

**MARKET COMMENTARY**  
**YEAR-END 2003**  
*William L. Haas*

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The stock market gains for 2003 were big. The NASDAQ gained 50%. The S&P 500 was up 26.8%. The Dow Jones Industrial Average gained just over 25%. The gains were concentrated in the last three quarters of the year as the first quarter was down. Overall, the value of stocks has surged about 4.4 trillion dollars since absolute market bottom was hit during 2002. Economists believe this market rise will help support business spending into the New Year.

These market gains have not been without real financial costs. Both the Administration and the Federal Reserve have applied record incentives to get this economy moving. The Federal Reserve has maintained record low interest rates after lowering rates thirteen times from 2000-2002. In May, the Administration signed into law legislation that will lower taxes by \$350 billion over the next ten years. That's in addition to tax reductions of nearly 1.5 trillion in 2001 and 2002 raising the total of Bush's three tax packages to nearly \$2 trillion. Initiating war in Afghanistan and Iraq involved massive federal expenditures. But well after the Administration declared victory in Iraq, a supplemental \$87 billion was appropriated to assist efforts in the two nations. Then, in October, a supplemental drug benefit bill was passed estimated to cost an additional \$400 billion over the next ten years. Low taxes, low interest rates, and abundant spending can spur business, jobs, and the market. Inflation, however, can be a real drag on the economy.

We are a debtor nation as shown not only in our worsening balance of payments account but in the decreasing value of our dollar on world markets.

The official word at year's end appeared to be that no threat could be discerned as to inflation in the American economy. However, when one compares prices in December 2002 with similar prices for corn, beef, chicken, eggs, hogs, gasoline, commodities such as gold and copper in December 2003, one is forced to question the official conclusion. And when one considers the slippage of the dollar as a medium of international exchange, there does seem to be definite inflation in our economy.

That slippage in the value of the dollar is most troubling when one considers the possible impact on the foreign investor. With our interest rates low and the value of our dollar declining, the incentive for the foreign investor to place money in our bonds can well decline in real terms. Today, foreigners are believed to have collectively provided 1.5 billion dollars a day to our investment capital. Should that growing amount reduce because of a dive in the value of the dollar, interest rates could soar and our economy and markets suffer.

This concern may have been increased as the United States pursues a course that has separated us from former allies in NATO and the United Nations. There is much more than the usual concern for investors in medium and long-term debt instruments. Fixed income investor, beware.

We are a nation at war and the toll both on our military and on our treasury has been heavy. Yet we are the strongest nation on earth. Our leadership has weighed the risks and determined the course to preserve our national values and integrity. We can expect market leadership in 2004 coming from this nation's business.

Starting in January 2000 (not January 2001), business cut back its expenditures on manpower and technology; business profits slipped. This recession resulted in the poor markets experienced by our investors in 2000, 2001, and 2002. Obviously, the recession was aggravated by the events of 9/11. But last year,

following our entry into IRAQ, business boomed. In the third quarter, our GDP grew at a rate of 8.2%, its' fastest quarterly growth in the past twenty years. With profits surging, inventories depleted and, in many cases, with demand on the rise, companies now have the wherewithal and the need to boost investment and spending. There is significant momentum to suggest a good year for the domestic market in 2004.

In particular, look for the technology sector to do well in 2004. It has been estimated that better than 40% of the corporate investment dollar is placed in technological products. Technology stocks led the market during the last three quarter of 2003. Most industry polls expect business to spend as much or more on technology in 2004. By industry, wireless telecom gear, internet, electronics, chip and contract manufacturing stocks were the biggest technology gainers in 2003. My favorites for 2004 would be the small, well managed technology company with ties to the defense industry or the biotechnology firm developing product for a high demand disease. Information from the biotechnology sector suggests that there will be several of these to choose from in 2004. The choice of what technology stocks in which to invest is important for many have developed price earnings ratios that will make it difficult if not impossible to support stock price increases.

Expenditures in the technology sector are not likely to result in as rapid employment growth for the domestic economy as was the case prior to 2000.<sup>1</sup> China and Southeast Asian countries will participate strongly in this market growth. China has recently emerged as a leader in chip and hardware manufacture while India, featuring a lower paid English speaking work force will claim a number of service and communication jobs that otherwise might have been claimed by the American worker. China is emerging from its economic cocoon. A number of its companies can be anticipated to be market leaders. They were in 2003. But take care to assure that you do not invest in a company whose 2002 gains make 2003 investing in its shares illogical.

