



July 9th, 2002

Dear Shareholders and Tax Clients,

This email is of considerable length for a reason. Please take your time reading it, and please print it out before you read it if at all possible, and please share it with everyone in your household.

One of the main goals of our firm for the past eight years continues to be “Always tell the truth to you, even when the truth doesn’t sound rosy.” This is a time to do so.

*Two of the goals in this quarterly communication will answer the questions millions of investors are asking themselves right now – ‘**What has happened?**’ and also ‘**What actions should we take going forward?**’*

No doubt you’ve been listening and reading about the problems occurring in the financial markets and financial industry. Accounting irregularities and corporate fraud at several companies have been uncovered. Enron, Worldcom, Adelphi, ImClone, Merrill, Qwest, Merck and other public corporations have all had fraud, corruption, extremely unethical and/or illegal accounting problems, or a combination of all three that have really created a tough investing environment.

*If you take all 10,000+ publicly traded companies in the US and the entire world, this fractional percentage of companies shouldn’t be cause for major concern. **However, the possibility of more companies coming forth or being charged with fraud and corruption, and also the media’s coverage has seriously effected investor confidence during the short term, and potentially longer.***

*If you add to the mix the September 2001 terrorist attacks, the continued war difficulties in the Middle East and elsewhere, and the media trying to strike fear into us thinking we are going into another recession, it’s been tough going currently and over the past three months and 27 months. **The S&P 500 is down 36%, the NASDAQ is down 71%, the Pacific Index is down over 40%, the European Index is down over 32%, and the Emerging Markets index is down 29% from the peak of the market at the end of March of 2000.***

*What has happened in the past cannot be changed. Terrorism and ‘**political terrorism risk**’ is now a financial reality. Corporate fraud and ‘**financial terrorism risk**’ is now a reality and hopefully for the short term if we have the right government in place. The internet hype and telecom hype and S&P 500 and Nasdaq and Japan market ‘bubbles’ are now in the past, and they all were not reality, they were financial fiction.*

*As I stated before in my April, 2002 letter, 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. **We as investors and Americans must motivate our President, Congress, and securities regulators to enforce their laws and add stricter penalties for criminals who are benefactors of financial fraud and misrepresentation.** This will cure a major portion of what is happening in the financial markets.*

***This fraud and terrorism have had an effect on every investor’s portfolio.** For the three month quarter ending June 30th, 2002 alone, the S&P 500 index was down 13.7%, the NASDAQ was down 21.4% and even the 30 year bond index was down 5.26%. Even going into cash in what may be the worst time to do so is risky – money market yields and short term CD yields are below 3%, which after factoring in taxes and inflation is a guaranteed loss.*

*In addition to terrorism and fraud, as investors, we have to come to realize from 1978 to early 2000, a span of 22 years, the S&P 500, which is the best measure of performance of US stocks, had a very long and steady string of sizeable gains that may never be seen again in that particular index of 500 stocks here in America. Just from 1995 through March of 2000, the S&P experienced a 37.4%, 23.1%, 33.4%, 27.9%, 19.5% gain, and a 10.3% gain for the first 3 months of 2000 until the market corrected. **Many investors had false expectations of gains of 20% to 30% or even 100% annually forever.***

*These gains were not reality based on earnings; it was investors bidding up stocks to unrealistic values. This has given the market a lot of room to backtrack because of the current problems. **Buying an expensive or overpriced stock or an index and predicting that someday someone else may buy it from you at a much more expensive overpriced level is not the path to retirement or any meaningful type of financial security.***

