



**Investment Management  
Financial Consulting  
Tax Planning & Services  
Retirement Planning  
Real Estate Services**

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Dear Shareholders and Tax Clients,

*In the midst of the war with Iraq, we continue to be thankful we live in a free country, thankful to be able to vote for our leaders, and thankful for all those currently and those in the past who gave up their lives in order for us and those after us to enjoy our freedoms.*

*The first part of 2003 was quite encouraging, with the major US and World stock indexes gaining between 3% and 6% by mid-January, and gaining between 15% and 21% from the lows established in early October of 2002. There were no longer companies coming forth with unthinkable acts on what seemed like a weekly basis. The responsible parties at WorldCom, Enron, Adelphi, and others are on course to see justice served based on past laws written by our elected officials as well as the new laws enacted and enforced to prevent more unjust acts in corporate America in the future. The economy, off of three quarters of uneven ground, appeared to be strengthening slightly and poised for growth.*

*However, with political unrest and looming war in Iraq, unsettling circumstances in Afghanistan, and uneventful economic reports shaking out here in the United States and abroad, the stock and equities markets retracted for a time to just above where they were in the toughest part of 2002. At the end of the quarter ending March 31<sup>st</sup>, the major stock (equity) markets were generally 10% below the peak achieved in mid-January. **The S&P 500 (big companies) returned a negative 3.6% for the quarter, the NASDAQ returned a positive 2.6% for the quarter, the Russell 2000 (small companies) pulled back 4.6% for the quarter, and the REIT (real estate) index was up just fractionally. From this point forward, decreased uncertainty in Iraq, and increased confidence in the economy will help move the stock based markets in a continued positive direction.***

*Inflation, in our measure, is advancing at a 1.4% annual rate so far in 2003. We use the CPI, or Consumer Price Index, when we analyze and take action based on inflation data. The Consumer Price Index, as you may know, is a measure of the average change in prices over time of goods and services purchased by households. The largest increase is in transportation costs and energy costs, which have been related to oil and gas prices. Energy costs are on pace for a 44% increase for 2003, after a 22% increase last year. This is only one example why it is vitally important to note **the largest risk in your financial plan is inflation risk – increased day-today living costs over time depleting the buying power of your assets, not short-term market risk, as we've experienced the last***

*three years. Investors need to diversify in several asset classes, and stay the course in tough times to be rewarded with spending power (after inflation) in the future.*

*Bonds and bond funds continued to hold strong in 2003, with long term and short term bond funds gaining between 1% and 2%, and the high yield corporate bond index gaining approximately 5% since the start of the year. **The best asset class out of all stock and bond indexes since the lows of October 9<sup>th</sup>, 2002 has been the high yield bond index, gaining 13% since that day.** It has also been the best asset class since January 1<sup>st</sup>. This index still has considerable upside, unlike the general long term, intermediate term, and short term bond funds, which will not equal the return of stock (equity) funds over any considerable length of time in my opinion.*

*It is also the final days of addressing your IRA if you have not already done so. If you have earned income and are age 50 or older, the limit is now \$3,500 vs. \$3,000. **If you haven't considered adding to your Traditional IRA or Roth IRA, you have until April 15<sup>th</sup> to do so for the tax year 2002.** Time is of the essence after April 10<sup>th</sup>, so take action early if needed. Be sure to call or email with any questions.*

*Mortgage interest rates have come off their lows, but still very prime for taking action. The 30-year average fixed rate is just under 5.5%, and the 15-year average fixed rate is 4.8%. It continues to be **an excellent time to take action if your mortgage interest rate is 6.5% or higher, depending on time horizon and other personal and financial goals.***

*Again, time tends to heal all market pullbacks, especially in the face of war and/or recessionary periods. An average expected return in a diversified portfolio is normally 7% to 9% with a worst-case scenario (-15%) and a best-case scenario (25%). There is a 5% chance of further downside of -15%, and a 5% chance of greater upside (+25%). Expect a positive return of 7% to 9%, and prepare for both best and worst case scenarios. If your portfolio holds more bonds and/or money market funds, your risk on the downside is less, but also remember that your risk on the upside (for greater gains) is less when the markets and economy begin to recover, especially over longer periods of time. **It is important to note that bonds and bond funds have had negative returns over one-year periods many times in financial history, including 1999, 1994, 1986, 1978-80, 1969, 1967, 1958-59, 1956, 1951, 1947, and the list goes on and on.***

*If you have any questions, we look forward to your e-mail or call. Thank you for your business; it's a pleasure to serve you.*

*Sincerely,*



*Les Jepsen  
Jepsen Investment Management*

*P.S. Please note our new fax number of (612) 435-4849*