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A Monthly Brief on Investment Markets and Financial Planning Issues

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Strategies Report

no-load mutual funds.

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The Bad News

At the end of 2002 we were still mired in the worst Bear Market since 1929-1932. The DOW lost 16.8%, it's worst calendar year since 1977. The S&P500 was down 23.4% and the NASDAQ tumbled 31.5%. After down years in 2000 and 2001, 2002 was extremely disappointing.

A steady stream of worries made it difficult to feel good about investing. Investor confidence was shaken by prolonged uncertainty fed by corporate accounting scandals, terrorism and tensions with Iraq and more recently North Korea. News of increasing bankruptcies, layoffs and the inability of the markets to sustain advances left most investors disappointed, cautious and some even fearful.

The Good News

Yes there is good news. Inflation and interest rates remain low. Productivity is excellent. The economy has not fallen into a double-dip recession. Real estate has done well. Businesses are leaner but are beginning to spend more on improving their positions. The accounting scandals are largely past and have resulted in better scrutiny of businesses; the future should see more trustworthy reporting. Consumers slowed a bit but have not ceased to spend. We are in much better shape than we were at the end of 1932 or 1974.

What needs to happen for a new bull market to emerge?

1) Increased business confidence and spending.

(There have been positive signs in this area recently.)

2) A greater percentage of companies meeting or exceeding estimated earnings.

Chart A: Benchmark Performance*	2002	2001	2000	1999
Lipper U.S. Gov. Fds.	10.0%	6.7%	11.9%	-1.5%
Lipper Corporate A-Rated Bond Fds.	8.6%	7.8%	10.3%	-0.3%
Lipper Intermed. Inv. Grade Bond Fds.	8.3%	8.2%	10.6%	0.1%
Inflation	2.6%	1.9%	3.4%	2.7%
Money Market Funds	1.1%	3.6%	5.7%	4.6%
Dow World (ex. US) Index	-15.6%	-21.0%	-17.4%	31.5%
Dow Jones Industrials*	-16.8%	-7.1%	-4.9%	27.2%
EAFE International Index*	-17.5%	-22.6%	-14.2%	27.0%
Wilshire SmallCap 250 Index	-18.7%	-5.7%	0.0%	26.1%
Lipper Large Value Fds (2001 & prior used Growth & Income Fds)	-19.7%	-7.4%	0.4%	11.9%
Russell 2000 Small Co. Index	-21.6%	1.0%	-3.0%	21.3%
S&P 500 Stock Index*	-23.4%	-13.0%	-9.1%	21.0%
NASDAQ*	-31.5%	-21.1%	-39.3%	85.6%

*Preliminary numbers. Some indexes may not include dividend reinvestment. Money Markets are an approximate average.

Average of Above Indexes w/out Inflation (33% Interest-Bearing Conservative)	2002	2001	2000	1999
	-11.4%	-5.9%	-4.1%	21.2%

STAAR Funds Performance (Read the Funds' prospectus for full information: 412-367-9076)	2002	2001	2000	1999
Long Term Bond Fund	8.4%	7.6%	9.0%	-4.5%
Intermediate Bond Fund	7.2%	7.7%	9.1%	-0.1%
International Fund	-14.4%	-17.3%	-16.8%	38.7%
AltCat Fund	-15.8%	-10.2%	5.5%	30.8%
Smaller Company Stock Fund	-17.4%	0.8%	1.1%	30.8%
Larger Company Stock Fund	-18.1%	-9.9%	-2.7%	16.1%
Average of STAAR Funds (33% Interest-Bearing Conservative)	-8.4%	-3.5%	0.9%	18.6%

Performance figures are total returns except those marked with an *, for which dividend reinvestment figures were not available. Indexes were quoted as published in various publications or sources, including the Wall St. Journal. Past performance is no guarantee of future results. Investment returns and principal values fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

- 3) Some improvement in unemployment. (There are signs this is leveling off, and the current rate is not as high as in other recessions.)
- 4) An increase in consumer confidence. (People are discouraged and uncertain. Consumer confidence decreased in December. They need good news about employment, the general economy and the IRAQ situation.)
- 5) A decision to go to war or not go to war with Iraq. (A clear course of action tends to make people more settled and secure. Remember that the stock markets were stalled at the beginning of 1991. Soon after the Gulf War began, stocks soared. Would they do so again? If it is clear we are winning, probably.)
- 6) No new major terrorist attacks.