*The reality is the S&P 500 lost 10.1% in the year 2000, and S&P 500 lost 11.98% in the year 2001. Thus far in 2002, the S&P 500 again is down 15.6%, further backtracking gains to mid 1997. Also, the Price to Earnings ratio, which is the most important measure of value in the S&P currently, is between 20 and 40 depending on which measure you look at, past or forward earnings, and also the media source. A more historical value is approximately 14. **This basically means the S&P could be stagnant and not gain a bit for up to five years or more – even given 9% earnings growth.** Or, the S&P could continue to drop over the short or mid-term another 20% or more. That is the risk that the S&P 500 and investors in the S&P 500 based stocks are facing. Another risk is that the S&P rebounds and gains 10% to 15% a year for the next 2 or 3 years, then does nothing until 2015. **That is why it is so vitally important to diversify, even during great index market returns like the S&P 500 in 1995 through 1999, or the S&P 500 in 1975 through 1987.***

*Going back 80+ years in the US financial markets, and reviewing the early years under a tree in New York in the 1800’s during the railroad stock boom, way back to the European markets 200 or 300 years ago, and even way back to Biblical times, **wise people have diversified their holdings among different asset classes. This is based on the fact that no person or group or firm or company can predict the future, and no one ever will.** This does not mean having three*

or four different brokers or mutual fund families – you need to have a broad range of holdings which include bond funds, international funds, small cap funds, emerging markets funds, REIT funds, and money market funds to truly be diversified – holding them in difficult years, average years, and great years. **Trading in and out of funds, chasing returns of hot funds, and going to cash in frustration during difficult financial and economic times does not work.**

With all the commotion and corruption and turmoil the past 3 months, 18 months, and 27 months, **there is light at the end of the tunnel.** The REIT market had a positive 2.6% return for the quarter, and a 10.9% gain for 2002 thus far. The Pacific index had a positive 3.0% quarter, and is up over 4% for the year thus far. The High Yield market is holding steady, even with the defaults of a few company's high yield debt. The Emerging Markets index is up 2% for the year thus far, even after a 10% drop since March 31st. And rounding off the major indexes, both the Long Term Bond Index and Tax-Free Bond Indexes were up over 2% for the quarter and are up 3.9% and 2.2% respectively for the year so far. **Disciplined asset allocation works.**

As a firm, another reason why we diversify your hard earned money in different asset classes, even when the asset classes are stagnant or a bit negative for even three years, **is the potential for a sizeable gain over a few years.** For instance, there were dramatic gains in the REIT market the past 2 ½ years; the Emerging Markets index returned 132% over a 2 year period in the late 1980's, then had another 211% gain over three years after the index dropped 10% in one year. Bonds have had very good relative returns since mid-1999. Small Cap stocks, which investors hated just 3 or 4 years ago, now have held up very, very well during this down market cycle. From 1975 to 1980, **Small Cap stocks returned 711.0% during a nice 6 year run, that most missed out because they were afraid to invest after the 1973 and 1974 US market decline.** These are just a few examples over the past 25 years, and there are countless others over the past 80 years and 300 years. **Having an asset allocation approach means taking part in all of the great bull runs in all of the indexes over the course of time. This adds up to huge success over the long term – but you need more than a 1 day, 1 month, 1 quarter or 1 year patience level.**

What moves markets in a higher direction are the stocks that are part of the financial indexes. For the indexes to go higher, the stocks that comprise them need to trade at higher prices. **In reality, for prices to go higher over a long period of time, the earnings the company has need to grow higher, not for the stocks to increase their price to earnings ratio.** Normally that has been 5% to 12% annually, depending on the industry.

The major risk as an investor is not being an investor in a down economic cycle or down market. **The 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.**

It is also very important for us to let you know one of our main goals and top priorities as your advisor is to help you to realize all of your financial and personal goals by taking the least amount of risk necessary to do so. **Having a disciplined, asset allocation based approach in an erratic, overpriced, bubble market as well as having a disciplined, asset allocation based**

approach in what appears to be a financial abyss is equally important. Over the course of history, everyone that takes this approach with reasonable goals has achieved financial success.

Give myself or my assistant, Marilyn, a call or email anytime with questions. We know it's a very difficult time, and were 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 name "Les" being more prominent and the last name "Jepsen" following in a similar style.

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