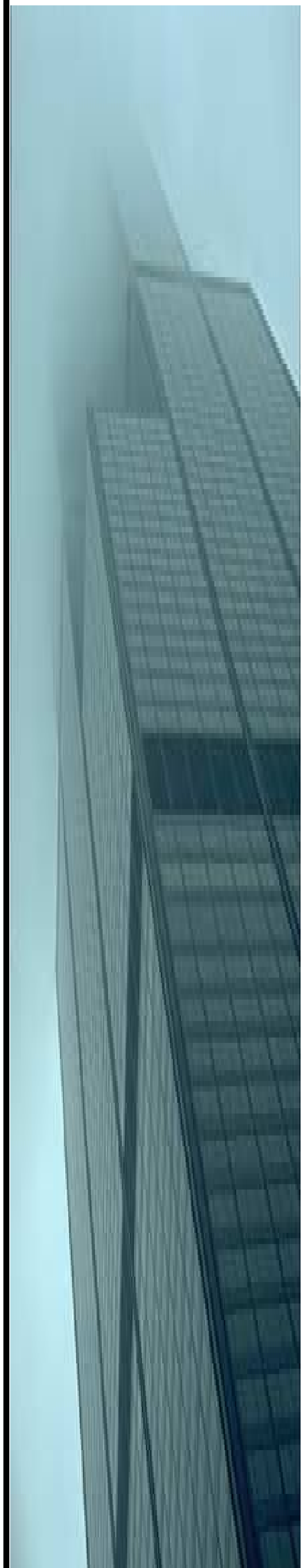
INTERMARKET FORECASTING

TOP DOWN INSIGHTS…BOTTOM LINE RESULTS



TRACK RECORD 2002

IFI delivered a reasonably good forecasting record last year – and better than 80% of Wall Street's top strategists. When the year began we did not expect the U.S. to *fail to wage a necessary war* against terrorist regimes abroad and instead to *wage an unjust war* against business at home. But once we identified this two-pronged U.S. policy assault, we became bearish. Overall, IFI correctly anticipated directional changes in 60% of the 100 variables that we predicted a year ago. Our advice also was of *practical* value; more than 95% of the variables that we forecasted represented *investable assets*.

- We correctly anticipated – starting in early March – the *abandonment* of the U.S. strong-dollar policy and the subsequent (and bearish) depreciation of the greenback against other currencies and gold.

- Our models accurately forecasted the sharp rise in broad commodity prices. Unlike most strategists, we advised a large portfolio allocation to commodities in 2002; they outperformed financial assets.

- IFI was right to advise (for global investors) an *under-weighting* in U.S. equities and an *over-weighting* in foreign equities, especially in Eastern Europe and Asia-Pacific. We were also correct in recommending (for U.S. investors) *over-weightings* in *bonds* and *commodities* – both of which *out-performed* equities.

- We were right to expect the *downward shift* in the U.S. Treasury yield curve, the record-decline in the U.S. T-Bond yield and declining yields on municipal bonds and U.S. corporate bonds (of all grades). We expected corporate yield spreads to narrow in 2002, but narrowing didn't began until fall, due to regulatory risks. We outperformed 73% of Wall Street's top strategists in forecasting U.S. bonds.

- We were wrong to expect U.S. equity indices to register (mild) *gains* in 2002, but we out-performed most Wall Street strategists in this regard; they generally expected *above-average* U.S. equity gains. We correctly predicted that *value* stocks would beat *growth* stocks. We also predicted the *sharp rebound* in U.S. corporate profits and the *contraction* in the market's price-earnings multiple.

- IFI successfully forecasted the robust *acceleration* in the U.S. economic growth rate in 2002 (versus 2001) as well as the mild acceleration in official inflation rates (CPI and PPI). We also correctly forecasted the rise in the U.S. unemployment rate, even though 2002 was a post-recession year.

- Of the *twelve* foreign equity markets that we expected to *outperform* the U.S. when the year began, *eleven* did so, by an average of 24% points – *more than twice* the out-performance registered by equity markets that we did *not* favor. We were bullish on *all five of the five best performers* abroad and bearish on *four of the five worst performers*. We also accurately signaled declining interest rates in the major foreign markets (Canada, Britain, Europe and Japan) and equity underperformance by Germany.

- Despite our errors, in 2002 IFI provided a *greater number (and wider scope)* of forecasts of *investable* assets – with a *greater degree of overall forecasting success* – than did leading Wall Street strategists.

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Our method. IFI uses signals from forward-looking market prices to forecast the risk-adjusted returns on currencies, commodities, stocks, bonds and bills globally. We eschew the use of economic data, which are backward-looking, perpetually revised and incapable of capturing the incentives faced by market-makers.

IFI seeks quantitative, predictive relationships that are consistent with classical economics, market-clearing price theory, market efficiency and history. Prices reflect the combined, forward-looking wisdom of the most astute market-makers, those with their own wealth (or their client's wealth) on the line. As such, prices embody forecasts. We decode the messages inherent in market prices. Finally, we perform rigorous regression analyses on the data, scrupulously omitting statistically insignificant explanatory factors. We employ no "gurus" and reject the use of subjective "hunches" or pop psychology to predict markets.[1]

Summary of our results in 2002. As shown in the Appendices to this report (pages 7-15), IFI forecasted more than 100 separate variables before the year began. Most of the variables (nearly 95%) represented *investable assets*. The *scope* of our forecasting system remains wide: currencies, commodities, money market instruments, equity indices and a broad range of fixed income securities. We also forecasted more equity indices *abroad* in 2002.