Where will the market be at the end of 2003?

The short answer is nobody really knows. However, the probability is that stocks should be worth a bit more in 12 months than they are now.

Only one other bear market in the last century was worse than this one. From 1929-1932 large stocks lost 64.2%. From 2000-2002 the S&P500 lost 39.4%. The two-year 1973-74 market fell 37.2%

What about the "January Effect?"

Since 1926, January has been an "up" month more than 66% of the time. It has been up more than 70% of the time after a losing year. It is certainly not a sure bet, but history makes a case for a positive start to 2003. Another interesting aspect is that small company stocks have tended to do better than large company stocks in January.

Where Are We Now?

Chart A shows the performance of selected indices for 2002 and the previous three years. It doesn't take a genius to know the last three years were tough years for stocks. Few Stock mutual funds made money in 2002. Most investors are feeling pain.

But if you look at the "balanced" portfolio averages, you can see the value of diversification. While the S&P 500 lost over 23% and the NASDAQ over 31% in 2002, an investor who put an equal amount into each of the STAAR Funds would have lost only 8.7%. Here's a positive way to look at it: If your total investment portfolios were down less than 15%, you did ok. If you were down less than 10%, you did well. And if you made any money you were

either extremely conservative, brilliant, extremely lucky or you had a private investment manager that made the right moves for you.

25 Easy-To-Keep New Year's Resolutions

By Andre Weisbrod

1. Don't exercise.
2. Eat more junk food.
3. Gain some weight.
4. Read less. (Throw this letter out now.)
5. Think less.
6. Forget more.
7. Be late more often.
8. Don't write thank-you notes.
9. Don't call your financial advisor to set up a review meeting.
10. Don't budget; just spend more.
11. Get further in debt.
12. Don't save and invest.
13. Don't review your investments.
14. Don't check your insurance to see if you have the right coverage at the best price.
15. Procrastinate... start tomorrow.
16. Break a traffic law.
17. Wait for opportunity to come up to you, introduce itself and force you to succeed.
18. Be skeptical about what politicians say.
19. Complain more.
20. Don't go to your doctor for an annual check-up.
21. Don't handle poisonous snakes.
22. Blame others for your problems.
23. Don't jump out of an airplane without a parachute.
24. Don't help anyone else.
25. Be a grouch.

What to Do

OK, seriously, now: Here are some things We Should Do, Can Do and Will Try to Do (No Resolutions, Just a Direction)

___ **Call your financial planner**, investment advisor, broker, insurance agent, accountant and attorney and get on their calendars. (Deadlines force you to act.)

___ **Get Organized** (Know what you have, where it is and how much it's worth. Gather statements, receipts and any other pertinent information. Organize it in easy-to-see file folders or use a good computer program.)

___ **Get Control.** (If you need money from investments, program your withdrawals now. If you are adding to investments, plan those deposits now. Work with your investment advisor.)

___ **Review Your Investment Strategy** (Should you consider private management of your accounts?)

___ **Discuss 2003 Tax Saving Strategies with your Advisors** (Some strategies are better if done earlier.)

___ **Make IRA or Roth IRA contributions early this year**

___ **Review Employer Plan Contribution Levels**

___ **Make Sure Your Emergency Funds Are Sufficient** (Generally we recommend 3-6 months living expense in a savings or money market fund.)

___ **Get Mortgage Financing on rate dips**

___ **Review Your Estate Plan, Wills and Trusts**

___ **Review Your Insurance Coverage**

___ **Add to Your Regular Investments Regularly**