of assets in the Vanguard Total Stock Market Index, which tracks the Wilshire 5000 Index. The portfolio continues to hold a 5% weighting in T. Rowe Price or Vanguard European, and a 5% weighting in Vanguard International Growth. This portfolio is designed for subscribers seeking long-term growth objectives. The portfolio features broad diversification, low expenses, high tax-efficiency, risk management and simplicity. The portfolio can be easily invested in its entirety in the Vanguard fund family.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.* OBJ.	SIZE MIL.\$	% Total Return						\$1000 INV. 1-1-98=	EST. <sup>a</sup> YD.	TEL. SWCH	ANN. <sup>b</sup> EXP.	PRICE 3-31-03
			'98	'99	'00	'01	'02	'03 (3-31)					
Baron Growth Fund 767 Fifth Avenue 49 <sup>th</sup> Floor New York, NY 10153 800-992-2766 <u>www.baronfunds.com</u>	G BGRFX	\$ 954	0.1	44.7	(4.6)	12.7	(12.3)	(2.5)	\$ 1331	0.0%	#	1.40%	26.23
Baron Small Cap Fund 767 Fifth Avenue 49 <sup>th</sup> Floor New York, NY 10153 800-992-2766 <u>www.baronfunds.com</u>	CGA BSCFX	\$ 682	2.2	70.8	(17.5)	5.2	(9.7)	0.2	\$ 1371	0.0%	#	1.39%	13.40
Gabelli Asset Fund One Corporate Center Rye, NY 10580 800-422-3554 <u>www.gabelli.com</u>	G GABAX	\$ 1412	15.9	28.5	(2.4)	0.2	(14.3)	(5.1)	\$ 1185	0.0%	Yes	1.37%	26.82
TIAA/CREF Equity Index 730 Third Avenue New York, NY 10017 800-223-1200 <u>www.tiaa-cref.org/mfs</u>	Russell 3000 TCEIX	\$ 127	---	---	---	(11.6)	(21.5)	(3.0)	---	1.0%	Yes	0.26%	6.04
TIAA/CREF Growth&Income 730 Third Avenue New York, NY 10017 800-223-1200 <u>www.tiaa-cref.org/mfs</u>	G&I TIGIX	\$ 477	30.5	24.5	(7.3)	(13.4)	(23.9)	(3.8)	\$ 955	1.0%	Yes	0.43%	8.72

\* 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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			'98	'99	'00	'01	'02	'03 (3-31)					
Dodge & Cox Stock 1 Sansome St. (35th Fl.) San Francisco, CA 94104 800-621-3979 <u>www.dodgeandcox.com</u>	G&I DODGX	\$ 12654	5.4	20.2	16.3	9.3	(10.5)	(5.3)	\$ 1365	1.7%	#	0.55%	83.03
Dodge & Cox Balanced 1 Sansome St. (35th Fl.) San Francisco, CA 94104 800-621-3979 <u>www.dodgeandcox.com</u>	G&I DODBX	\$ 7286	6.7	12.0	15.1	10.0	(2.9)	(2.8)	\$ 1428	3.1%	#	0.53%	58.57
Vanguard Calvert Social Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739 <u>www.vanguard.com</u>	Social Index VCSIX	\$ 96	---	---	(9.0)	(14.1)	(24.2)	(2.6)	---	0.8%	Yes	0.25%	5.67
Schwab 1000 (R) 101 Montgomery St. San Francisco, CA 94101 800-266-5623 <u>www.schwab.com/funds</u>	G SNXFX	\$ 3062	27.1	21.0	(8.2)	(12.3)	(21.2)	(3.0)	\$ 946	1.1%	Yes	0.46%	24.11
Vanguard Balanced Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739 <u>www.vanguard.com</u>	G&I VBINX	\$ 2941	17.8	13.6	(2.0)	(3.1)	(9.5)	(1.3)	\$ 1135	3.0%	No	0.22%	15.34
Vanguard Index 500 P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	S&P 500 VFINX	\$ 53946	28.6	21.1	(9.1)	(12.0)	(22.1)	(3.2)	\$ 939	1.5%	No	0.18%	78.27