For ease of reference we provide – in Appendix Seven (page 14) – a numbered list of the 51 reports we issued throughout the year. To avoid excessive footnoting, we refer to the relevant numbered report in our citations below. But the primary report upon which "Track Record 2002" is based is our "Outlook 2002," published a year ago [4]. As conditions (and the market-price signals we rely on) changed during the year, we altered our year-ahead forecasts. But to remain strictly objective, for the record in 2002, we focus primarily on our year-ahead outlook *from a year ago*. Of course, there's nothing magical about measuring forecasting success solely in the year after December; but the reports we issued *during* the year can be consulted for our *subsequent* forecasting success. It's common for forecasters to "cherry-pick" their track records and to emphasize *only* successes; IFI prides itself on *presenting the full-record*, not a partial one.

IFI correctly forecasted the directional change in roughly 60% of the variables listed in the Appendices, down from a 70% success rate in 2001 [3]. When the year began we *did* not expect *another* equity bear market in the U.S., but we identified the probability of a bear-market "three-peat" [8] and correctly picked some of the sectors that outperformed. We also correctly forecast that *value* stocks would outperform *growth* stocks in the U.S.

By March we began to foresee the dollar's *plunge* – and why it would be bearish for U.S. equities. We also were right in expecting a *downward shift* in the U.S. Treasury yield curve, the elevation of broad commodity prices, the acceleration of corporate profits (as well as economic growth and inflation) – and the likelihood that convertible securities would protect equity investors from downside pain [13].

Finally, we were quite accurate in projecting the biggest equity winners abroad (Czech Republic, Hungary, Thailand, South Korea, Malaysia and Poland) as well as the biggest losers (Argentina, Brazil, Germany and Philippines), especially in their performance relative to the U.S. Of the *twelve* foreign markets that we identified as likely to beat the S&P 500, *eleven* did so, by an average of 24% points.

IFI's performance versus peers. In 2002 IFI outperformed 80% of the top eleven strategists on Wall Street, including those at Goldman Sachs, Morgan Stanley, Merrill Lynch, Salomon Smith Barney, Credit Suisse First Boston and Lehman Brothers (Appendix Six, pages 12-13). When 2002 began more strategists were willing to be bearish (or at least less-bullish), compared to their stance in early 2001. Nevertheless, IFI outperformed 64% of these strategists on the performance of the *S&P*

[1] For a discussion of our framework, see "Introducing the 'Policy Mix Index,'" *The Capitalist Advisor*, InterMarket Forecasting, Inc., April 23, 2002.

500 price index, 73% of them on the *Treasury bond yield*, 91% of them on the market's *valuation* (P/E multiple) and 100% of them on growth in *S&P 500 profits*.[2] We also outperformed five of our peers *in all four* of these categories.[3]

U.S. dollar and commodities. When the year began we expected a mild appreciation of the U.S. dollar against major currencies (Appendix One, page 7). The dollar *did* appreciate for a month or two – but soon thereafter (starting in March) we were nearly alone among forecasters[4] in becoming *bearish* on the dollar [11, 15]. Indeed, the dollar *depreciated* against both major and a number of minor currencies thereafter. In May we identified a policy shift at Treasury away from its (previous) strong-dollar policy [20]. To this day most economists and strategists do not believe Treasury's prior policy has been abandoned in favor of a weak dollar [49].

IFI correctly predicted *commodity price inflation* in 2002; the CRB Spot Index and the CRB Precious Metals Index increased by 14.1% and 18.3%, respectively. However, we expected a decline in the oil price for the full year, with a rise coming in the second half of 2002 (Appendix One, page 7). The oil price *did* rise in the second half of the year (from an average of $25/barrel in June to $31/barrel in December), but it was *up for the entire year*, due primarily to the uncertainty associated with the U.S. *failure to wage war in the Middle East*. When the U.S. waged such a war in the Persian Gulf in early 1991 the oil price *plummeted* by 50%.

Unlike most strategists – who restrict their recommendations to *financial* assets (stocks, bonds and bills) – in late 2001 and through most of 2002 IFI recommended *a healthy portfolio allocation in commodities*. Commodities outperformed stocks, bonds and bills in 2002. Later in 2002 we issued an exhaustive, historical analysis showing that, on a year-ahead basis since 1960, *commodities had outperformed U.S. stocks more than half the time* [48]. So results in 2001-2002[5] were not unusual. IFI remains virtually alone among leading strategists[6] in its *willingness to recommend commodities* as an asset class, when market-price signals warrant it.

U.S. money market and fixed income. IFI correctly forecasted most of the *downward* shift in the U.S. Treasury yield curve in 2002 (Appendix One, page 7). By mid-year we expected the 10-year T-Bond yield to average 4.33%. Prior to 2002 the yield had not been *that* low (indeed, not lower than 4.5%) in over *four decades*. The 10-year T-Bond yield averaged 4.26% in August and 3.87% in September before *rising* again (as we expected) to finish the year at 4.03% (average for December). We also were right to expect a decline in yields on municipal bonds, corporate bonds (all grades) and convertible bonds in the U.S.

As we did in the case of commodities, when 2002 began we advised a *healthy portfolio weighting* in bonds (30%) for U.S.-Specific Investors [5]. Bonds performed *very well* in 2002 – and far-outperformed U.S. equities (by 43.5% points, as U.S. Treasury bonds returned 20.7%, while the S&P 500 returned -22.8%). IFI also expected large gains on investment-grade U.S. corporate bonds in 2002; they returned 15.5%.

Appendix One (page 7) shows that IFI did *not* expect the Fed to *cut* rates yet again in 2002; it did so

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[2] IFI only has access to these four variables in comparing our results to peers. Nevertheless, these are crucial variables. IFI doesn't bother to compare itself to leading *economists* because they tend to forecast only *non-investable* economic variables (such as GDP and CPI) and/or to forecast financial variables with a *very short lead time* – at least one that's much shorter than IFI's typical time horizon of one year.

[3] Lehman Brothers, Credit Suisse First Boston, Salomon Smith Barney, A.G. Edwards and UBS Warburg.

[4] As late as *mid-summer* more than fifty U.S. economists (in *The Wall Street Journal's* semi-annual survey) were forecasting dollar *appreciation* for the last half of the year. See "Mid-Year Forecasting Survey," *The Wall Street Journal*, July 1, 2002, p. A2.

