



# FINANCIAL MANAGEMENT GROUP, INC.

"...to place our clients' interests first, to provide comprehensive financial planning and investment management, and to be a premier provider of innovative and timely strategies that ensure every client meets their established lifetime objectives."

## Investment & Economic Outlook Fourth Quarter 2002

As we close in on the end of this calendar year, it is apparent that for the third year in a row investors will suffer negative returns on the equity portions of their portfolios. The third quarter of this year witnessed virtually every asset class experiencing double-digit decreases in value with the exception of bonds.

Index	September 2002	QTD	YTD	Description
S&P 500	-11.00%	-17.40%	-28.27%	Large-cap stocks
DJIA	-12.40%	-17.89%	-24.26%	Large-cap stocks
Nasdaq Composite	-11.90%	-20.79%	-40.47%	Large-cap tech stocks
Russell 1000 Growth	-10.37%	-15.04%	-32.70%	Large-cap growth stocks
Russell 1000 Value	-11.12%	-18.77%	-22.65%	Large-cap value stocks
Russell 2000 Growth	-7.22%	-21.52%	-35.13%	Small-cap growth stocks
Russell 2000 Value	-7.14%	-21.28%	-15.58%	Small-cap value stocks
MSCI EAFE	-10.86%	-19.98%	-22.31%	Europe, Australasia & Far East Index
Lehman 7-10 Yr. Treasury	3.85%	7.01%	6.74%	U.S. Government Bonds
Lehman High Yield	-2.07%	-3.68%	-8.30%	High-yield corporate bonds

However, global diversification combined with periodic rebalancing of investments has cushioned our managed portfolios from the traumatic declines in value that have generally occurred for investors during the past thirty months. Our clients are positioned for future growth in portfolio value without an onerous amount of "catch-up" required once the investment environment improves.

We expect that the fourth quarter will continue to be painfully disappointing and negatively affected by the creeping movement towards a war with Iraq. However, when an actual war event occurs, investor sentiment typically turns bullish once clarity is established. In our opinion, the bottoming out process for the equity markets is now in progress, and we expect a return to investment growth in 2003, reasonably in the 10% range.

**We are here to help, and we can!**

Our assessment for the US economy is that the worst of the recession is over and that fundamental indicators are in fact improving, albeit in a zigzag pattern. This will translate into domestic equity investment growth. However, we believe that the best equity growth in portfolios will be experienced by strong international investment performance due to low foreign stock valuations relative to those of US stocks. As a result, we are strategically allowing the actual international weightings to exceed the targets established for each individual client portfolio in order to capture anticipated growth opportunities.

Investors remain “irrationally despondent” while the equity markets continue to falter. As a result, many investors gripped by fear have been bailing out of equities by shifting to bond holdings or cash. However, they are making shifts in the wrong direction and too late at this point. When interest rates start to reverse upward from current historic low levels, the performance of fixed income investments will no longer continue to outperform equity investments, as has been occurring for the past thirty months. Once again wrong place, wrong time, and the ineffectiveness of market timing will again be reinforced.

Today’s investor profile is in stark contrast to the “irrational exuberance” that existed prior to the existing painful bear market adjustment which started thirty months ago. Bear market impatience and fear has replaced previous bull market imprudence and greed. The good news is that this “bad news” negativism can be positive going forward, just as an ebullient and over exuberant investment environment can bode bad news for future investment performance.

Overall in structuring portfolios, we tune out prevailing professional confusion and noisy media hype, causing us to appear contrarian at times. Our approach is to preserve value during difficult times via well-structured diversification and rebalancing, not market timing, and be alert for opportunistic growth as it materializes on a global asset class basis.

We encourage investors to contact us about the structure and performance of their investments and inquire how they can benefit from our investment approach.

Warmest regards,

Brett Wilder, CFP  
President & CEO

David Wilder, CFP, CTFA, MST  
Executive Vice President

***P.S. Bloomberg’s “Wealth Manager” magazine has again ranked us one of the “Top 150” independent financial advisors in the country. Importantly, our success is derived from satisfied client referrals. We would appreciate having more clients just like you. Please encourage others to meet with us for an initial no obligation consultation or to view our Internet website [www.fmgonline.com](http://www.fmgonline.com) when a referral opportunity occurs.***