
SPECIAL COMMUNICATION
JULY 22, 2002

Once again, unprecedented and unpredictable events have derailed what looked like the beginning of the market recovery we were anticipating this year. Layered over the collapse of the technology bubble, the horror of September 11, ongoing domestic security concerns, and outright warfare in the Middle East, the capital markets were buffeted this quarter by discoveries of corporate malfeasance that rocked investor confidence and decimated the value of stocks that were once investor icons. Broad market indices that had withstood, and begun to recover from, all the previous pressures, dipped again, and are now fighting to recover momentum.

These revelations have serious implications for all of us, and it's important that we take care to understand where the responsibility for this volatility belongs. A few apparently greedy and dishonest people, in positions of power, betrayed shareholders and employees alike for their own personal gain. In so doing, they created an environment of distrust that is affecting people everywhere who believed that investing in publicly traded companies was the best way to build lifetime financial security. This systematic condition is driving many individual investors to liquidate their equity and debt corporate positions.

Nevertheless, this does not represent the end of the stock markets. Goods and services are still human needs and the gains from the sale of them will keep attracting investors to participate on those gains. While the financial system and institutions complete the implementation process to regulate and avoid further abuses, the most important thing we should do is to assure the essential safeguards of our investment are in place. That is, we need to confirm that we have the required diversification among asset classes, investment styles, sectors, industries and companies.

Diversification continues to be the key in withstanding volatility and securing a sound position from which to move forward as the current crisis ends. Accordingly, at Consultiva we have reviewed all client portfolios to assure that there is no more than 5% invested in one business entity. In addition we have performed different tests to be sure that total portfolios are diversified beyond the asset class level, to the level of sectors, and even individual securities.

After all, we still recommend that clients remain invested in the equity markets. Despite the length and severity of this market decline, the US economy is still the most productive and most resilient in the world. Although investor sentiment is still negative, the US economy is clearly improving, as are investing fundamentals in many market sectors.

The bull market of 1982-2000 was unique in its combination of duration and strength. The correction we are now dealing with seems to have the same characteristics. But when it ends, and when the capital markets of this country

and others begin to recover, we want our clients' assets to be in place to benefit from the critical beginning of the upswing.