[5] See "All Bets Are Off: Here's What Investors Should Do *Now*," *Investor Alert*, InterMarket Forecasting, Inc., September 19, 2001, p. 3 and *The InterMarket Forecaster*, InterMarket Forecasting, Inc., September 30, 2001, p. 4. Looking ahead six months, we advised that *30% of portfolios* be invested in gold and commodities. Six months later we were still recommending a 10% allocation in gold and commodities (see *The InterMarket Forecaster*, InterMarket Forecasting, Inc., March 29, 2002, p. 4). In success steps through July we raised that recommended share to 25% (see subsequent issues of *The InterMarket Forecaster*, page 4).

[6] One exception is Abby Joseph Cohen of Goldman Sachs, but she has rarely advised an allocation in commodities of more than 3%.

(by 50 basis points) in November. We also expected a *narrowing* of corporate bond yield spreads to Treasury bond yields, due primarily to a sharp rebound in corporate profits. But although profits (S&P 500, after-tax) sky-rocketed by 22% in 2002, corporate yield spreads *widened* – due primarily (in our view) to Washington's *regulatory rampage* against U.S. business [21, 22, 26, 29, 33, 39] and to an *ill-executed war* [37]. Corporate yield spreads *did* start narrowing early October – but too late for our forecasts to be accurate.

U.S. equities and sector rotation. IFI was wrong to expect a rise in U.S. stock indexes when the year began (Appendix Two, page 7), but we were *far less bullish* than *most* Wall Street strategists and we outperformed *all* of them in forecasting S&P 500 profits (Appendix Six, pages 12-13). *Within* the market we correctly anticipated that *value* stocks would outperform *growth* stocks.

IFI was only mildly bullish on U.S. equity indexes in 2002; for example, we expected the S&P 500 price index to rise by just 9.3%, a below-average gain, compared to long-term history. In contrast, the eleven top Wall Street strategists (on average) expected a rise of 13% in the S&P 500. More than *half* of those strategists expected the S&P 500 to rise by 15% or more – an *above*-average gain, historically (Appendix Six, pages 12-13).

IFI expected S&P 500 profits (after tax) to rise by 16% in 2002 (versus 2001); as mentioned, they rose by 22.1%. On average *eleven other strategists* forecasted a profit rise of merely 7.4% – and *four* of them expected growth of *less than* 5%.

IFI was right to predict a *contraction* of the S&P 500 price-earnings multiple; eight out of eleven other strategists expected the market's multiple to *expand* (Appendix Six, pages 12-13).

The poor results seen in U.S. equities in 2002 were *not* due to "earnings disappointments" – since actual earnings came in *ahead* of expectations. Nor can the poor results be attributed to rising interest rates – since, in fact, U.S. interest rates *plummeted* in 2002. These *traditional* fundamentals were robust last year – as we expected they would be. The bearish equity results in 2002 were due to deterioration in *non-traditional* fundamentals: the *failure of the U.S. to wage war* and the arbitrary (and *uncertainty-heightening*) *regulatory* war waged domestically by Washington against U.S. business.[7] We identified and analyzed these factors (and their *bearish* influence) at length *during* the year [21, 22, 26, 29, 33, 37, 39], but we did *not* expect, *when the year began,* that Washington would *refuse to conduct the right war* abroad and would, *instead*, conduct *an unjust war on domestic innocents.*

Despite our failure in early 2002 to forecast the *absolute* losses suffered in the stocks of *every* sector (of the ten) in the S&P 500, we correctly forecasted the relative out-performance of *Financials* and the relative under-performance of *Telecommunications Services* and *Utilities.* Since the *overall* U.S. market *plunged* in 2002, the *more defensive* sectors (*Consumer Staples*, *Health Care*) outperformed relative to *more-cyclical* sectors (*Information Technology*, *Industrials*). Had the overall U.S. market *risen* in 2002, we have no doubt that the more cyclical groups that we favored would have outperformed. In fact, since the recent market *bottom* of October 9th, the *more-cyclical sectors* in the U.S. *have outperformed*, while *less-cyclical sectors* (*Consumer Staples*, *Health Care*) have *underperformed*; but this was too late for our year-beginning forecasts to be completely accurate.

As with the S&P 500, IFI *correctly* anticipated – with 70% accuracy – that sector operating profits would rebound smartly in 2002 versus 2001 (Appendix Three, page 9). Again, such a profit rebound – coupled with *declining* corporate bond yields – would *normally* be associated with a *bull* market in equities. The *most robust* gain in operating profit – and a significant *inflection* point – was registered by the S&P 500's *Information Technology* sector. After

[7] For evidence of how rare the (bearish) U.S. equity result of 2002 really was, see "Informative Anomalies," *Investment Focus*, InterMarket Forecasting, Inc., January 8, 2003. In the *past* – and in the face of such *positive improvements* in *traditional* fundamentals (as those seen in *earnings* and *interest rates* in 2002) U.S. stock prices have *never* declined (in any of the S&P price data we have going back to 1871). *Equally* unprecedented is the fact that the U.S. has been brutally attacked on its mainland *without a material military response*. This has *never* happened in U.S. history.

suffering a *loss* of $3.52/share in 2001, operating profits for the group in 2002 were $3.64/share. IFI was right to expect the *biggest profit rebound* in *Information Technology,* before the year began.

U.S. economic variables. As shown in Appendix Three (page 9), IFI also predicted – with 100% accuracy – the traditional measures of economic growth and inflation in the U.S. that economists normally obsess about (but which do *not* represent investable assets). We rightly predicted the *acceleration* in the U.S. economic growth rate in 2002 (GDP, Industrial Production Index) as well as the *acceleration* of *price inflati*on (the CPI and PPI rates). We also foresaw that the U.S. unemployment rate would rise (with a *lag*, *after* the 2001 recession). Some leading economists expected a "double-dip" recession in 2002; we didn't. And most economists claimed that the U.S. suffered from "deflation" in 2002. Not so. It suffered from *inflation* [48] – as seen *not only* in the *fast-rising gold price* but *also* in *higher rates* of CPI and PPI price inflation.

