

---

FREDERIC T. KUTSCHER ASSOCIATES, INC.

*Comprehensive financial counsel to individuals, families and trusts*

January 31, 2000

We thought you would appreciate a copy of our Markets Summary for 1999. You may be surprised to read how weak the *broader* stock market was for the year. As for overall performance, our clients typically fell into three categories:

\* For those who “bet the farm” on large cap technology stocks, 1999 was a fantastic year.

\*For those with diversified portfolios with a balance among varying classes of stocks and bonds, the year was quite respectable, producing returns often exceeding long-term trends.

\* And for those with risk-averse profiles using mostly bonds and cash, 1999 was “ho-hum” at best.

As we all recognize, your overall investment goals are paramount. But it’s tempting, particularly with the media’s fixation on the big technology stocks, to focus on that hot segment and to dismiss the ugly duckling classes (real estate securities, value stocks and bonds). But what is hot can turn cold, and ugly ducklings can become beautiful in their own time.

Despite the temptations we all share to focus on the standouts, a portfolio should be designed for long-term goals. Its performance is the sum of many parts, not any one index or asset class *per se*. Some of our clients had substantial concentrations in specific stocks or sectors, while others were broadly diversified. Whatever the mixture, we planned yours to reflect your specific goals going into the year.

We’re looking forward to working with you on the challenges and opportunities of 2000 and beyond.

Sincerely,



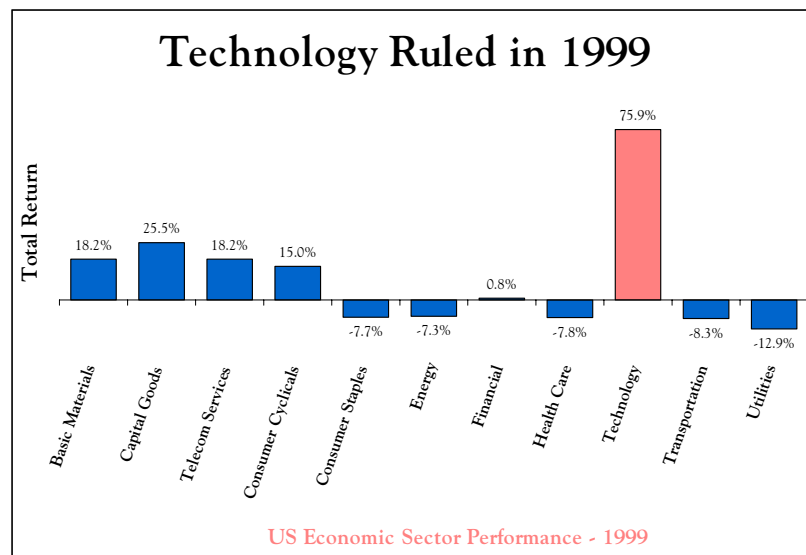
FREDERIC T. KUTSCHER

*Hoge Building  
Suite 800  
705 Second Avenue  
Seattle, Washington  
98104-1711  
Phone 206/382-4414  
Fax 206/382-4412*

## CAPITAL MARKETS SUMMARY

### US Stock Market – The Technology Sector Romps in 1999 and Increases Its Concentration in the S&P 500 Index.

While technology stocks dominated the market in 1999, the broader stock market did not join in the party thrown by the Internet (165% return), computer and telecom darlings. In fact, more stocks on the three major exchanges lost ground than gained. The technology sector was up 76%, dusting the other ten sectors which averaged only 3%!



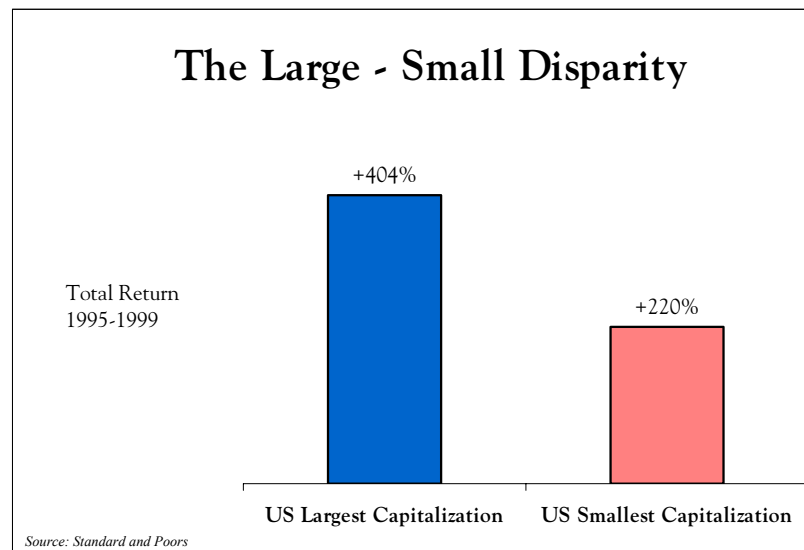
As of year-end 1999, technology stocks made up a staggering 30% of the S&P 500 Index, the most widely used measure of US stock performance. Their representation more than doubled in three years. Not only did the technology concentration say a lot about the popularity of the sector, but it also highlighted the distortion which can occur in a *capitalization-weighted* index like the S&P index when the most popular stocks skew the averages. At the end of 1999 the S&P 500's largest companies made up a bigger portion of the index than at any time since the early 1970s. The top ten stocks led by Microsoft, Intel, GE, and Cisco accounted for 25% of the index's value and performance. In 1999 the 10 biggest companies returned 38.8% on average compared with 4.4% for the bottom 200.

If all the tech stocks were removed from the S&P 500 Index, its return for 1999 would have been almost 18% lower (down from 21% to 3.1%). Lost in all the hype was the fact that over half of the individual stocks in the index lost ground in 1999.

