

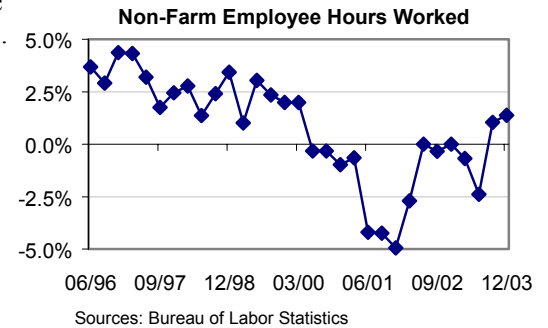


# MARKET UPDATE

Asset Consulting Group, Inc.

January 2004

**The Economy-** Despite falling short of economists' estimates, fourth-quarter GDP growth remained robust at an annualized 4%, with positive contributions from all major segments of the economy – a sign that the economic expansion is broadening. Consumer spending, business and residential investment, net exports, inventory accumulation, and government spending all contributed positively to economic growth for the first time since the fourth quarter of 1999. Also encouraging, GDP growth fell short of the 5% consensus estimate due to lower-than-anticipated inventory accumulation and government spending, two components that will likely rebound in the near future. Inventory growth will ultimately have to match the accelerated growth in final sales, while government spending is unlikely to continue rising at an annualized pace of just 0.8%. For the entire second-half of 2003, real GDP grew an annualized 6.1%, the strongest pace since the first half of 1984. This torrid pace of growth occurred with only slight contributions from inventory accumulation and defense spending, a positive for economic growth in 2004. Inflation remained tame in the fourth quarter as the GDP price deflator rose just 1%. As the pace of economic growth slowed from the third quarter's unsustainable 8.2% rate, non-farm productivity growth moderated from 9.5% in the third quarter to 2.7% in the fourth quarter, in line with its ten-year trailing average of 2.71%. Overall non-farm output climbed 4.2% in the fourth quarter, while employee hours increased 1.5%, rising for the second straight quarter for the first time since March of 2000 (see chart). Rising employee hours indicate that businesses are reaching the limit of the amount of output that can be generated by its current employees. As businesses squeeze as much output-per-hour as possible from the current workforce, hiring is poised to rise along with demand-driven output growth. With the number of hours worked on the rise and the current workforce becoming increasingly stretched, the labor market has continued to improve. The economy has now added jobs for five straight months, including 112,000 in the month of January, the biggest increase in more than three years. While the absolute level of job growth remains below average, the overall trend is positive and growing. January's jump in jobs growth was accompanied by a strong start for the year in overall economic activity. The Institute For Supply Management's (ISM) manufacturing activity index climbed to a new 20-year high, and the ISM service-sector index reached its highest level since its 1997 inception. According to a January Bloomberg survey, economists are now projecting first-quarter GDP growth of 4.2% and 2004 full-year growth of 4.4%.



**Equities-** Amid better-than-expected fourth-quarter earnings reports and robust economic data, U.S. equities began the year strong as the S&P 500 jumped 1.84% in January. Of the more than 390 companies in the S&P 500 that have reported fourth-quarter earnings, 68% have topped analysts' expectations, while only 13% have disappointed. The fourth-quarter growth in operating earnings for all 500 companies in the S&P 500 versus the same period a year earlier is now expected to exceed 25%. According to Thomson First Call data, analysts now expect the S&P 500's operating earnings per share to grow 13% in 2004, following growth of 17% in 2003. The S&P 500 Barra Growth index, up 1.90%, outperformed its value counterpart by just 0.13% in January as both the growth and value styles continued to perform well. Small-cap stocks once again dominated large-cap stocks as the Russell 2000 index surged 4.34%. Since the stock market's bottom last March, the Russell 2000 index has returned more than 60%.