International markets. Most foreign equity markets (81% out of 31) *outperformed* U.S. equities in 2002 – a result that IFI largely anticipated (Appendix Five, page 11). Of the *twelve* foreign markets that we expected to *outperform* the U.S. when the year began, *eleven* did so, by an average of 24% points; that was *more than twice* the (average) outperformance registered by equity markets that we did *not* favor when the year began.

In four *major* markets abroad (Japan, Britain, Germany and Canada) IFI *correctly* anticipated *declining interest rates* but – except in the case of Japan – *not* declining equity prices (Appendix Four, page 10). As we expected, both the large-cap and small-cap indexes in Japan declined in absolute terms; and we correctly anticipated that German equities would under-perform the U.S. In the *Americas* we remained bullish *only on Canadian equities* throughout 2002 (but not at the *beginning* of the year); in a rare occurrence, they beat U.S. equities by 9.2% points. Significantly, IFI was bullish on *all five of the five best performers* abroad (Czech Republic, Hungary, Thailand, South Korea and Malaysia) and bearish on *four of the five worst performers* (Argentina, Brazil, Germany and the Philippines). Throughout the year we recommended (for global investors) *under-weightings* in U.S. equities and *over-weightings* in the best performing regions abroad: Eastern Europe and Asia-Pacific (Appendix Five, page 11).[8] For some foreign equity markets (8 out of 31) IFI correctly shifted *from* bearish *to* bullish *during* the year, based on key inflection points in local currency values and local short-term interest rates.

Political factors – and market anomalies. Most economists and strategists ascribed poor U.S. equity results in 2002 to "disappointing earnings" or "corporate malfeasance" or a "post-bubble hangover" or a "war premium" – when not citing some *combination* of these factors. But this argument makes no sense, when the facts are consulted.

Earnings *did not* "disappoint" in 2002; indeed, they *surpassed* the year-ago expectations of most economists and strategists (IFI excluded) - and rose by 22%. Historically, such a large rise in corporate earnings – especially when coupled with *sharply lower interest rates* – has brought higher equity prices (and especially after the prior year was bearish). Clearly, *other* factors (*aside* from *traditional* fundamentals) depressed U.S. stock prices in 2002.

As for corporate wrong-doing, at *most* such behavior contributed to only a *few* of the stock-price declines and bankruptcies that have been seen in recent years. Enron, for example, failed in early December 2001 and did not influence U.S. equity indexes in 2002 (nor did WorldCom, Global Crossing or any of the other high-profile "malfeasance" cases). What *really* sabotaged U.S. equity indexes (that is, nearly *all* stocks) in 2002 was the *out-of-proportion response by U.S. regulators* (especially the

[8] See various monthly issues of *The InterMarket Forecaster* (page 4).

[9] See "The Rational Basis of Price-Earnings Multiples," *The Capitalist Advisor*, InterMarket Forecasting, Inc., June 15, 2000. Interest rates rose in 1999-2000 and S&P 500 earnings plunged by 50% in 2000. See also the beginnings of the U.S. regulatory assault, in "Antitrust: Landmarks and Landmines," *Investor Alert*, InterMarket Forecasting, Inc., April 4, 2000, "The Anti-Wealth Effect," *The Capitalist Advisor*, InterMarket Forecasting, Inc., April 17, 2000 and "Fed Wrecking Crew Takes a Coffee Break," *Investor Alert*, InterMarket Forecasting, Inc., June 30, 2000.

SEC) to the misdeeds of a few. That raised investor uncertainty and the likelihood that U.S. firms would be forced, arbitrarily, to restate their earnings [26].

Nor can it be concluded, with any seriousness, that the bear market of 2002 was due to some "post-bubble hangover." There *was no bubble* in the first place, regardless of what people like Alan Greenspan may assert [36]. Prior (and high) stock valuations in the U.S. (1995-1999) were based on *sound fundamentals*[9] – but then those fundamentals *shifted*. The Federal Reserve hiked interest rates in 1999-2002 and inverted the U.S. yield curve in 2000-2001.[10] U.S. trustbusters destroyed half the value of Microsoft and part of WorldCom. Then Washington failed utterly to provide for the national defense, by exposing the nation to terrorist assaults in September 2001.[11] Moreover, history shows that price-earnings multiples move *inversely* with short-term interest rates; in the absence of punitive policies, record-low interest rates of 2002 would have been accompanied by an *expanding* market multiple.

Finally, it was not a "war premium" that harmed U.S. stock prices in 2002 but, rather, a *non-war premium*. Only the most craven *pacifist* believes there was a "war" in 2002 – or that the White House has been "hawkish." In fact, it has been *cowardly*.

In 2002 the U.S. officials *failed to do anything* to curb (let alone *eradicate*) *known threats* emanating from such terrorist regimes as Iraq, Iran, North Korea, Syria, Lebanon and from such terrorist gangs as Al Qaeda, Islamic Jihad, the PLO, Hamas and Hezbollah. *All the major terrorist regimes and groups of the world remain in place* – a *year* after the U.S. President's "axis-of-evil" speech. They *remain* a threat to U.S. security – and business confidence. If anything, *appeasement* by U.S. officials – and their irresponsible surrendering of U.S. sovereignty to the terrorism-sponsoring U.N. – has only *emboldened* the world's dictators and terrorists. North Korea is only the most recent example of this tragic principle [37].

