



First Quarter Analysis

The market seems to be exhibiting the characteristics of passing the baton from the bears to the bulls. In the past, as downward trending markets reverse their direction, volatility increases as traders try to predict the next move. We are seeing that volatility now. The market started heading lower in mid-January and by mid-March was down 8%. Then the hopes of a quick victory in Iraq and promises of tax relief caused the market to shoot 10% higher over the next two weeks. The market settled at 4% down as the quarter came to a close.

The market's performance for the year was as follows:

DOW: down 4% - *most popular index*
NASDAQ: up 0%
S&P 500: down 4% - *most popular benchmark*
Russell 2000: down 5%

Our total portfolio performance was up 2%. Our investment philosophy prevents us hopping into the market on good news and fleeing for the hills on bad news. Our acquisitions must demonstrate strong fundamentals (e.g. earnings per share, sales growth, debt ratio, industry strength, etc.). Next, we review their technical performance (e.g. recent stock price movement, volume, relative strength to other stocks, institutional support, etc.). Thus, the market's daily gyrations are of secondary importance to our analysis. As you well know, we believe that to be a successful investor, you have to have a sound set of rules for when to buy and when to sell. We don't trade just because the overall market is moving in a particular direction, or we hear a "hot tip". During the market's euphoria the last two weeks of March, the DOW increased 1,000 points. However, we could not find any substantiation for this exuberance. Most of the companies that we were tracking did not meet all the rules needed to institute an acquisition. Thus, our portfolio's return is positive while the markets are still negative.

Our Holdings & 1st Quarter Activity

ACG: Our institutional clients had a decent slice of their portfolios in ACG. We were quite pleased with ACG and mentioned last quarter that we would attempt to purchase more if the opportunity arose. In early February ACG's price fell from \$8.80 down to \$8.20 as a large holder cashed out his position. We felt that ACG was still strong and purchased more shares for our clients at roughly \$8.17. Before we could initiate a second trade, the price moved back up beyond our comfort level. ACG rose but hit resistance at \$8.70. We decided to sell our positions at that level. Since this stock was purchased strictly for the 1% monthly dividend, selling at \$8.70 represented an average 8% yield for our clients or the equivalent of 8 months worth of dividends. Seeing the opportunities that were beginning to arise in the equity markets and wanting to get out of the bond market while others were still trying to get in, we sold on March 31st at \$8.72, yielding an approximate 11% return (combining dividends and capital gains). This



sale also resulted in a tax-favored capital gain versus the ordinary income from dividends. We intend to repurchase ACG when its price decreases to an acceptable level.

IRT: Our favorite REIT over the past several years has been IRT. Unfortunately their performance attracted the attention of a buyer and the company was sold in February. In our opinion, the REIT (EQY) that acquired IRT did not have the same strength that IRT had. Thus we decided to close out our position at \$12.00. Considering that most clients purchased IRT around \$11.15. The dividend yield and the capital gain allowed us to exit this position with decent gains.

TCR: Although TCR's apartment sector has been brutalized by the strength of the housing market, we believe that they are at the bottom of the curve and to sell now would be poor timing. When we read their annual report, we felt that their liquidity during the coming year was not at risk. Also, the stock price does not reflect the market value of their assets. This leads us to conclude that the stock price should recover in the long run and continue the dividend yield of 7% during the recovery period. REITs, like bonds, have been used as a hedge during this past year and will continue to be used in the short term. We hold them for their dividend value. Capital appreciation is only a long term goal.

PEET: We continue to stand by Peet's Coffee & Tea financial position. We are pleased that their price has begun to recover and is off only 4% from our purchase price. Their Net Income more than doubled during 2002 and grocery store locations selling PEET increased from 130 in 2001 to over 1,400 in 2002 due primarily to their agreement with Safeway grocery chain. When we review their annual report, they seem to be the diamond in the rough.

Market Analysis and current forecast

As mentioned earlier, the market appears to be favoring the bulls with gains on heavy volume and declines on light volume. Although the markets have been volatile, the leaders who have broken out have followed through and held onto their gains even though the market has pulled back (e.g. Jacobs Engineering, j2 Global Communications, and PACCAR Inc.). The subtleties of breakouts and follow-throughs might seem esoteric. The point to remember is that all new bull markets flash such heavy-volume gains. But the real confirmation doesn't come until fundamentally strong stocks break out of price bases and lead the market higher.

We've been watching these breakouts very closely. Our conservative side keeps us from wanting to be on the first stocks taking off and our aggressive side is looking for confirmation that breakouts are succeeding so we can participate in the next wave. The earnings season is upon us and will confirm whether or not companies have put their houses in order. We are seeing several fundamentally strong companies forming sound price bases from which to launch breakouts (e.g. Mid Atlantic Medical, Aetna, United Health Group, Wellpoint Health Network, and Anthem). This could lead to a new round of buying for our clients.

We will continue to seek out superior investment opportunities and hedge our holdings. All of our efforts have been, and will continue to be, focused on finding those leaders and delivering



results to you. We are ahead of the market, yielding positive results, and will continue to strive to increase the value of your portfolios.

Other Business

We have included a brochure about Safe Harbor Christian Foundation. We are not aware of any another foundation in the country that provides the same level of services to non-profit organizations and donors without charging them any fees in most cases. We would appreciate your taking a few minutes to read this brochure and then passing it on to someone else, your church, or your favorite charity.

Ameritrade uses the efficiency of electronic communication much more than Fidelity did. If you are not receiving trade confirmations or monthly statements, please let me know.

The quarterly advisor fees will be charged to your accounts next week.

If you have any questions or comments about this analysis, please do not hesitate to call me. We appreciate your relationships.

Sincerely,



Jonathan Davey, CPA MBA
Registered Investment Advisor

April 7, 2003