



*March 22, 2000*

As evidenced by last week's dramatic swing in major market indices, stocks continue to exhibit significant volatility during the first quarter of 2000. The DJIA is up, the NASDAQ is down...or was that yesterday? The Dow's noteworthy two-day advance last week could indicate the market might again be interested in companies that actually make something, like earnings or a profit. Then again, maybe not.

This market is being driven more by momentum than fundamentals, so it's too early to tell whether any rekindled interest in Old Economy stocks is indeed a sea change or merely the latest infatuation for the flood of dollars seeking short-term trading gains. Regardless, this changing market has even the pundit's heads spinning and can often result in investors chasing their tail.

Enclosed is a copy of an article I had written earlier in March with its original title, "Investing in a Volatile Market". As you will note, this was written for a broader audience but many points are apropos. You'll also recognize several of the tenets that we at Roof Advisory Group regularly espouse; such as discipline, focus, and insight. All are key components in how we manage your money. These are particularly critical when the market is searching for direction, but core philosophies only partially explain the benefit we add to your ongoing portfolio management.

Outlined below are examples of specific strategies currently being used in today's volatile market to help build and preserve assets for you, our valued clientele. While each of your individual situations is unique and addressed as such, there are certain overriding strategies we employ throughout our investment process. A few of these are as follows:

- We continue to emphasize equity diversification, whether by industry, management style, or market sector. During 1999, we leaned overall portfolio percentages toward managers with a "growth" style orientation and typically increased technology and service sector weightings slightly above benchmark levels. However, we also continued to maintain smaller positions of top tier "value" style performers that have recently been rediscovered. This approach rewarded clients handsomely in 1999 and has reduced downside exposure in 2000's turbulent market.

Moving forward, we may again increase relative exposure in "value" style managers, should that market segment continue to gain appreciation potential.

- Starting in the last quarter of 1999, we gradually increased equity exposure with mid-cap and small-cap managers within overall investment policy limits. Though this segment of the market has historically been high on promise/low on return and our general bias is toward larger cap stocks (New or Old Economy), there have been some compelling reasons to move toward the higher end of policy range in this area.

As always, manager/fund consistency, quality, and comparative performance are paramount in our selection process. Increased positions with mid-cap managers such as Invesco Dynamics and Sit Small Cap Growth (enclosed Barron's reprint) have added attractive returns for our clientele with a focus on appreciation.

That being said, mid/small cap growth funds will tend to fluctuate in a volatile market and will, most likely, be one of the first portfolio areas scaled back if market sentiment continues to shift toward value holdings.

- We typically gradually migrate to a fully invested position with new clients. This provides the benefit of averaging purchase prices as core stock and bond positions are being built or portfolio holdings are reallocated. We have been even more deliberate as purchases are made in the current environment. This is not an attempt to time the market; merely a prudent approach to putting your money to work at its best advantage. Given current market volatility, it makes even more sense than usual to watch each step carefully while wading in.
- Where appropriate per client objectives, we've slightly increased our international exposure within policy limits because of potential growth in this area. As with mid/small cap equities, global investment returns can vary greatly. However, our emphasis remains on managers and funds diversifying among countries/regions with relatively stable economies and governments. We will continue to avoid exposure in international emerging markets. This is consistent with our focus on long-term appreciation while controlling portfolio risk.
- When maintaining larger fixed income positions for clientele, we typically use individual bonds versus funds to better control maturity and issue quality. In a rising interest rate environment like present, bond funds will often experience depreciation but not reciprocate with upside potential when rates reverse. Our objective for bonds is to temper portfolio volatility, not add to it. This goal is supported by our utilization of investment grade bonds of short to mid term maturity. Currently, the maximum maturity considered is approximately seven years and our emphasis on bond quality remains constant.
- On an ongoing basis, individual portfolio assets are managed based on your objectives and individual policy. However, we recently sold all client positions in the Allegheny Chicago Trust Growth & Income fund. Uncertainty created by management changes at the fund and recent weak relative performance versus peer category combined to eliminate it from our screening process.

I hope this brief overview was helpful in outlining some of the ways we continue to respond to this changing market on your behalf. We indeed value your business and our ongoing relationship. As always, please don't hesitate to call with any questions or if we can be of additional service.

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