Significantly, the only material, long-lasting rallies in U.S. stock prices that have come *since* September 11th have occurred (briefly) *after* the U.S. took *some* military action (or *hinted* at doing so) namely: 1) after October 2001, when it routed the Taliban in Afghanistan, 2) after President's Bush's "axis-of-evil" speech last January, when it appeared that some tough action might be taken, and 3) after October 9th of 2002, the week the U.S. Congress voted in favor of war powers for the President. These actions brought the U.S. *into* (or *closer to* war) and they were, consequently, *bullish* developments. Only the *lack* of a sustained U.S. war effort has been bearish. In time, as it became clear that the U.S. *would not persist* in its initial military efforts, the market rallies *reversed themselves*.

IFI has been *unique among forecasters* in *identifying the real political risks* that weighed on U.S. stocks in 2002. We've shown how the U.S. market is *poised to spring ahead if* (and *to the extent*) U.S. policies *improve* [40]. *Traditional* fundamentals (profits and interest rates) remain sound, but U.S. *foreign policy* (appeasement) and *regulatory policy* (punitive) continue to exert downward pressure on U.S. stocks.

Conclusion. On the whole IFI delivered a favorable forecasting record in 2002 – *not* as good as we delivered in 2001, but *far better* than the records delivered by top strategists on Wall Street.

[10] For abundant evidence on why such a policy is bearish, see "Fed Activism, the Yield Curve and the U.S. Business Cycle," *Investor Alert*, InterMarket Forecasting, Inc., January 8, 2002.
[11] One sector, *Industrials*, was sabotaged by this government failure, as most *airlines* lost billions and two of them (U.S. Air and United) eventually filed for bankruptcy.

Appendix One:
IFI Market Forecasts for 2002 vs. Actual Results

U.S. Dollar & Commodity Prices	Actual Dec 2001	Forecasted for Jun 2002	Forecasted for Dec 2002	Forecasted Change, Dec '01-Dec '02	Actual Jun 2002	Actual Dec 2002	Actual Change, Dec '01-Dec '02	Directionally Correct?
Value of U.S. $ in Yen	127.6	139.1	136.8	7.2%	123.3	121.9	-4.5%	no
Value of U.S. $ in Euro	1.122	1.183	1.156	3.0	0.956	0.981	-12.6	no
Value of U.S. $ in Pound	0.694	0.722	0.709	2.2	0.674	0.630	-9.1	no
Value of U.S. $ in Canadian Dollar	1.579	1.681	1.639	3.8	1.532	1.559	-1.3	no
CRB Index (Spot)	214	209	218	1.9	228	244	14.1	yes
CRB Index (Precious Metals)	238	235	242	1.7	276	282	18.3	yes
Gold (US$/ounce)	276	270	266	-3.6	321	335	21.4	no
Oil (US$/barrel)	19.3	14.7	16.5	-14.5	25.5	29.4	52.4	no
U.S. Money Market & Fixed Income								
Fed Funds Rate	1.82%	1.50%	2.00%	18 bps	1.75%	1.25%	-57 bps	no
3-Month T-Bill Rate (bond equival. yield)	1.72	1.42	1.80	8	1.73	1.21	-51	no
90-Day Commercial Paper Rate (AA)	1.78	1.49	1.90	12	1.79	1.31	-47	no
6-Month T-Bill Rate (bond equival. yield)	1.82	1.42	1.80	-2	1.83	1.27	-55	yes
2-Year T-Note Yield	3.11	2.72	3.09	-2	2.99	1.84	-127	yes
5-Year T-Note Yield	4.39	3.84	4.26	-13	4.19	3.03	-136	yes
10-Year T-Bond Yield	5.09	4.33	4.81	-28	4.93	4.03	-106	yes
30-Year T-Bond Yield	5.48	4.75	5.12	-36	5.52	4.92	-56	yes
10-Year Municipal Bond Yield (AAA)	4.62	3.84	4.31	-31	4.32	4.01	-61	yes
10-Year Corporate Bond Yield (Aaa)	6.77	5.78	5.96	-81	6.63	6.21	-56	yes
10-Year Corporate Bond Yield (Baa)	8.05	7.09	7.15	-90	7.95	7.45	-60	yes
10-Year Corporate Bond Yield (BB/Ba-C)	12.33	11.27	11.12	-121	11.74	11.97	-36	yes
Value Line Convertible Bond Index, Yield	8.87	8.36	7.38	-149	8.06	6.49	-238	yes
Treasury Yield Spreads:								
10-Yr. T-Bond Yield vs. 3-Mo. T-Bill Rate	337 bps	291 bps	301 bps	-36 bps	320 bps	282 bps	-55 bps	yes
10-Yr. T-Bond Yield vs. 2-Yr. T-Note Yield	198	161	172	-26	194	219	21	no
10-Yr. T-Bond Yield vs. 5-Yr. T-Note Yield	70	49	55	-15	74	100	30	no
Corporate Yield Spreads:								
Aaa Bond Yield vs. 10-Yr. T-Bond Yield	168	145	115	-53	170	218	50	no
Baa Bond Yield vs. 10-Yr. T-Bond Yield	296	276	234	-62	302	342	46	no
BB/Ba-C Yield vs. 10-Yr. T-Bond Yield	724	694	631	-93	681	794	70	no

