



October, 2002

Dear Shareholders and Tax Clients,

As part of your ongoing wealth management process, we thought it was important to keep you updated on the turn of events with all of the media coverage surrounding the recent market pullback.

Since the end of the second quarter of 2002 (over the past three months) many of the financial markets continued its backtracking due to the vast amount of perceived total breakdown in corporate ethics and accounting standards. This, along with the trouble overseas and terrorism risk, has led to a downturn in the market that is now worse than 1973 and 1974, when the broad US market (The S&P500 Index) was down 48% from its peak.

*In the midst of what appeared to be a climax to the corporate and accounting calamity, July 23rd, 2002, the S&P officially was down 49.2% from its peak (March 24th, 2000, over 2 ½ years ago) which makes it the toughest bear market since the market 'crash' of 1929-1932, when the market lost a total of 64.2% over four calendar years. So technically we were part of the **2nd worst bear market in modern US history**. This particular three month period has been the toughest quarter since 1987, a span of almost 15 years.*

*As your advisor, **remaining passive and hoping others will fix the corporate crisis seemed ridiculous**. I traveled to Washington, DC in mid-July and met with one of the senior members of the US House of Representatives. Mr. Leach is the second highest ranking member of the US House of Representative Committee on Financial Services, serving since 1977, and chairing the entire committee of 70 members from 1995 through 2000. As part of our one hour, thirty minute meeting, we sat down and I voiced my concerns, and Rep. Leach listened intently and added insight.*

I also sat in a Senate session with Senator John McCain as he detailed the changes that need to be made in the stock options expensing process in the IRS accounting code and SEC regulation. Current IRS, SEC, and GAAP guidelines do not portray all of financial reality. Mr. McCain's presentation and comments were well received by many of the other Senators, but other Senators on the floor with ties to the large corporations and the tech industry refuted his arguments. This is an example of the additional and ongoing work that needs to be done.

I'm confident that not only Mr. Leach and Senator McCain, but that the entire US House and Senate have begun to take action and are making the necessary and ongoing adjustments that will make the corporate executives and accounting firms much more accountable for their actions. This will cure a major portion of what is happening in our financial markets. This will result in much more fair and orderly markets, more confident investors, and a more reasonable

rising stock market over the long term. This will help to enforce current US securities laws, enact tougher standards and add stricter penalties for criminals who commit or attempt to commit financial fraud, misrepresentation and misappropriation.

Will excessive greed, crooked CEO's, questionable accounting standards and unreasonable expectations be part of our market forever? The answer is no. Congress is setting tougher standards, the Securities in Exchange Commission is setting tougher standards, our President is setting tougher standards, we as Investment Advisors are setting tougher standards, and, most importantly, **you as investors are setting tougher standards** for the people we entrust to run our public companies we invest in.

Based on order of the US Government, 1000 of the largest corporations were required to sign off on the integrity of their financials, and taking responsibility for their accuracy. The deadline for the majority of the corporations was August 15th, 2002. Obviously, that date has passed without event, and by August 22nd, **the market had recovered 21% from the abyss reached on July 23rd**. Any investor that panicked and sold in late July, which were many, were punished to the tune of a 21% loss of recovery from the pullback.

Since August 22nd, the end of the short-term recovery, the market has tested the lows established by the corporate calamity with the addition of the risk of another recession and also war talk in Iraq. **At this point, September 30th, the market is basically where it was when the bottom occurred in late July.** Millions of small investors with a short term horizon and without a financial game plan are questioning whether they can be successful investors, are questioning if there is any reward to the financial risk, and questioning whether or not they should even be investors. Many of these investors have already pulled out of the stock market, and their decisions will reflect poorly over time during the recovery, as it has happened countless times in the past.

Some investors (currently) look at a -12% or -15% annual losses over the past three years and expect another -12% to -15% in losses each year for the next 5 to 10 years or more. These same investors looked at the 37%, 23%, 33%, 28%, and 20% gains from early 1995 through early 2000 and expected the same 20% to 30% annual gains in the future (and even eternity) as well. **This is simply not sound judgment, and leads directly to failure.**

Here's a more realistic analysis - when the market was at its peak in late March of 2000, the average stock in the S&P500 was trading at over 30 times earnings. The historical average has been a P/E of 15.7. Therefore, a decline of 47.6% in the S&P 500 back in the peak of 2000 would give us a 'historically fair' valuation. **Ironically, this has happened.** The euphoria of the market and the excessive greed has been shaken out of the market just as it did back in 1929-1932. A handful of companies back then, just as today, had crooked executives robbing investors the same way WorldCom, Adelphi, and Enron did in the past year. History has, and always will have a tendency to repeat itself.

