

Fall Commentary 2002

LMC INVESTMENT STRATEGY/ TACTICS

One of the greatest advances in the history of market occurred from December 31st, 1990 to March 24th, 2000 with stocks almost quintupling in value based on the S&P 500. This was followed by a retrenchment of about 40%, which has created many buying opportunities.

Lehrer Management Co. does not utilize a single investment policy to manage all its clients' accounts. Although LMC has a general policy, it is modified to take into account individual client needs and the comments made below do not apply

uniformly to every account. Factors taken into consideration in determining the exact policy for each account include risk level, age, health, years to retirement, as well as the current financial situation and status of profitability in the account.

For the past three years, we have tried to maintain high cash and fixed income positions in the accounts to insulate our clients from the volatility in the market. This approach has been successful. This year we have been liquidating securities whose future no longer looks promising. Also, profits have been taken through the partial liquidation of securities which reached elevated levels, but

still may have further potential. We are conservatively adding, or will add to existing positions, where particular securities have declined but still look promising. Since the end of the year is approaching, we are attempting to minimize income tax liabilities by offsetting capital gains with capital losses wherever possible.

The decline in interest rates has caused us to change our strategy in the municipal bond

market. Previously we emphasized the purchase of long term municipal bonds in the maturity range of twenty to thirty years. Current long-term issues with lower coupons would be highly vulnerable to price declines when interest rates rise.

We are therefore primarily focusing on the purchase of shorter term issues with maturities of five to twenty years which will be less vulnerable to increases in interest rates.

The current market environment and the type of economic cycle we're headed into provide their own unique set of opportunities. The overall weakness of the market has led to reasonable valuations not seen in years. According to Valueline, the market multiple of stocks with earnings is about 16x, which is around its historic average. As the market consolidates, we look for the market to trade on fundamentals instead of analysts' expectations and media hype. This offers

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LMC a great opportunity to buy equities at reasonable valuations for its clients, where appropriate.

MARKET COMMENTARY

The fundamental thought is that the prices of many stocks have overdiscounted the negative factors in the economy producing an unusual buying opportunity. That is not to say that the stocks which were the previous high fliers are the ones which offer the greatest opportunity. The greatest opportunity probably lies with stocks having sustainable earnings.

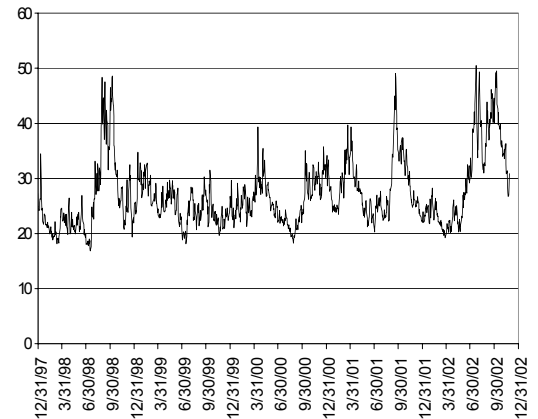
Negative factors include the September 11th, 2001 attack, declines in consumer sentiment and manufacturing activity, as well as lackluster retail sales and the threat of war with Iraq.

There are several positive factors. On January 3rd, 2001, Alan Greenspan and the Federal Reserve Board cut the bank discount rate from 6% to 5.75%. This has been followed by several other reductions in the bank discount rate which is currently at .75% and inevitably such reductions lead to substantial recoveries in the equity markets. The Gross Domestic Product grew at an annual rate of 3.1% in the third quarter of 2002 compared to 1.3% in the second quarter of 2002.

Moreover, the stock market's volatility reached cathartic levels. The value of The Chicago Board of Options Volatility Index (VIX), created to gauge the volatility of the 1987 crash, reached 55.88 in July and again was over 50 intra-day in early October. The other times the VIX has been greater than 50 was in September 2001 and October-November 1987, both representing outstanding buying opportunities in the market.

Over the last three years, we have experienced a historic bear market punctuated by several tumultuous events. Going forward, we believe

Chicago Board of Options VIX 12/31/97-11/8/02



Source: www.CBOE.com

the accounting scandals will lead to conservatism and more prudent practices by corporate leadership. This will create a more dependable fundamental environment for the investor. Also, segregation of the research arms from the investment banks will provide more objective research. Companies in the future will be rewarded for a solid business strategy, as opposed to stock prices advancing due to excessive unrealistic expectations and hype. These changes should form the basis of a much stronger investment environment rooted in strong fundamentals and tempered growth in the future.

LMC feels that the changes in the market will result in positive outcomes. With valuations of equities at more reasonable levels than seen in previous years, we feel the current market offers many opportunities.

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