January 5, 2000

Dear Clients:

It is in the spirit of the new decade that I am breaking a precedent of twenty-three years. This letter sets forth some thoughts I want to share with you.

First of all, I approach the decade with optimism and a renewed commitment to you and the investment world. I also believe that our firm's resources are greater than they have been and while we expect the inevitable hiccup, the large investment in technology that we have made over the last several years should begin to pay off in portfolio management and client reporting. We remain a client-centered firm in a business, which has increasingly shifted towards professionally managed and profit-oriented companies. With our new web site, www.spectrumadvisory.com, and the increasing availability of e-mail among you, I hope we will improve our communications with you.

The last several years have seen the U.S. stock market reach new heights of speculative activity. By all measures, we have exceeded the prior peaks in the late 1920s and late 1960s. Like these prior periods, enthusiasm for new technology and confidence in America's dominance has fueled the flames of speculation. While I share the reasons for confidence, it is important to realize that the fundamentals of sound investment, badly neglected though they have been in the recent past, remain intact. Business values must continue to be based on cash that the owners could take out of the business without impairing its future. Ultimately the share price of companies must stay in touch with that reality. In the shorter term, psychology, peer pressure, momentum can and have ruled.

Today popular books argue that equity risk is over-rated. They assert that over the long term, common stock investing is virtually without risk. In the 1930s, 1940s and 1970s, articles spoke of "insecurities" instead of securities and proved just as convincingly that the stock market was a poor choice for savings.

I would put the matter differently. An important distinction exists between market losses due to fluctuations in prices and permanent loss of capital. Any share price, even that of a company which is "undervalued", can decline over a period of time. But in the absence of a distinct deterioration in the company’s business, it will not prove lasting. If, however, investments are made without regard to sound valuation or for reasons of speculation, permanent loss of capital can result. Likewise, a balanced, diversified portfolio may suffer temporary loss of value, but permanent damage will occur to portfolios that lack diversification or proper balance.

Today's climate reflects the uneven stock market of the last two years. The majority of stocks on the New York Stock Exchange have languished while institutional stocks, heavily weighted in the averages, have flourished. More than any market since the 1960s, segments of the market carry the risk of permanent impairment of capital. Likewise, it contains opportunities for long-term growth of capital in well-run companies at reasonable prices and in certain new areas of promise. At Spectrum, we think our ability to distinguish between the two will prove valuable as this decade begins.

To our clients, we pledge nothing less than our best judgment and efforts. Welcome to the new decade.

Sincerely,

Marc S. Heilweil