



April 12<sup>th</sup>, 2002

Dear Shareholders and Tax Clients,

*Once we draw near and away from April 15<sup>th</sup>, the 2001 financial year is officially behind us. The year was marked with recession realities, major terrorist activity, and the beginning of the questioning of the auditors and fiduciaries of our publicly traded corporations.*

*Although the government report for the last quarter of 2001 nixed the media's spin for hope of a general recession (two quarters of negative GDP, which did not happen), reports of accounting irregularities and criminal fiduciary activity at a handful of corporations have placed major pressure on consumer and investor confidence.*

*The reality is that executives, accountants and auditors for most publicly traded corporations have always twisted their financial reports to place their company in the best possible light. This is primarily due to the high short term demands on meeting and exceeding their lofty quarterly expectations and general greed of the executive shareholders, coupled with constantly trying to 'maximize shareholder value', even if at times unethical and fraudulent. **Digging through the financial 'fiction' to find the 'reality' is becoming more and more difficult, and is currently coming to a history changing halt, with short term investor confidence being dramatically effected.***

*The long term solution for the current financial reporting crisis is to place more pressure on financial auditors and accountants to sign off on much more 'transparent' balance sheets, income statements, and statements of cash flows. This will occur by making it mandatory to separate consulting practices with auditing practices, and increase the civil and criminal penalties for violators of the new accounting and auditing code.*

*Another major concern that is affecting investor confidence is the brokerage houses and financial advisors use of analysts covering and placing 'buy' and 'strong buy' recommendations on the same stocks that they profit by underwriting and market making. This is clearly unethical and has gone on for years. This is also in the process of being addressed and changed by our elected officials, and although painful in the short term, will ultimately increase investor confidence dramatically from where it stands today.*

***Generally, the various investment classes and sectors continue to shift sideways and downward at it has the past two years.** The international indexes, which include the European, Pacific, and Emerging Markets Indexes, down 26%, 43%, and 21% respectively over 24 months, have struggled considerably along with the majority of the other common indexes. For the three months ending March 31<sup>st</sup>, 2002, the S&P was down 0.13%, the Nasdaq was down 4.5%, and the*

Europe and Far East Index was up fractionally. **However, there were some bright spots in this otherwise difficult investment climate.**

The Real Estate Investment Trust (REIT) market registered over a 13.0% total return for 2001 and continues on its 49.0% upswing over the last two years, after struggling since late 1997. The REIT Index was up 7.4% for the quarter. Also making resurgence is the Emerging Markets sector, which is up 25% since January of 1999 and up 13% for the quarter. The Long Term Bond Market, after rising 34% from January of 1999 until mid-November 2001, now seems to be reaching its apex, but was up over 6% for the quarter. The Small Company Index managed a 3.3% gain for the quarter, and has held up well the past three years, up 26.9% since March of 1999.

The ironic aspect of the current winners is that if you polled investors two years ago, few would have touched the REIT Index, the Long Term Bond Index Market, or the Emerging Markets Indexes, and instead gone for the technology and S&P 500 contributors, which had remarkable returns until then. **The reality is that almost the exact opposite should have been done, and only solidifies the theory of asset allocation based investing.**

Many investors will now look to ignore or avoid the current non-performing sectors and chase the returns of the past one and three years, which will now be the REIT indexes and Corporate Bond Funds. However, since mid-November, the Long Term bond total return is negative 7%, and any upswing in interest rates will only help to magnify the negative return. **At any rate, unseasoned investors are pouring new money into these "hot" indexes, hoping for the same "safe and steady" return they were writing off less than 24 months ago.**

However, history shows partially shifting funds from top performing classes (Bond Funds, REIT, and Money Market Funds) to the struggling assets classes (Nasdaq, International, and High Yield Bond Index) will prove to be outstanding decisions over the course of the next three and five year periods. Currently I'm looking to take some profits off the table on the REIT Indexes and Long Term Corporate Bond Funds, and shift conservatively into the International Indexes and High Yield Bond Indexes if your specific allocation table indicates to do so.

As an investor, it's never easy to be in a period of stagnation, uncertainty, and general fear of the unknown. **Keeping a disciplined, asset allocated approach in this down cycle will prove to be the best formula for success as we go forward.**

Give myself or my assistant, Marilyn, a call or email anytime with questions. It's a pleasure to serve you.

Sincerely,



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