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.\$	% Total Return					\$1000 INV. 1-1-98=	EST. <sup>a</sup> YD.	TEL. SWCH	ANN. <sup>b</sup> EXP.	PRICE 3-31-03	
			'98	'99	'00	'01	'02						'03 (3-31)
Vanguard Index (x) Extended Market Portfolio P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Index VEXMX	\$ 2514	8.3	36.2	(15.5)	(9.2)	(18.1)	(3.3)	\$ 896	1.1%	No	0.25%	18.12
Vanguard Index (x) Small Cap Stock Portfolio (address/phone above)	Russell 2000 NAESX	\$ 2774	(2.6)	23.1	(2.7)	3.1	(20.0)	(4.5)	\$ 919	1.4%	No	0.24%	14.95
Vanguard Index Total Stock Market Portfolio (address/phone above)	Wilshire 5000 VTSMX	\$ 13793	23.3	23.8	(10.6)	(11.0)	(21.0)	(3.1)	\$ 930	1.4%	No	0.20%	19.37
Vanguard International Growth Portfolio (address/phone above)	Non USA VWIGX	\$ 4481	16.9	26.3	(8.6)	(18.9)	(17.8)	(7.6)	\$ 831	1.8%	Yes	0.52%	11.24
Rowe Price European 100 East Pratt St. Baltimore, MD 21202 800-638-5660	Europe PRESX www.troweprice.com	\$ 595	25.8	19.7	(6.7)	(20.7)	(18.7)	(9.5)	\$ 820	2.7%	Yes	1.01%	11.66
Longleaf Partner's Int'l 6410 Poplar Ave. Suite 900 Memphis, TN 38119 800-445-9469	Int'l Growth LLINX www.longleafpartners.com	\$ 887	---	24.4	25.9	10.5	(16.5)	(11.8)	---	1.1%	#	1.79%	8.79
Rydex OTC Fund 6116 Executive Blvd. Suite 400 Bethesda, MD 20852 800-820-0888	CGA RYOCX www.rydexfunds.com	\$ 624	86.5	100.6	(37.8)	(34.7)	(38.6)	3.4	\$ 965	0.0%	Yes	1.15%	7.02

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

**Marketimer's** fixed-income recommendations have a current weighted average yield of 4.42%, a weighted average maturity of 6.8 years, and a weighted average duration of 3.3. Duration is the weighted average of the times that interest payments and the final return of principal are received. A weighted average duration of 3.3 suggests that a one percent increase in corresponding interest rates would result in an estimated 3.3% decline in net asset value.

Effective at the close on April 11, we are reducing our page seven all fixed-income portfolio weighting in Vanguard Ginnie Mae Fund from 50% to 35%, and we are introducing a 15% weighting in the Vanguard High-Yield Corporate Fund. We believe the potential for an improvement in the economic outlook going forward will create a better climate for high-yield bonds as default rates ease over time. This fund has a very low expense ratio of 0.30%. A 1% redemption fee is applied to shares held less than one year, and this fee remains in the fund for the benefit of all shareholders.

<u>Fund</u>	<u>Weighting</u>	<u>Yield</u>	<u>Avg. Mat.</u>	<u>Duration</u>
Vanguard Ginnie Mae Fund (800-662-7447)(VFIIIX)	35%	4.93%	2.3	1.7
Vanguard Inflation-Protected Securities (VIPSX)	25%	1.59%*	12.7	4.3
Vanguard High-Yield Corporate Fund (VWEHX)	15%	7.75%	6.5	4.5
Dodge & Cox Income Fund (800-621-3979) (DODIX)**	25%	4.55%	7.5	3.8

\* plus inflation adjustments based on the consumer price index and paid quarterly.

\*\* as of 1-1-03

For subscribers seeking tax-exempt investment income, we like general obligations issued by states, with maturities within 10-to-12 years or less. These bonds have date-certain maturities that guarantee repayment of principal as long as the issuer remains solvent. Each week's listing of upcoming new issues of municipal bonds is published in the financial section of the Monday **New York Times**.

Treasury Inflation Protected Securities can be purchased through Treasury Direct with ten-year maturities at periodic auctions. These notes guarantee repayment of principal at maturity plus payment of the income stream that is earned in the form of base rate interest plus inflation protection.

