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IF YOU HATED 2000, YOU'LL REALLY HATE 2001

Comfort for some people takes the form of a 5-mile run. Others enjoy crabcakes at the Green Room. A thick, creamy Charcoal Pit chocolate milk shake does the trick for still others. A John Grisham thriller read in front of a roaring fire on a frigid February day may be your cup of tea. Randy goes to Christ Church every Sunday. Me, I'll take her to Kenan Stadium in Chapel Hill on a warm October afternoon when the sky is Carolina Blue, the weather is mild, the Tarheels are playing football and pray for a victory. Regardless, what's sure is that neither the markets nor the economy provided much solace to any of us in the year 2001.

For the first time in more than 25 years, since 1973-1974 to be exact, the three principal U.S. stock market indices all lost ground for the second year in a row. You may remember that 2000 was not a kind one for the equity markets. That year the DOW was off 6.2%. The S&P 500 lost 10.1%. The NASDAQ was down a staggering 39.3%.

As 2001 began, the nation's best analysts boldly predicted where the S&P would end on December 31st. They all missed the boat. Badly. Some pretty near drowned.

If you had blindfolded them and asked them to throw darts they would have done a better job. Edward Kershner of UBS Warburg, was the most optimistic, predicting an S&P year end figure of 1,715. Abby Joseph Cohen of Goldman Sachs forecast an S&P year-end figure of 1,650. Douglas Cliggott of J.P. Morgan, a real bear, believed the S&P would end the year at 1,400. In point of fact they, as well as their colleagues, all over shot the mark. The S&P 500 lost ground once more and finished at a disappointing 1,158.

Here are the results:

2002 INDEX COMPARISON	%
DOW	- 7.1%
S&P	- 13.04%
NASDAQ	- 21.05%

What will the year 2002 bring? I don't know. I'm not Johnny Carson's Carnack. However, should those three indices still be red on December 31st, 2002, it will be the first time in more than half a century that we have seen three straight down years for all three. You'd have to go back to 1939-1941 to find that.

YEAH, BUT 2002 WILL BE DIFFERENT

So what do the people who are paid to know this kind of thing, those Wall Street analysts, say will happen in the year 2002? Everyone of them, save Mr. Cliggott, believes the S&P 500 will end on a positive note. Mr. Kershner believes we will see a 400 point gain to 1570. Abby says between 1300-1425. Richard Bernstein, the chief analyst at Merrill Lynch and one of the few really good ones, believes we will basically be flat, with the S&P ending at 1200. Only Mr. Cliggott calls for a decline, and of 200 points to 950.

The year 2001 saw the worst profit performance turned in by corporations in a decade. It was the year that the recession finally caught up to us. Interestingly, the government's experts concluded only in September that the recession had hit us. When? In March. If these guys can't do any better with their rear view mirror than wait six months before they discover what was going on, then how can we mere mortals be expected to know what is going on in the present, when we don't have the benefit of half-year hindsight? And of course the year 2001 also brought us September 11th and the attack that shook the foundation of our financial centers.

Stock prices fell to three-year lows last year wiping out all the gains from the NASDAQ composite's 85% run-up in 1999. But losses went much further and much deeper than simply technology last year.

They were spread across the board.

It wasn't really expected to be this way. Alan Greenspan cut rates so often his knife got dull. Nevertheless, the Fed couldn't stop

the direction in which this economy tumbled. It was, in fact, those prospects for falling interest rates which caused most analysts to forecast a rising market. However, stocks fell further and faster than either a rock thrown from the Tyler McConnell bridge or last year's interest rates.

What does this all augur for 2002? Well, do you see the glass as half full or half empty? The analysts predict that we will start seeing a recovery around the second or third quarter. Mr. Greenspan on the other hand urges caution. I personally still think stocks as a whole are expensive. Their PEs still have a Nieman Marcus-type price tags when reviewed historically.

AND BEHIND DOOR #3 IS...?

Dealing with forecasts is a "losers game". So says Mike Farrell, an analyst at David L. Batson. He predicts that the over-investment of the late 1990's will still see more unwinding this year. He notes that consumers have yet to pull back substantially on spending. What will happen if credit card debt can't be serviced? I wonder - both for us here in Wilmington as well as for consumers throughout the country.

I personally like companies with little or no debt. Real estate companies, solid blue-chip, earnings proven, dividend paying behemoths are where I am going to hide for the time being. Bonds, if bought properly on the corporate side can help tremendously. My respected analyst, Merrill's Mr. Bernstein, says equities will grow at a modest 5% this year. That's another argument that having fixed income instruments in your quiver ain't so bad.

Historically the stock market has returned 9% per year. The problem is that it doesn't do that each and every year.

SO WHAT DO I DO NOW, SMARTY-PANTS?

While the markets are poor and the economy is weak, a properly structured portfolio needn't necessarily suffer. Each client's goals and objectives are different; the means and methodologies to achieve those goals are distinct. The beauty of the Westover system is that by staying small we can give individual, personalized attention to each and every one of our clients and at the same time can hopefully see portfolios grow.

HOW DO YOU SPELL RELIEF?

The year 2002 could be an extended year of running, eating, drinking, reading or praying - whatever gives you comfort. Let's just hope that the markets and economy bring us some comfort, too.