Bob Brinker's Marketimer

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"Stock prices have reached what looks like a permanently high plateau."

...Prof. Irving Fisher (1929)

STOCK MARKET TIMING DJIA: 9243.26 S & P 500: 989.84

Our forecast for Real Gross Domestic Product growth for calendar year 2002 indicates the recovery from the worst profits recession since the 1930's will be at a moderate pace. We expect growth of only 2.5% to 3.5% for the full year, despite the fact that first quarter Real GDP rose 6.1%, due mostly to a sharp decline in inventory reduction. The problem with this year's recovery scenario is the fact that it does not represent much of a recovery compared to calendar year 2001 Real GDP growth of 1.2%, which accompanied a meltdown in corporate earnings.

In response to the lackluster pace of economic activity, we are reducing our Standard and Poor's 500 operating earnings estimate for this year. Our previous estimate was $44, within a range of $43 to $45. Our new estimate is $42.20, within a range of $41 to $43. However, based on GAAP, we estimate earnings in 2002 will be $37.20. Based on our estimate, the Standard and Poor's 500 Index is now trading at 23.5 times 2002 operating earnings prospects. Based on GAAP earnings, the Standard and Poor's 500 Index is now trading at 26.6 times 2002 prospective earnings.

Since we are now entering the second half of the year, we are initiating our 2003 earnings estimate. We expect moderate growth in Standard and Poor's 500 earnings next year, with operating earnings of $47.10, and GAAP earnings of $42.10. Our earnings forecast assumes rising global demand along with some improvement in capital spending.

These earnings estimates raise the issue of stock market valuation as it applies to the broadly based Standard and Poor's 500 Index. Price/earnings ratios remain high when compared with historical norms. The historical average p/e ratio of 18 during periods of very low inflation is below the current p/e level. Despite the fact that this relentless cyclical bear market is now entering its 28th month, valuations have remained high because (1) they started from unusually extended levels, and (2) declining stock prices have been accompanied by declining corporate earnings.

Even before the stunning revelations in late June from Worldcom and Xerox, the subject of earnings quality was becoming a very important issue for investors. As an example, investors have become disenchanted with corporate reporting policies such as writing off operating expenses as "non-recurring items". This practice, which has become more widespread in recent years, results in the overstatement of operating profits as many of the costs of doing business are converted into "one-time" writeoffs.

As subscribers know, we prefer stock markets that gain steadily over time. The current market environment is marked by frustration, which has been accentuated by the extraordinary length of this cyclical bear market. Unfortunately, the glorious five-year stretch from 1995 through 1999, which saw 27% compound annual returns for both the Wilshire 5000 Index and the Standard and Poor's 500 Index, increased investor expectations about future returns just as the great secular bull market was entering its final phase.

STOCK MARKET TIMING (continued from page 1)

Despite the tremendous investor enthusiasm that accompanied the stock market top in early 2000, it is our belief that the market was in the process of undergoing a sea change of major proportions. While many investors were focusing on bogus concepts such as “new era thinking” and the “new economy”, the reality was that the great secular bull market that began in mid–August of 1982 was coming to a frothy and speculative end during the first quarter of 2000. At that juncture, the stock market entered into a new secular trend which promises to make equity investing challenging for many years to come.

The historical experience during secular bear markets has been a series of cyclical bears and cyclical bulls, with a typical duration of one–to–three years. Within this context, we are optimistic that the current long–in–the–tooth cyclical bear market can be put to rest within the next year, thereby opening the door to a cyclical bull market money–making opportunity.

We will do our best to identify the next cyclical bull market for **Marketimer** subscribers. For now, rather than speculate on when the next buy signal will develop, we suggest a patient approach to the market. We recommend holding on to stock market cash reserves. We continue our policy of not selling into weakness, and recommend those with a position in Nasdaq 100 (QQQ) shares hold for higher prices during the next cyclical bull market. Subscribers are welcome to check the bulletin page at bobbrinker.com for any major change in our recommended position that may occur between newsletters.

