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Dear Shareholders and Investors,

Ever since the latest market bottom, March 11th, the stock and equities markets worldwide have made a very nice recovery from their backtracking. Some dare not look back at how poorly the markets were performing at that particular point in time – the Standard and Poor's 500 Index, which tracks the general US market, was down 9% for 2003's first couple of months, in addition to the 23% lost in 2002, 13% lost in 2001, and 10% lost in 2000. We were on the brink of beginning war in Iraq, corporate profits for the first quarter were unknown, and so was the intent of some the CEO's and other decision-making executives running those corporations. Investors were at a financial standstill, with good reason.

*Since that day in March, there has been a very nice recovery, based on many positive events, and now **the latest returns for the year now look quite good.** Since January 1st, the S&P 500 has gained 10.8% thus far (a 19.8% swing from March 11th), the NASDAQ has gained 21.5%, the Small Cap Index has gained 17.2%, the International Index has gained 9.1%, the Emerging Markets Index has gained 15.6%, the Real Estate (REIT) Index has gained 13.4%, the Long Term Bond Index has gained 7.6%, the High Yield Bond index has gained 10.6%, and the Short Term Bond index has gained 2.7%. **This is a huge turnaround in just over three months, and the eighth best quarter in modern financial history.***

*For the latest quarter, the S&P 500 is up 14.9% (it's best performance in nearly half a decade), the NASDAQ is up 21.0%, the Small Cap Index is up 22.9%, the International Index is up 18.8%, the Emerging Markets Index is up 22.5%, the Real Estate (REIT) Index is up 10.8%, High Yield Bonds are up 6.0%, Long Term Bonds are up 2.6%, and Short Term Bonds are up 1.8%. These gains have been primarily due to corporate America reporting better-than-expected profits, the swift end to the war in Iraq, the \$350 billion tax cut, and another interest rate cut by the Fed. **It sure feels good to finally bring some positive news to you.***

Over the past three years, and most certainly over the past eight years, bonds have performed remarkably well, with the major cause being the constant lowering of the Fed Funds rate, now at an unbelievable 1%. Remember about 36 months ago when you could get a 6.2% return in a money market fund? Currently, anyone would be lucky to get even $\frac{3}{4}$ of 1% annually in a money market fund, and a 5-year CD is yielding about 2.5%.

Primarily due to the lowering of interest rates, and along with the bonds steady dividend payments (although decidedly lower today), the Long-Term Bond Index has gained about 30% since mid-2000, and an eye-popping 122% since the end of the bond market lull in December 1994, even with inflation rates in check. Many investors are just now plowing money into any bond investment they can get into, thinking the 10% annual growth for bonds is customary, much like investors thought 20% annual growth for the stock market was 'customary'. Realistically, 122% compounded growth in a long term bond fund will probably take about 16-22 years to occur again, inflation adjusted.

*When interest rates do go higher (and the course of history shows eventually they will) – the annual total return for bonds could plummet. Can investors lose money in bonds? People tend to forget in 1994, bonds had a negative 13.5% return on capital, and in 1994, bonds had a negative 10.4% return on capital. I stated in my last letter, it is important to note that bonds and bond funds have had negative returns over one-year periods many times over the past 50 years, including 1999, 1994, 1986, 1978-80, 1969, 1967, 1958-59, 1956, and 1951. **Bonds could easily lose 15-20% of value in a tough year if interest rates spike in a one-year period.** Money market funds, which are comprised primarily of 90-day maturity notes, are the only virtually guaranteed investment, with a guarantee of getting less than 1% currently.*

***A much better way of deciding how much cash, money market funds, and bonds to hold is through proper financial planning and asset allocation.** For instance, if you do not have between three months and six months of 'emergency funds' earmarked, I strongly consider doing so, especially during your working years. These funds could be established by having a combination of a money market fund and a bond fund or two. If you are saving for a down payment for a home, a different vehicle, or within 3 years of college education payments, continuing to hold bond funds may be a prudent decision, since there' still less risk than holding a stock fund. If you are in your retirement years, even mid-retirement years, holding too much in bonds over the long term will prove to be a mistake. If you are diversified and prepared for any scenario, bonds and money market funds continue to be a positive part, and I emphasize part, of an overall financial plan.*

*After this three-month turnaround, is there any upside left in the recovery process? Putting this into perspective, we are still 35% below the S&P 500's peak in March of 2000 - which the consensus was an overpriced, technology-laden point in time. The S&P 500 needs to gain about 55% to get to that frothy, overpriced point of the market. And I don't see a 55% compounded gain for the S&P 500 for another 5+ years. Other markets and indexes in my opinion will take less time gaining 50%. **Again, diversification is vital.***

*Inflation, in our measure, is advancing at a 2.5% annual rate so far in 2003, so for you with social security checks coming in, look for about a 2.0% to 2.5% increase this January. Also look for about a 3% increase in your monthly living expenses. **However, there are many daily costs that aren't in a 'low inflationary' environment as the media says.** Prices for fuel oil and natural gas are about 25% higher than last year, and your electric bill is probably about 5% more than last year at this time. Medical care costs are about 4% more than last year, which has been the case for almost the past 10 years. Even*

though we are in a 'low inflation' environment, costs and monthly expenses can increase astronomically over a longer period of time. **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.** The end result of investing is having enough money to spend once you semi-retire and retire (hopefully for 30 years). Outpacing inflation is vital over the long term.

Mortgage interest rates have come off their lows last week, but still very prime for taking action. The 30-year average fixed rate is just under 5.1%, and the 15-year average fixed rate is 4.46%. **If your mortgage percentage rate begins with a 6, look now to refinance, depending on time horizon and other personal and financial goals.** Can interest rates go any lower? Can mortgage rates go any lower? Consider in Japan, many homeowners have mortgages less than 1%. There is, in fact, a chance that rates could go lower - that would be a huge negative for the economy. Let's all hope that does not occur.

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. **Enjoy the rest of the summer!**

Sincerely,

A handwritten signature in black ink, appearing to read 'Les Jepsen', written in a cursive style.

Les Jepsen
Jepsen Investment Management

P.S. Please note my direct mobile number of (612) 730-7750.