Appendix Two:
IFI Market Forecasts for 2002 vs. Actual Results

U.S. Equities, Style Bets & Sector Rotation	Actual Dec 2001	Forecasted for Jun 2002	Forecasted for Dec 2002	Forecasted Change, Dec '01-Dec '02	Actual Jun 2002	Actual Dec 2002	Actual Change, Dec '01-Dec '02	Directionally Correct?
Wilshire 5000	10,620	10,900	11,600	9.2%	9,582	8,518	-19.8%	no
DJIA 30	9,984	10,350	11,200	12.2	9,492	8,527	-14.6	no
S&P 500 (Large-Cap)	1,145	1,180	1,251	9.3	1,014	898	-21.6	no
S&P 500 P/E Multiple (trailing 12-mo. earnings)	43.5	44.4	40.9	-6.0	37.0	27.8	-36.1	yes
S&P 100 (Super-Cap)	585	600	640	9.4	503	457	-21.9	no
S&P 400 (Mid-Cap)	500	530	555	11.0	499	435	-13.0	no
S&P 600 (Small-Cap)	227	235	240	5.7	232	200	-11.9	no
NASDAQ 100 (Large-Cap)	1,627	1,650	1,802	10.8	1,105	1,033	-36.5	no
NASDAQ Composite	1,978	2,025	2,205	11.5	1,506	1,387	-29.9	no
Russell 2000 (Small-Cap)	479	490	505	5.4	464	391	-18.4	no
Russell 1000 (Growth)	515	525	548	6.4	419	377	-26.8	no
Russell 1000 (Value)	546	580	616	12.8	532	463	-15.2	no
Russell Value vs. Growth Stocks				+6.4% pts			+11.6% pts	yes
S&P 500/BARRA Growth	597	620	640	7.2	509	460	-22.9	no
S&P 500/BARRA Value	557	580	625	12.2	503	433	-22.2	no
BARRA Value vs. Growth Stocks				+5.0% pts			+0.7% pts	yes
S&P 500 Sector Performance (Absolute)								
S&P 500 Sector: Consumer Discretionary	238	245	255	7.1%	224	187	-21.6%	no
S&P 500 Sector: Consumer Staples	217	220	227	4.6	237	206	-5.3	no
S&P 500 Sector: Energy	205	205	215	4.9	213	186	-9.5	no
S&P 500 Sector: Financials	351	365	388	10.5	339	303	-13.7	no
S&P 500 Sector: Health Care	389	395	405	4.1	330	313	-19.5	no
S&P 500 Sector: Industrials	260	265	290	11.5	227	195	-24.9	no
S&P 500 Sector: Information Technology	365	375	415	13.7	254	233	-36.1	no
S&P 500 Sector: Materials	134	137	145	8.2	142	123	-8.1	no
S&P 500 Sector: Telecomm. Services	167	168	177	6.0	112	110	-34.0	no
S&P 500 Sector: Utilities	141	140	149	5.7	124	96	-32.2	no
S&P 500 Sector Performance (vs. S&P 500)								
S&P 500 Sector: Consumer Discretionary				-2.1%			0.0% pts	no
S&P 500 Sector: Consumer Staples				-4.6			16.3	no
S&P 500 Sector: Energy				-4.4			12.1	no
S&P 500 Sector: Financials				1.3			7.9	yes
S&P 500 Sector: Health Care				-5.1			2.1	no
S&P 500 Sector: Industrials				2.3			-3.3	no
S&P 500 Sector: Information Technology				4.4%			-14.6	no
S&P 500 Sector: Materials				-1.0%			13.5	no
S&P 500 Sector: Telecomm. Services				-3.3%			-12.4	yes
S&P 500 Sector: Utilities				-3.6%			-10.6	yes

Appendix Three:
IFI Market Forecasts for 2002 vs. Actual Results

	% Change, Trailing Four Quarters, Through:					
U.S. Earnings (1)	**Actual 4Q01**	**Forecasted 2Q02**	**Forecasted 4Q02**	**Actual 2Q02**	**Actual 4Q02**	**Directionally Correct?**
S&P 500	-51%	-28%	16%	-27%	28%	yes
S&P 500 Sector:						
Consumer Discretionary	-39	5	5	-2	60	yes
Consumer Staples	8	1	1	10	13	yes
Energy	-8	-14	1	-49	-29	no
Financials	-10	3	3	-1	12	yes
Health Care	10	2	4	6	7	yes
Industrials	-14	-1	5	-10	7	yes
Information Technology	na (--)	na (--)	28	-79	na (++)	yes
Materials	-52	-13	25	-33	20	yes
Telecommunications Services	-57	16	0	-13	38	no
Utilities	5	4	9	-6	-19	no
U.S. Economic Variables						
GDP (Real)	0.1%	0.6%	3.0%	2.2%	3.2%	yes
Industrial Production Index	-5.9	-2.5	3.8	-0.3	2.5	yes
Consumer Price Index	1.5	1.6	1.6	1.0	2.5	yes
Producer Price Index	-1.7	-0.8	0.9	-2.1	1.2	yes
Personal Consumption Exp. Price Index	1.5	0.5	1.0	1.1	1.3	yes
Unemployment Rate (end of quarter)	5.6	6.2	5.8	5.9	6.0	yes

(1) Net income per share for S&P 500, operating profits per share for S&P 500 sectors
na (--) = divisor is negative number, but decrease from prior level
na (++) = divisor is negative number, but increase from prior level