Investors must recognize that the risk premium for investing in the stock market has risen since the first quarter of year 2000. Investors are now becoming aware of the importance of stock market valuation, the importance of corporate earnings quality, and the higher geo–political risk of investing in a world that is far different from the world we knew in the 1990’s. These are conditions that are not likely to change for the better overnight. Therefore, the ancient Chinese saying “may you live in interesting times”, which is expressed in pejorative terms, now applies to all investors. This includes those of us in the United States, which as the world’s most powerful nation, will be obligated to play a major role in shaping the global geo–political future.

FEDERAL RESERVE UPDATE

The Federal Open Market Committee decision on June 26 to leave short–term interest rates unchanged comes as no surprise. Despite 40–year lows for both the federal funds rate (1.75%), and the discount rate (1.25%), the economic malaise continues. In our view, the Federal Reserve will try to avoid making any interest rate changes until solid evidence of a major economic recovery becomes apparent.

We expect second quarter Real GDP growth to be reported at a slower annual rate than the 6.1% figure posted for the first quarter. It is very important to note that most of the first quarter growth came as a result of a sharply lower inventory reduction rate. This factor accounted for 3.4% of the 6.1% first quarter growth rate. However, in order to have sustainable growth in the economy, we must create new jobs at a swift pace. We estimate monthly average jobs growth of approximately 150,000 is required in order to support a meaningful economic recovery and a sustainable increase in real final demand. So far, the new jobs figures this year have remained far below that level. This suggests more time will be needed in order to turn the economy around.

Continued dollar weakness in the foreign exchange market reduces the flexibility of the Federal Reserve as it creates pressure on the central bankers to raise short–term interest rates in order to attract foreign capital into the greenback. In general, dollar weakness encourages foreign investors to sell U.S. dollar denominated holdings in order to avoid currency related losses. However, the issue of defending the dollar is a difficult one for the Federal Reserve. They do not want to raise short–term rates when they are trying to stimulate the economy with low interest rates. In summary, a weak dollar makes Alan Greenspan’s job much more of a challenge.

FEDERAL RESERVE UPDATE (continued from page 2)

The growth rate of the monetary aggregates remains firm as the Federal Reserve does everything in its power to encourage future economic growth. We expect the Fed to continue to keep short—term rates very low and to maintain a highly accommodative monetary policy stance until indications of a significant economic recovery develop.

The monetary base currently shows year—over—year real growth of 9.2%, which is close to last month's level of 9%. The narrowly defined money supply, M-1, which consists primarily of currency in circulation and demand deposits, shows real year—over—year growth of 4.7%, up slightly from last month's reading of 4.2%. The more broadly defined M—2 monetary aggregate now shows real year—over—year growth of 5.8%, in line with last month's figure.

Table A
Latest Monthly Data
(Billions)

	June 2002	June 2001	Y-O-Y Changes	Real Y-O-Y* Changes
Monetary Base	$ 675.3	$ 611.8	+10.4%	+ 9.2%
M—1	$ 1,176.5	$ 1,111.4	+ 5.9%	+ 4.7%
M—2	$ 5,553.3	$ 5,190.7	+ 7.0%	+ 5.8%

* adjusted for consumer price index increase of 1.2% for the year ended 5-31—02

DODGE AND COX STOCK FUND

The only managed mutual fund that has been on the **Marketimer** No—Load Fund Recommended List during every calendar year since 1988 is Dodge and Cox Stock Fund, a value based fund that invests in companies with strong fundamentals.

During the 14—years through December 31, 2001, Dodge and Cox Stock Fund earned compound annual returns of 15.7%, thereby outperforming the Vanguard 500 Index Fund, which posted compound annual returns of 14.3% during the same period. This places Dodge and Cox Stock Fund in the unique position of outperforming the broad market over the entire 14—year period, while at the same time holding down both portfolio risk and expenses. The fund's beta coefficient of 0.61 is well below the 1.00 beta of the Standard and Poor's 500 Index. The fund's annual expense ratio of 0.55% is very low among managed mutual funds.

