



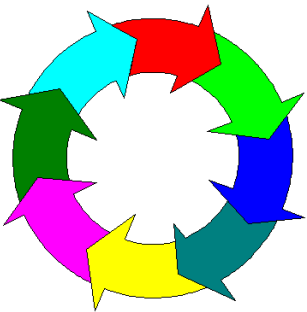
STAAARSM Strategies Report

Market Comments

5/3/99

High Fliers Get Hit

I have expressed concern for some time now that the imbalance of investment in a small number of large company growth stocks plus the near mania for technology and Internet stocks presented a large risk for market chasers. April saw many of these stocks take a hit. Some were off 20% or more from their highs. The vaunted S&P 500 has cooled a bit.



Rotation To Value Styles, Mid-Caps and Small Caps May Have Begun

But while many favorites of the last couple years stumbled, many "Value" stocks surged. It is still a bit early to call this a clear trend, but it could be the beginning of a healthy rotation of money out of high priced companies to lower priced firms. This would cause the broad market to catch up and distribute investment capital in a more balanced manner.

Patience and Courage Pay Off as International Funds Gain and Emerging Markets Surge

While most investors eschewed the International sector and especially Emerging Markets since last year, courageous investors were buying foreign stocks at cheap prices. This year the average International fund is up 6% and Emerging Markets funds are up almost 23%!

Bonds Still Flat as Inflation Worries Continue

Concerns about inflation have caused bonds to make very little or nothing this year. The exception has been high yield ("junk") bonds, which trailed last year, but have recovered somewhat this year. Some indexes have negative year-to-date returns. I think it is possible for rates to rise a bit further.

Overall, the Bull Market is Intact, But Some Caution is Warranted as the Year Progresses

OUTLOOK (Next one to three months)

Bonds: Neutral to Unfavorable. Interest rates could rise a bit more. But conditions still do not seem to warrant a precipitous rise.

Larger Company Stocks: Neutral. A possible shift from Growth to Value, Large to Midcap.

Smaller Company Stocks: Neutral to Favorable. Signs of shift from Growth to Value and from Larger Companies to Midcap and Smallcap.

International Stocks: Neutral to Favorable. Again, a Value approach has recently led the way. And Emerging Markets have been particularly strong.

In General, Stick to Your Long-Term Allocation: Nearly all investment categories have their seasons. What goes up faster than everything else usually has a cooling-off season, and what goes down usually recovers. While some adjustments may be prudent from time to time, often the best action for investors is to stick to their plans.

That Said, Here Are Some Adjustments to Consider: As the year progresses, and especially if stocks climb a lot further, increase your cash and short-term or intermediate bonds a bit -- keep an adequate Emergency Fund. Also consider increasing your longer-term bond holdings if interest rates edge up.

TERMS: "Growth" as used here describes a style of investing that emphasizes the growth rate of a company over other factors such as balance sheets and PE (Price vs. Earnings) ratios. "Value" refers to an investment approach that may emphasize such elements as lower debt ratios, lower PE and other factors which would indicate a company is a good value for its price.