As you probably well know, the markets were not a sight for sore eyes after the 2nd quarter. For the quarter alone, the S&P was down 17.6%, the Dow was down 17.9%, the NASDAQ was down another 19.9%, the Russell 2000 Small Cap Index was down 21.7%, Europe was down 22.8%, Pacific Index was down 12.7%, the REITs were down 10.0%, Emerging Markets were down

17.1%, High Yield Bonds were down 2.6%, Tax Free High Yield Bonds were up 3.7%, and General Bond Funds were up 4.3%.

Many investors, millions and millions, are now assessing this discouraging quarter after the rough second quarter – and many are thinking, “**Where is the reward to all of my risk?**” – “**When can I expect somewhat of a recovery?**” – “**Is my financial game plan possible?**” – “**Will I ever be able to retire?**” – “**Should I be worried about my long term retirement?**” All are valid questions – and here’s part of the answer.

When properly diversified, time weathers the storm during uncertainty in the financial markets. The actions we should take going forward remain the same as well – **a disciplined asset allocation strategy** has worked, does work, and will continue to work in the future. From this point forward (September 30th and in the future) **I would expect bonds to return anywhere from a negative 4% to a positive 9% annually with an average return of 5% over the next three years. If interest rates begin rising, even slightly, expect negative return on bond funds over the short term.** High yield bonds I would expect anywhere from a negative 3% to a positive 14% annually with an average return of 9.1% over the next three years. As far as the equities markets, expect 10% to 12% growth per year on average, with the possibility of a 34.6% recovery in the Pacific Index, a 26.1% recovery in the S&P500, a 41.5% recovery in the European Index, an 18.7% recovery in the Small Cap Index, a short term upside of 6.3% in the Emerging Markets Index, and a potential downside in the REIT Index. **This would put us on the same footing as the market was after the first pullback in April 2001. This pretty much shakes out and resets all of the froth and overpricing, and also the curbing of the terrorist activity and beginning recovery of investor faith in our financial system.** You measure those potential rewards vs. having a 3.0% taxable CD with no upside, or having cash parked in a bank account at 1.5% before taxes and inflation, and the upside for stocks and the market looks tremendous from this point going forward.

Other than waiting patiently, diversified, balanced, and allocated, what else can you do to enhance your financial position? Mortgage rates are at a 40 year low. **15 year rates on a conventional mortgage is 5.375%, 30 year rates on a conventional mortgage are only slightly higher.** If your current mortgage is even 1% higher – possibly less – it may pay to refinance, saving you hundreds if not thousands of dollars each month or year. In addition, if you carry any type of credit card balance – what most of you don’t – call them up and ask for a reset on your interest rates on any balance carried or future balance carried, and ask for an ongoing rate (not a starter rate) of 8.99% at this time.

Another thing to do in these uncertain times is **revisit your personal and financial goals.** Many goals we constructed when we first started working with you – but it is wise to revisit them every year to be sure where you are and where you want to be – a certain formula for success. Be sure the goals are specific, measurable, agreeable, realistic, and have a definite time or timeframe attached. Fax them to us at (508) 519-268, mail them at our address below, or call to arrange a personal meeting – we look forward to hearing from you.

As detailed in past letters, a major risk as an investor is not being an investor in the short term during the upswing after a down economic cycle or down market. **The other reality of financial risk is redeeming more than 5% to 7% of your overall investment assets over an extended period of time (two or more years) during a down market.** Over the course of history, during an

*extended market downturn, this will lead to a **depletion** of your financial assets. During a time of an agreeable market, which has pretty much been since the year 1975, this has never been an issue. **It is an issue and a reality now.** If you are within this redemption amount, and are diversified, and have a game plan, there's no need to worry.*

*Give myself or my assistant, Marilyn, a call or email anytime with questions. **We know it's a very difficult time, and we're here for you.** It's a pleasure to serve you.*

Sincerely,

A handwritten signature in black ink, appearing to read "Les Jepsen". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

*Les Jepsen
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