Over 14—years ago, Dodge and Cox Stock Fund, based in San Francisco, was not widely known or widely followed. At that time, total assets in the fund were only $71 million. Since then, the excellent performance record has attracted much more attention, and total assets now are close to $11 billion.

The fund's size has reached a level that will require close monitoring of ongoing performance. However, we see no signs that the fund is losing its touch. During the first half of calendar year 2002, the fund posted a minor decline of 1.6%, versus a decline of 13.2% in the Vanguard 500 Index Fund, and a decline of 11.8% in the Vanguard Total Stock Market Index Fund.

Although the 1.4% annual performance advantage Dodge and Cox Stock Fund posted for the 14—year period through December, 2001 may seem small, a $10,000 investment in the fund grew to $77,100 over the period in a tax—deferred account. A $10,000 investment in Vanguard 500 Index Fund shares during the same period grew to $64,440 in a tax—deferred account. In taxable accounts, the comparisons would be more favorable to the index fund due to the very low fund distributions which result from passive index management. This underscores the difficulty of outperforming low—cost index funds over the long—term in taxable accounts, as managed fund distributions result in higher tax liabilities.

We continue to recommend Dodge and Cox Stock Fund as a core holding in both model portfolios II and III, and we regard the fund's management team as exemplary.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.* OBJ.	SIZE MIL.$	% Total Return '97	'98	'99	'00	'01	'02 (6-30)	$1000 INV. 1-1-97=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 6-30-02
Baron Growth Fund 767 Fifth Avenue 49th Floor New York, NY 10153 800-992-2766	G BGRFX	$ 903	31.1	0.1	44.7	(4.6)	12.7	(0.8)	$ 2025	0.0%	#	1.40%	30.42
Baron Small Cap Fund 767 Fifth Avenue 49th Floor New York, NY 10153 800-992-2766	CGA BSCFX	$ 797	-	2.2	70.8	(17.5)	5.2	7.4	---	0.1%	#	1.39%	16.34
Gabelli Asset Fund One Corporate Center Rye, NY 10580 800-422-3554	G GABAX	$1817	38.1	15.9	28.5	(2.4)	0.2	(6.7)	$ 1877	0.7%	Yes	1.37%	30.77
Gabelli Growth Fund One Corporate Center Rye, NY 10580 800-422-3554	G GABGX	$2087	42.6	29.8	46.3	(10.6)	(24.1)	(26.0)	$ 1360	0.0%	Yes	1.37%	21.23
TIAA/CREF Equity Index 730 Third Avenue New York, NY 10017 800-223-1200	Russell 3000 TCEIX	$ 125	-	-	-	-	(11.6)	(12.3)	---	0.1%	Yes	0.26%	7.06
TIAA/CREF Growth&Income 730 Third Avenue New York, NY 10017 800-223-1200	G&I TIGIX	$ 557	-	30.5	24.5	(7.3)	(13.4)	(15.0)	---	0.9%	Yes	0.43%	10.22