## INDIVIDUAL ISSUES

**Marketimer** recommends limiting exposure to individual company stocks to no more than 4% of an equity portfolio. This limitation does not apply to exchange-traded-funds such as SPY, VTI, DIA and QQQ, which are linked to the performance of an underlying stock index. On March 11, we upgraded Microsoft to "buy" at a price of \$23, and we upgraded Vodafone to "buy" at a price of \$17 on that date. We rate both of these stocks, as well as all of the exchange-traded-funds on our list, as attractive for purchase anytime the Standard and Poor's 500 Index is trading below 810.

<u>Issue (Symbol)</u>	<u>Beta</u>	<u>Exchange</u>	<u>4-01 Price</u>	<u>Estimated earnings per share</u>	
Microsoft (MSFT)	1.27	Nasdaq	24.35	1.02 (6-03)	1.08 (6-04)
Vodafone/AirTouch (VOD)	1.10	NYSE	18.53	0.99 (3-03)	1.13 (3-04)
S&P Dep. Receipts (SPY)	1.00	AMEX	86.04	4.71 (2003)	5.20 (2004)
Total Market VIPERs (VTI)	1.01	AMEX	80.55	n/a	
DJIA Diamonds (DIA)	0.92	AMEX	80.79	5.06 (2003)	5.82 (2004)
Nasdaq 100 Index (QQQ)	1.67	AMEX	25.45	n/a	

## 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)

<u>Current Holdings</u>	<u>Symbol</u>	<u>%</u>	<u>Beta</u>	<u>Value 3-31-03</u>	<u>% Change</u>
Baron Growth	BGRFX	15	0.82	\$ 20,080	
Baron Small Cap.	BSCFX	10	0.84	13,400	
T. Rowe Price European	PRESX	05	0.78	6,555	
Vanguard Int'l. Growth	VWIGX	05	0.76	6,463	
TIAA/CREF Equity Index	TCEIX	15	1.00	19,945	
Vanguard Total Stock Market	VTSMX	25	0.98	33,272	
Rydex OTC Fund	RYOCX	<u>25</u>	<u>2.01</u>	<u>33,425</u>	
		<u>100%</u>	<u>1.18</u>	<u>\$ 133,140</u>	<u>+ 566 %</u>

### MARKETIMER MODEL PORTFOLIO II

(\$20,000 value on 1-1-88)

<u>Current Holdings</u>	<u>Symbol</u>	<u>%</u>	<u>Beta</u>	<u>Value 3-31-03</u>	<u>% Change</u>
Gabelli Asset Fund	GABAX	15	0.78	\$ 16,397	
T. Rowe Price European	PRESX	05	0.78	5,363	
Dodge & Cox Stock Fund	DODGX	10	0.70	10,902	
Vanguard Int'l. Growth	VWIGX	05	0.76	5,287	
TIAA/CREF Equity Index	TCEIX	15	1.00	16,317	
Vanguard Total Stock Market	VTSMX	35	0.98	38,108	
Rydex OTC Fund	RYOCX	<u>15</u>	<u>2.01</u>	<u>16,408</u>	
		<u>100%</u>	<u>1.06</u>	<u>\$ 108,782</u>	<u>+ 444 %</u>

### MARKETIMER MODEL PORTFOLIO III

(\$40,000 value on 3-1-90)

<u>Current Holdings</u>	<u>Symbol</u>	<u>%</u>	<u>Beta</u>	<u>Value 3-31-03</u>	<u>% Change</u>
Vanguard Inflation Protected Securities	VIPSX	25	0.00	\$ 30,359	
Vanguard Ginnie Mae Fund	VFILX	25	0.00	31,068	
Rowe Price European	PRESX	02.5	0.78	3,244	
Dodge & Cox Stock Fund	DODGX	10	0.70	13,191	
TIAA/CREF Growth & Income	TIGIX	07.5	1.00	9,845	
Vanguard Int'l. Growth	VWIGX	02.5	0.76	3,199	
Vanguard Total Stock Market	VTSMX	22.5	0.98	29,644	
Rydex OTC Fund	RYOCX	<u>05</u>	<u>2.01</u>	<u>6,618</u>	
		<u>100%</u>	<u>0.50</u>	<u>\$ 127,168</u>	<u>+ 218 %</u>

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### HOW TO SUBSCRIBE TO *BOB BRINKER'S* MARKETIMER

NAME \_\_\_\_\_

ADDRESS \_\_\_\_\_

CITY / STATE / ZIP \_\_\_\_\_

Make check or money order payable to *Marketimer* and send to: Marketimer  
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Suite 2060

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