Concentration in any economic sector, company size, or investment style (growth or value) increases the risk of a portfolio. The high price of technology stocks makes the S&P 500's price high too. By year-end, the trailing price-to-earnings ratio of the index had risen to a record 33.4 compared with the historical median of 17.3. By most measures, higher price multiples mean more volatility, making the S&P 500 Index a riskier allocation of stocks than it was a few years back.

### US Stock Market – Five Years of Increasing Thinness (1995-1999)

The five-year trend (for the period 1995-1999) was one of increasing disparity between large company and small company stock returns. Capitalization (outstanding shares x price) really mattered more than quality, giving the markets the air of a popularity contest more than one driven by fundamentals. Only once in the 20th century was the disparity as great, which was from 1933-36 after the market had fallen to its Depression lows. In historical terms, the annualized returns of the largest companies were extraordinarily high in the '95-'99 period, whereas small company returns were closer to their historical averages.

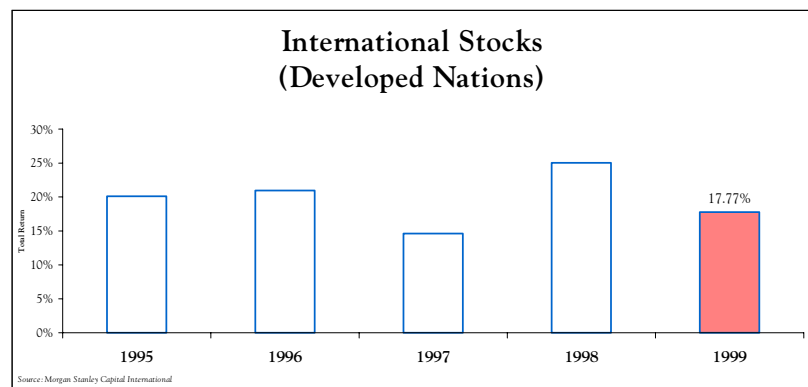


### International Stock Market Performance and Perspective

Worldwide, economic problems that surfaced in the late summer of 1997 finally began to dissipate in 1999, and the international developed country equity markets responded nicely, producing positive returns that were more broadly experienced than the American markets. Japan and Canada experienced a spectacular year, while European markets lagged behind most of the rest of the developed nations. Proving true to their reputations as volatile markets, the emerging countries experienced an

even more spectacular rebound following a depressing 1997 and dismal 1998. Contributing factors for the international investor's positive experience in 1999 included:

- Many industry sectors such as telecommunications experienced privatization and initial public offerings (IPOs). Consolidation also occurred in many sectors. These trends fed the perception that efficiencies would follow bringing profits to shareholders.
- The Euro was successfully introduced in January 1999, reducing currency and pricing barriers for a market rivaling the US's in size.
- Late in the year, European central banks raised interest rates amid fears of inflation. Responsible actions by the central banks provided renewed confidence which was reflected in the rising prices of developed international stocks.
- Asian markets shook off much of the damage from the devaluation contagion of '97-'98. Although most strongly felt in the Asian stock markets, these "re-emerging" economies also contributed to European economies and their stock markets.

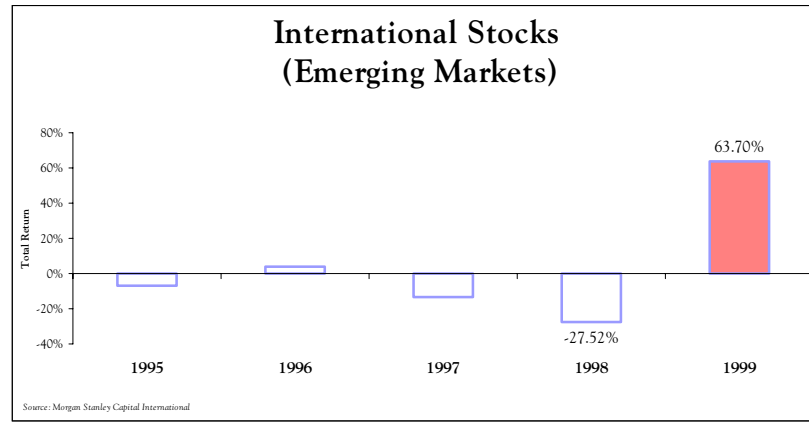


### International Stocks (Emerging Markets) – A Spectacular Year

Returns over the five years (1995-1999) have been quite respectable in the international developed markets, but returns in emerging markets have been much more erratic. Dramatic market recoveries were experienced in Russia and the Far East, as well as in many of the Latin American countries. The price of the emerging markets' securities increased due to many factors, including the following:

- A considerable amount of the recovery in the emerging Asian countries was attributable to Western companies' involvement in their economies. This involvement was made possible by government reforms providing a more open market environment.
- Similar to the international developed countries, there is a privatization movement in the emerging countries.

- Monetary policy reforms created more stable currencies, which is more attractive for foreign investors.



### US Bond Market – 1999 Was Less Than a Stellar Year

Bonds proved to be a disappointment in 1999, showing once again that they do not march in lock step with the stock market. Influencing the lower prices of bonds was the Federal Reserve's three interest rate increases and the market's anticipation that there will be more increases down the road. While economists debate whether the few items that are increasing the Consumer Price Index portend of higher inflation, it is fairly clear that Greenspan has taken the tack that slowing economic growth through interest rate increases will be healthy for the economy in the long run.

- Viewed from a longer perspective of five years, bond returns have been positive.
- Long-term bonds experienced almost a 9% loss in 1999, while bonds with shorter maturities fared better.
- High yield bonds outperformed longer-term bonds in 1999, fared poorly in 1998, but performed equally as well over the five-year period.