* Investment Objective Codes: CGA = Capital Gains Aggressive; G = Growth; G&I = Growth & Income
a) Estimated annual yield represents approximate in vestment 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 (6-30)	$1000 INV. 1-1-97=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 6-30-02
Dodge & Cox Stock 1 Sansome St. (35th Fl.) San Francisco,CA 94104 800-621-3979	G&I DODGX	$10948	28.4	5.4	20.2	16.3	9.3	(1.6)	$ 2035	1.6%	#	0.55%	98.10
Dodge & Cox Balanced 1 Sansome St. (35th Fl.) San Francisco,CA 94104 800-621-3979	G&I DODBX	$6626	21.2	6.7	12.0	15.1	10.0	0.3	$ 1839	3.2%	#	0.53%	64.57
Neuberger & Berman Focus Fund 605 Third Avenue New York, NY 10158 800-877-9700	CGA NBSSX	$1304	24.1	13.2	26.0	12.4	(6.7)	(18.1)	$ 1520	0.0%	Yes	0.85%	28.08
Vanguard Calvert Social Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Social Index VCSIX	$ 93	---	---	---	(9.0)	(14.1)	(16.6)	---	1.0%	Yes	0.25%	6.47
Schwab 1000 (R) 101 Montgomery St. San Francisco, CA 94101 800-266-5623	G SNXFX	$3722	31.9	27.1	21.0	(8.2)	(12.3)	(12.4)	$ 1431	0.8%	Yes	0.46%	27.99
Vanguard Index 500 P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	S&P 500 VFINX	$64310	33.2	28.6	21.1	(9.1)	(12.0)	(13.2)	$ 1440	1.0%	No	0.18%	91.33

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.$	'97	'98	'99	'00	'01	'02 (6-30)	$1000 INV. 1-1-97=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 6-30-02
Vanguard Index (x) Extended Market Portfolio P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Index VEXMX	$2923	26.7	8.3	36.2	(15.5)	(9.2)	(8.4)	$ 1313	1.0%	No	0.25%	21.16
Vanguard Index (x) Small Cap Stock Portfolio (address/phone above)	Russell 2000 NAESX	$3580	24.6	(2.6)	23.1	(2.7)	3.1	(4.2)	$ 1436	1.0%	No	0.24%	18.99
Vanguard Index Total Stock Market Portfolio (address/phone above)	Wilshire 5000 VTSMX	$14812	31.0	23.3	23.8	(10.6)	(11.0)	(11.8)	$ 1403	1.0%	No	0.20%	22.57
Vanguard International Growth Portfolio (address/phone above)	Non USA VWIGX	$5403	4.1	16.9	26.3	(8.6)	(18.9)	(3.9)	$ 1095	1.1%	Yes	0.52%	14.42
Rowe Price European 100 East Pratt St. Baltimore, MD 21202 800-638-5660	Europe PRESX	$ 802	17.0	25.8	19.7	(6.7)	(20.7)	(5.1)	$ 1237	1.0%	Yes	1.01%	15.20
Longleaf Partner's Int'l 6410 Poplar Ave. Suite 900 Memphis, TN 38119 800-445-9469	Int'l Growth LLINX	$1011	---	---	24.4	25.9	10.5	(1.9)	---	2.3%	#	1.79%	12.10
Rydex OTC Fund 6116 Executive Blvd. Suite 400 Bethesda, MD 20852 800-820-0888	CGA RYOCX	$ 702	21.9	86.5	100.6	(37.8)	(34.7)	(33.9)	$ 1224	0.0%	Yes	1.15%	7.30

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 average yield of 5.36% and an average maturity of 5.2 years. Vanguard Ginnie Mae Fund continues to deliver generous current investment income, and the share price value has remained within a narrow range as rates have remained relatively steady. Our current recommendations for fixed—income investors are:

Fund	% Weighting	Current Yield	Avg. Maturity
Vanguard Fixed—Income Short—Term Federal (VSGBX)	25%	4.07%	2.6 years
Vanguard Ginnie Mae Fund (800—662—7447)(VFIIX)	50%	5.90%	4.8 years
Dodge & Cox Income Fund (800—621—3979) (DODIX)	25%	5.59%	8.6 years

For subscribers who prefer to keep all fixed—income funds at Vanguard, a substitute for Dodge & Cox Income Fund is Vanguard Inflation Protection Securities Fund (VIPSX). This fund has a current yield of 2.74%, plus inflation adjustments based on the consumer price index which are paid on a quarterly basis. The second quarter inflation distribution was $0.18 per share.