Appendix Four:
IFI Market Forecasts for 2002 vs. Actual Results

Major International Markets	Actual Dec 2001	Forecasted for Jun 2002	Forecasted for Dec 2002	Forecasted Change, Dec '01-Dec '02	Actual Jun 2002	Actual Dec 2002	Actual Change, Dec '01-Dec '02	Directionally Correct?
Canadian Dollar in U.S.$	0.633	0.595	0.610	-3.6%	0.653	0.641	1.3%	no
Canada 3-Mo. T-Bill Rate (bond equival. yield)	2.05	1.75	2.25	20	2.73	2.75	70	yes
Canada 10-Year T-Bond Yield	5.40	4.90	5.25	-15	5.42	4.99	-41	yes
Canada Equities (TSE) in Canadian Dollar	7,546	7,600	7,880	4.4%	7,337	6,604	-12.5%	no
Canadian Equities (TSE) vs. S&P 500 in U.S.$				-8.5%			9.2%	no
British Pound in U.S.$	1.449	1.385	1.410	-2.7%	1.484	1.586	9.5%	no
British 3-Mo. T-Bill Rate (bond equival. yield)	4.03	3.40	3.80	-23	4.19	4.02	-1	yes
British 10-Year T-Bond Yield	4.81	4.45	4.75	-6	5.09	4.54	-27	yes
British Equities (FTSE) in Pound	5,181	5,335	5,560	7.3%	4,732	3,949	-23.8%	no
British Equities (FTSE) vs. S&P 500 in U.S.$				-4.7%			4.3%	yes
Euro in U.S.$	0.893	0.845	0.865	-3.1%	0.956	1.019	14.2%	no
ECB Overnight Refinance Rate	3.25	2.75	2.75	-50	3.25	2.75	-50	yes
Euro Area 3-Mo. T-Bill Rate (bond equival. yield)	3.42	3.05	2.90	-52	3.55	3.01	-41	yes
Euro Area 10-Year T-Bond Yield	4.70	4.35	4.65	-5	4.98	4.33	-37	yes
Germany Equities (DAX) in Euro	5,079	5,335	5,395	6.2%	4,443	3,152	-37.9%	no
Germany Equities (DAX) vs. S&P 500 in U.S.$				-6.2%			-8.6%	yes
Japan Yen in U.S.$	0.0078	0.0072	0.0073	-6.4%	0.0081	0.0082	5.1%	no
Japan 3-Mo. T-Bill Rate (bond equival. yield)	0.028	0.010	0.030	0.2	0.018	0.014	-1	no
Japan 10-Year T-Bond Yield	1.35	1.40	1.50	15	1.33	0.97	-38	no
Japan Equities - Large-Cap (TOPIX) in Yen	1,032	960	1,010	-2.1%	1,067	851	-17.5%	yes
Japan Equities - Small-Cap (JASDAQ) in Yen	47	41	44	-6.4%	50	38	-18.6%	yes
Japan Equities (TOPIX) vs. S&P 500 in U.S.$				-17.8%			7.6%	no

Appendix Five:
IFI Market Forecasts for 2002 vs. Actual Results

Expected Out-Performers	Equity Performance vs. S&P 500 (in U.S.$)	Directionally Correct?
Czech Republic	66% pts	yes
Hungary	49	yes
Thailand	45	yes
South Korea	43	yes
Malaysia	22	yes
Poland	21	yes
Switzerland	12	yes
Mexico	11	yes
Singapore	11	yes
Canada	9	yes
Taiwan	4	yes
Sweden	-6	no
Average:	**24% pts**	

Expected Under-Performers	Equity Performance vs. S&P 500 (in U.S.$)	Directionally Correct?
Argentina	-29% pts	yes
Brazil	-13	yes
Germany	-9	yes
Philippines	-6	yes
France	0	na
Chile	1	no
Netherlands *	1	no
Britain *	4	no
Hong Kong	5	no
Spain *	5	no
Denmark *	6	no
Japan *	8	no
Venezuela	8	no
Italy *	12	no
Australia *	20	no
India	23	no
Russia	38	no
Peru	48	no
Indonesia *	60	no
Average:	**10% pts**	

* = IFI turned bullish as of June 2002

Appendix Six:
IFI Market Forecasts for 2002 vs. Actual Results

	S&P 500 Price Index			
	Actual	Forecasted	Forecasted	Actual
Forecaster/Firm (Ranked Best-to-Worst)	Dec. 2001	Dec. 2002	% Change	% Change
S&P 500 Price Index (actual)	**1,145**	**898**		**-21.6%**
Douglas Cliggott/J.P. Morgan Securities *		950	-17.0%	
Thomas McManus/Bank of America Securities		1,200	4.8	
Richard Bernstein/Merrill Lynch		1,200	4.8	
Steve Galbraith/Morgan Stanley		1,225	7.0	
Richard Salsman/InterMarket Forecasting		**1,251**	**9.3**	
Edward Yardeni/Deutsche Bank Securities *		1,300	13.5	
Jeffrey Applegate/Lehman Brothers *		1,350	17.9	
Stuart Freeman/A.G. Edwards		1,350	17.9	
Tobias Levkovich/Salomon Smith Barney		1,350	17.9	
Abby Joseph Cohen/Goldman Sachs		1,363	19.0	
Thomas Galvin/Credit Suisse First Boston *		1,375	20.1	
Edward Kerschner/UBS Warburg		1,570	37.1	

	S&P 500 EPS (trailing 4 quarters)			
	Actual	Forecasted	Forecasted	Actual
Forecaster/Firm Ranked Best-to-Worst	Dec. 2001	Dec. 2002	% Change	% Change
S&P 500 EPS (trailing 4 quarters)(actual)	**24.7**	**31.7**		**22.1%**
Richard Salsman/InterMarket Forecasting		**28.7**	**16.3%**	
Stuart Freeman/A.G. Edwards		28.4	15.0	
Edward Yardeni/Deutsche Bank Securities *		28.4	15.0	
Abby Joseph Cohen/Goldman Sachs		28.2	14.0	
Jeffrey Applegate/Lehman Brothers *		27.9	13.0	
Thomas Galvin/Credit Suisse First Boston *		26.9	9.0	
Richard Bernstein/Merrill Lynch		26.7	8.0	
Steve Galbraith/Morgan Stanley		26.4	7.0	
Edward Kerschner/UBS Warburg		25.7	4.0	
Tobias Levkovich/Salomon Smith Barney		25.1	1.6	
Thomas McManus/Bank of America Securities		24.7	0.0	
Douglas Cliggott/J.P. Morgan Securities *		23.5	-5.0	