With the nation at war and the stock market volatile, the stock investor must keep vigilant and informed. The services of Raymond James staff of analysts can help fulfill this need. Our office receives their reports daily and works to keep our regular investors informed.

Many of our clients receive hard copy RJ analyst reports monthly. These include the Focus List and Sector Report. The Sector Report is new and highlights those market sectors receiving strong favorable reports from both our fundamental analysts and our technicians. The Focus List is a two part , six page document published the first week of each month by the Research Department at Raymond James & Associates. The outside pages contain a commentary- written by Chief Investment Officer, David Henwood, CFA- that gives the Research Department's views on the economy and fundamental predictions on the direction of the stock market. The inside pages typically contain statistical data and commentary pertinent to between 20 to 35 diversified **Strong Buy 1** rated stocks.

At the end of 2003, Professor J. Randall Woolridge of Pennsylvania State University published a study entitled " The Performance of Recommended Stocks of Brokerage Companies". In that study Professor Woolridge ranked the stock pick selections of Raymond James & Associates first among twenty-six leading investment firms over the past ten years. According to Professor Woolridge "the average annual return on the stock selections of Raymond James is truly impressive" when compared with those of the Consumer Price Index, Treasury Bills, Treasury Bonds, corporate bonds, the S&P 500, and the stock recommendations of other brokerage houses. The results, which will be published in the *Journal of Investing* are based on data collected by Zacks Investment Research and printed in *The Wall Street Journal*. While this study does indicate positive returns, please remember that past returns do not guarantee future results and individual performance may vary. In addition, taxes and investment costs related to investing in these stocks will affect overall performance and there is no assurance that Raymond James recommended list will achieve the results expected.

We, at Tax & Investment Group have made generous use of the Raymond James selections when recommending stocks for our client portfolios. Notwithstanding, over the period since 9/11, we have emphasized that this is a country at war with an enemy whose primary target has been the American economy. To this point in that war, we have consistently and successfully emphasized stock and investment selections chosen from a value market perspective rather than because of any market momentum. While continuing to have a strong bias for value stock, the coming year appears to hold out sufficient market stimulus and momentum to add the occasional momentum stock to the fold.

Starting in mid February, we will be closely examining our exposure to oil and gas issues (a market sector where Raymond James analysts remain very bullish).<sup>2</sup> We want each of our portfolios to have up to a ten percent exposure to gold stock or investment issues.<sup>3</sup> We will continue the policy of having fifty to sixty percent of a portfolio with value management or value stocks. Fixed dollar and, in some instances, real estate exposure will be reduced. Many of our selections will come from this office's model investment portfolio and from stocks followed by Raymond James analysts. We expect a volatile market for 2004 where stock selection and management will be critical to achieving superior results from a promising market.

In mid December, national television aired Paula Zahn's interview with George Bush. Asked if he would be terribly disappointed if denied a second term as President, Bush indicated that he would be as his administration had initiated policies that would soon result in a number of items presently unfolding bringing good news for the country. Since that interview, Saddam Hussein has been captured, Libya has indicated it would no longer pursue its policy toward acquiring weapons of mass destruction, talks with a Congressional team but not the Administration will be commencing with North Korea. At home, new jobless claims have been reduced to their lowest level since Bush took office (the government's household survey shows that 1.8 million new jobs were created in 2002). The markets finished the year with their first gains since 1999 in many instances reversing losses that commenced well prior to the time he took office. At the same time, the domestic Terror Alert has been raised to orange, charges of civil liberty infractions are thought valid by a number of our citizens and the prospect of a terror attack has interrupted our holiday season.

I believe that much good news will be unfolding as the New Year unfolds. However, we are a country at war. And unfortunately, we are a people deeply divided as to domestic politics. Events caused by international terrorism or by the strife of domestic politics could have a sudden, violent impact on our markets. Let's keep informed and vigilant working together to make your investment year a splendid success.

Best regards,

William L. Haas  
Branch Manager, RJFS

*The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of William L. Haas and not necessarily those of RJFS or Raymond James. Expressions of opinion are of this date and are subject to change without notice. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. Past performance may not be indicative of future results.*

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<sup>1</sup> The companies engaged in communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence.

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<sup>2</sup> Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

<sup>3</sup> Gold is subject to the special risks associated with investing in gold and other precious metals including: the price of gold/precious metals may be subject to wide fluctuation; the market for gold/precious metals is relatively limited; the sources of gold/precious metals are relatively limited; the sources of gold/precious metals are concentrated in countries that have the potential for instability and the market for gold/precious metals is unregulated.