Our favorite money market funds with low expenses are Vanguard Prime Money Market, yielding 1.72%, and for tax—exempt objectives, Vanguard Tax—Exempt Money Market Find, yielding 1.43%. For tax—exempt investment income, we also like state general obligation bonds with maturities in the 10—to—12 year range, and Vanguard municipal funds.

INDIVIDUAL ISSUES

Marketimer recommends limiting exposure to individual company stocks to no more than 4% of an equity portfolio. Index shares, such as SPY, VTI, DIA and QQQ, are not limited to 4% as they are linked to the performance of underlying indexes. The following issues are currently rated hold:

ISSUES	Beta	Exchange	Symbol	6-30 Price	Est. earnings per share	
Microsoft	1.27	Nasdaq	MSFT	54.70	1.85 (6-02)	1.95 (6-03)
Vodafone/AirTouch	1.10	NYSE	VOD	13.65	0.80 (3-03)	0.80 (3-04)
S&P Dep. Receipts	1.00	AMEX	SPY	98.96	4.22 (2002)	4.71 (2003)
Total Market VIPERs	1.03	AMEX	VTI	92.80	n/a	
DJIA Diamonds	0.97	AMEX	DIA	92.53	5.00 (2002)	5.90 (2003)
Nasdaq 100 Index	1.67	AMEX	QQQ	26.10	*	

* **Marketimer** estimates the forty largest profitable companies in the Nasdaq 100 Index are trading at a weighted average multiple of 39.8 times projected 2002 earnings. These companies account for about 75% of the Nasdaq 100 Index capitalization.

ACTIVE/PASSIVE PORTFOLIO

This portfolio remains invested as follows: 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. The active/passive portfolio provides broad diversification, tax—efficiency, low expenses, risk management and simplicity. During the five—year period through June 30, 2002, the active/passive portfolio returned 51.1%, versus a return of 19.4% for the Vanguard Total Stock Market Index.

MANAGED ACCOUNTS

While **Marketimer** offers monthly guidance, professional investment management services are provided by GE Private Asset Management, which invests in top performing no—load stock, bond and money market funds with programs personalized to meet individual objectives. The minimum account size is $100,000. For details call 800—252—2044.

MEDIA NOTES

Join your editor Saturdays and Sundays from 4 pm to 7 pm eastern time on **Bob Brinker's Moneytalk**. To find a station serving your area, visit the Moneytalk section at www.bobbrinker.com.

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 6-30-02	% Change
Baron Growth	05	1.05	$ 4,755	
Baron Small Cap.	05	1.11	4,185	
Rowe Price European	05	0.68	2,755	
Vanguard Int'l. Growth	05	0.72	2,279	
TIAA/CREF Equity Index	15	1.00	14,621	
Money Market	65	0.00	101,781	
	100%	0.33	$ 130,376	+ 552%

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

Current Holdings	%	Beta	Value 6-30-02	% Change
Gabelli Asset Fund	05	0.71	$ 3,976	
Rowe Price European	05	0.68	3,075	
Dodge & Cox Stock Fund	05	0.61	4,872	
Vanguard Int'l. Growth	05	0.72	2,316	
TIAA/CREF Equity Index	15	1.00	10,368	
Money Market	65	0.00	82,263	
	100%	0.29	$ 106,870	+ 434%

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

Current Holdings	%	Beta	Value 6-30-02	% Change
Vanguard Short-Term Federal	25	0.00	$ 28,446	
Vanguard Ginnie Mae Fund	25	0.00	32,539	
Rowe Price European	02.5	0.68	2,392	
Dodge & Cox Stock Fund	05	0.61	9,377	
TIAA/CREF Growth & Income	07.5	1.03	8,139	
Vanguard Int'l. Growth	02.5	0.72	1,998	
Money Market	32.5	0.00	39,540	
	100%	0.14	$ 122,431	+ 206%
