John Guarino
President
(908) 879-4090

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Third Quarter 2002 Market Commentary

It is difficult to express how painful it has been to operate within the market environment these past few months. We have just experienced one of the most unrelenting declines in the history of the US financial markets as the major stock market indices have now declined in 14 of the past 16 weeks. Deteriorating investor confidence caused by terror threats and a series of corporate scandals has been the primary cause of this latest tumble. Investors are outraged by the behavior of our corporate leaders and angered by the egregious display of greed in the compensation plans of some companies. Within the past several weeks, more investors have been questioning the entire asset class of stocks as reliable investment vehicles. As a result of the insistent selling, many investment strategists and market technicians are now looking for signs of capitulation by investors when the deck is cleared of weak and nervous shareholders and a new rebound in the market can begin. Various investment sentiment indicators such as put/call ratios, investment bullish/bearish sentiment, volatility ratios and short interest ratios have been flashing signs that capitulation is close, but we haven't quite seen classic signs that a definitive bottom has been reached. Major sell-offs don't usually end until all the market's leadership has been shattered. This has also happened recently with the punishing of shares in retailers, homebuilders, tobacco stocks, HMOs and defense companies.

During the most recent melt-down, large capitalization growth stocks have been particularly hard hit as investors have fled former leaders for the relative safety of small caps and HMOs, tobacco stocks and defense companies. All of the traditional analytical methods we have employed so effectively over the past twenty years have proven undependable recently. And while we have been migrating away from large-cap stocks toward mid-cap companies, nothing has seemed to work lately. In June even the safe havens, which have led the market the past two years, have begun to fizzle.

We believe the deflating of the stock market bubble has been excruciating and well beyond most expectations. And while no one can predict a market bottom with any certainty, our view is that the fundamentals of the economy and the corporate earnings outlook are far brighter than the market is suggesting. There are even signs that capital spending is bottoming. We expect that the third quarter will begin the corporate profit turnaround and that by the fourth quarter corporate profits will be advancing by double-digit rates. In a normal market environment, the stock market is a leading indicator, rising in anticipation of the expected up-turn in earnings. With the bright lights focused on mid-east tensions and distrust of corporate leaders and the securities markets in general, it is very possible that the stock market may instead move concurrently with an up-turn in profits. Therefore, while the summer may continue to prove challenging, we believe when earnings begin to reaccelerate in the third and fourth quarters, the stock market will begin to advance once again.

One of the reasons for our reluctance to aggressively liquidate stocks is the knowledge that market timing is a fool's game. In most market environments, a policy of remaining fully invested in stocks is the proper strategy. We also recognize that this policy has not been effective during the past two years and that we need to focus to a greater extent on wealth preservation as opposed to wealth creation at this juncture. In general, while we continue to believe the best policy is largely to stay the course, we will also attempt to cushion any continued downside in the market through the use of certain risk management techniques such as stop loss orders and protective put and call options. Also, we will continue complementing our equity portfolios by investing in additional mid-cap stocks, international mutual funds and high yielding Real Estate Investment Trusts (REITs).

Rather than expound upon our economic view in great detail at this time, we recommend your reading an editorial titled 'The Economy's Strong, Let's Act Like It' written by Mickey D. Levy, chief economist for Bank of America, published in the Wednesday, June 26, 2002 issue of The Wall Street Journal. Mr. Levy believes that the Fed should start laying the groundwork for raising interest rates later this summer. We concur with much of his analysis and are hopeful that a return to prosperity will occur should the Fed implement this strategy.

Upon concluding, many of you have inquired about our personal well being during this challenging period. We welcome your calls and certainly appreciate your words of encouragement and kind thoughts. You can rest assured that we are diligently working on your behalf and are fully committed to identifying the best means available to achieve your financial objectives.