* No longer with the firm

Appendix Six (cont'd):
IFI Market Forecasts for 2002 vs. Actual Results

Forecaster/Firm (Ranked Best-to-Worst)	S&P 500 P/E Multiple: Actual Dec. 2001	Forecasted Dec. 2002	Forecasted % Change	Actual % Change
S&P 500 P/E Multiple (actual)	**46.4**	**28.3**		**-63.6%**
Douglas Cliggott/J.P. Morgan Securities *		40.5	-12.6%	
Richard Salsman/InterMarket Forecasting		**43.6**	**-6.0**	
Richard Bernstein/Merrill Lynch		45.1	-2.8	
Edward Yardeni/Deutsche Bank Securities *		45.8	-1.1	
Steve Galbraith/Morgan Stanley		46.4	0.2	
Stuart Freeman/A.G. Edwards		47.6	2.7	
Abby Joseph Cohen/Goldman Sachs		48.4	4.4	
Jeffrey Applegate/Lehman Brothers *		48.5	4.6	
Thomas McManus/Bank of America Securities		48.6	4.8	
Thomas Galvin/Credit Suisse First Boston *		51.0	10.1	
Tobias Levkovich/Salomon Smith Barney		53.9	16.3	
Edward Kerschner/UBS Warburg		61.1	31.7	

Forecaster/Firm (Ranked Best-to-Worst)	10-Year U.S. Treasury Bond Yield: Actual Dec. 2001	Forecasted Dec. 2002	Forecasted Change (bps)	Actual Change (bps)
10-Year U.S. Treasury Bond Yield (actual)	**5.09%**	**4.03%**		**-106 bps**
Abby Joseph Cohen/Goldman Sachs		4.30	-79 bps	
Edward Yardeni/Deutsche Bank Securities *		4.50	-59	
Douglas Cliggott/J.P. Morgan Securities *		4.75	-34	
Richard Salsman/InterMarket Forecasting		**4.81**	**-28**	
Edward Kerschner/UBS Warburg		5.00	-9	
Thomas Galvin/Credit Suisse First Boston *		5.00	-9	
Jeffrey Applegate/Lehman Brothers *		5.05	-4	
Tobias Levkovich/Salomon Smith Barney		5.20	11	
Steve Galbraith/Morgan Stanley		5.25	16	
Richard Bernstein/Merrill Lynch		5.25	16	
Stuart Freeman/A.G. Edwards		5.75	66	
Thomas McManus/Bank of America Securities		5.75	66	

* No longer with the firm

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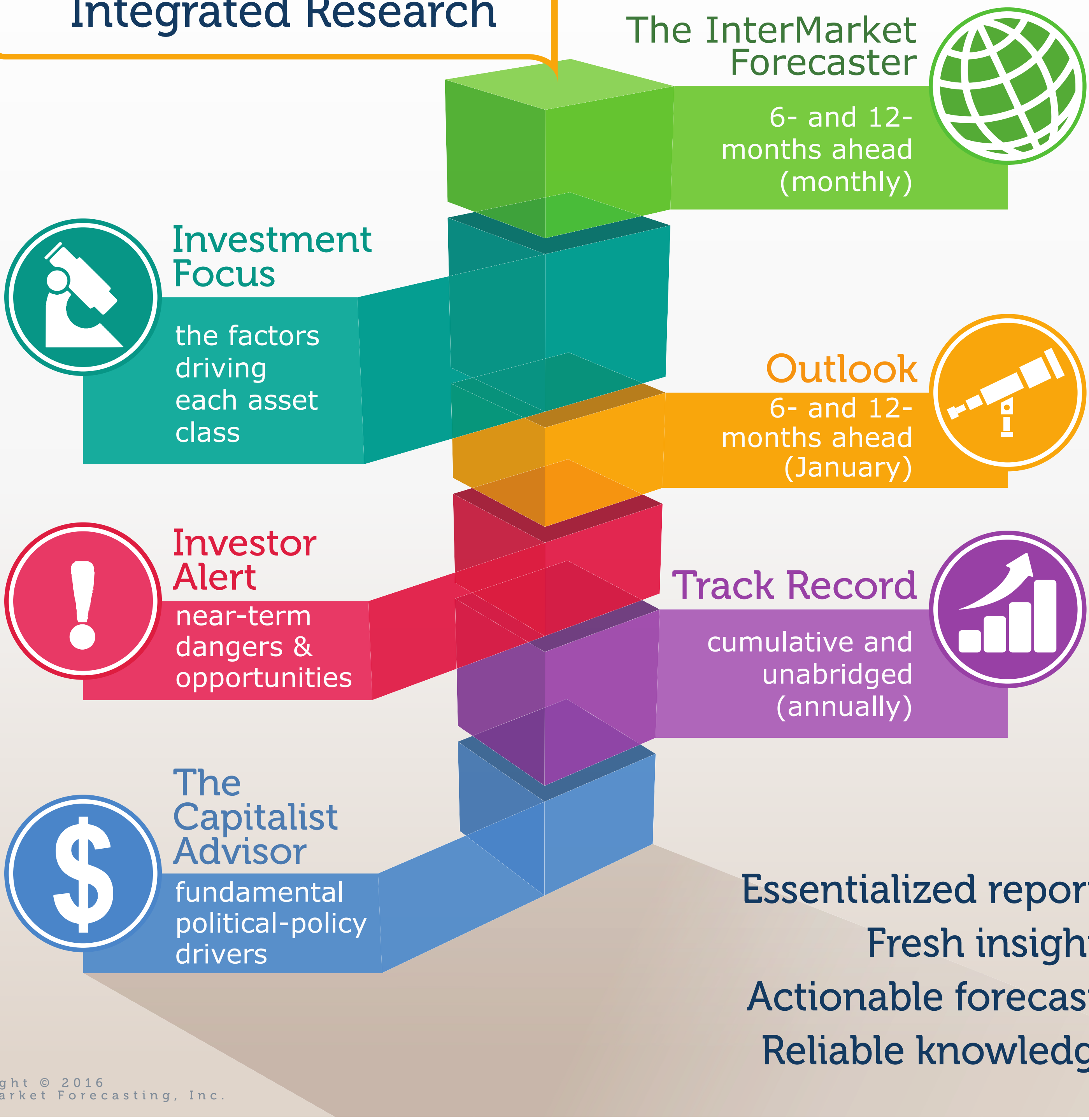

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