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**Fixed Income-** January was a volatile month for interest rates and bonds, capped by a late month surprise from the Federal Reserve. After beginning the year at 4.26%, the ten-year Treasury yield fluctuated between a closing low of 3.98% and a high 4.40%, ultimately finishing the month 0.11% lower at 4.15%. The moderate drop in yields drove the Lehman Aggregate to a 0.80% monthly return. All major non-Treasury segments of the index delivered excess returns over U.S. Treasuries, as the option-adjusted yield spread to Treasuries remained relatively unchanged. The Lehman U.S. Corporate High Yield index posted another solid month of performance as its option-adjusted spread to Treasuries tightened another 0.20% to 3.74%. Fixed income returns were even stronger until an unanticipated move by the Federal Reserve following its January 28th Federal Open Market Committee (FOMC) meeting sparked a moderate sell-off in the bond market. By merely noting that the committee could “be patient in removing its policy accommodation”, the Fed signaled another step in the progression toward an eventual increase in its overnight benchmark rate from its current level of 1%. This step toward an eventual rise in the fed funds rate followed a change in the Fed’s assessment of inflation in December away from a risk of disinflation to a more balanced inflation outlook (*see table*). The Fed has been very slowly and methodically preparing investors for an inevitable rise in the fed funds rate. As they expect the current pickup in economic growth to eventually lead to firmer inflation and a stronger labor market. Two concrete signs of those trends would be a reversal in the disinflationary trend in core-CPI (CPI excluding food and energy prices) growth and sustained monthly payroll growth above 150,000 new jobs – the minimum number of new jobs that many economists believe is necessary to support a sustained decline in the unemployment rate. Through December, year-over-year growth in the core-CPI index was still at a 38-year low of 1.1%, while the economy added only 112,000 jobs in January. For bond investors, the Fed’s recent actions suggest that a sustained return to a sub-4% yield on the ten-year Treasury in coming months is becoming less likely, while the probability of higher short-term interest rates is increasing.

### FOMC Policy Statements

Date	Probability of a Fall in Inflation:	Overall Policy Assessment:
10/28/03	"Exceeds that of a rise."	"Accommodation can be maintained for a considerable period."
12/9/03	"Appears almost equal to that of a rise."	"Accommodation can be maintained for a considerable period."
1/28/04	"Appears almost equal to that of a rise."	The Fed "can be patient in removing its policy accommodation."

**International-** Currency shifts had little effect on the overall 1.42% return of the MSCI EAFE index in January as international markets failed to keep pace with the U.S., weighed down by weak returns in Japan and Britain. Buoyed by double-digit percentage gains in Indonesia, Korea, Venezuela, and Egypt, the MSCI Emerging Markets Free index surged 3.55% in January as emerging equity markets outperformed their developed market counterparts. The Lehman Global Treasury Ex-U.S. index posted a modest 0.33% return for the month, while the Lehman Emerging Market debt index returned just 0.46%. Japan continued to sell its own currency in January in an attempt to prevent the yen’s rapid appreciation versus the U.S. dollar from crimping the country’s export growth. During the fourth quarter of 2003, Japan sold a record 5.9 trillion yen (\$55.8 billion), but the currency still continued to strengthen. Moving a few steps ahead of the U.S. Federal Reserve, the Bank of England raised its benchmark interest rate by 0.25% for the second time in four months, stating that the “world economic recovery has become more broadly based.” Citing stronger domestic growth, the bank noted that “inflationary pressures are likely to pick up gradually over the next couple of years,” even though inflation has remained below the bank’s target of 2% since 1998. At the same time, the European Central Bank again elected to keep its overnight rate unchanged.

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# INDICES REPORT

Asset Consulting Group, Inc.

Periods Ending January 31, 2004

Index Name	Style	Returns							
		Month	Qtr	YTD	2 Qtrs	1 Year	3 Years	5 Years	10 Years
<b><u>Domestic Equity Indices</u></b>									
S&P 500	Large Cap Stocks	1.84%	8.12%	1.84%	15.23%	34.58%	(4.57)%	(1.02)%	10.90 %
S&P Equal Weighted	Large Cap Stocks	2.41%	10.14%	2.41%	21.16%	48.61%	4.82%	6.89%	12.58 %
DJIA	Large Cap Stocks	0.46%	7.60%	0.46%	14.86%	33.19%	0.80%	4.23%	12.46 %
Russell 1000	Large Cap Stocks	1.90%	8.06%	1.90%	15.52%	35.65%	(4.21)%	(0.46)%	10.87 %
Russell 1000 Growth	Large Cap Growth	2.04%	6.68%	2.04%	14.23%	35.69%	(10.76)%	(5.81)%	9.18 %
Russell 1000 Value	Large Cap Value	1.76%	9.50%	1.76%	16.86%	35.60%	1.68%	3.76%	11.66 %
Russell Mid Cap	Mid Cap Stocks	2.91%	8.96%	2.91%	20.84%	47.11%	3.91 %	7.89%	12.19 %
S&P Mid Cap 400	Mid Cap Stocks	2.17%	7.51%	2.17%	19.03%	42.74%	4.82 %	10.56%	13.91 %
Russell 2000	Small Cap Stocks	4.35%	10.24%	4.35%	22.67%	58.03%	5.97%	7.76 %	9.60 %
Russell 2000 Growth	Small Cap Growth	5.25%	9.17%	5.25%	21.81%	60.70%	(2.90)%	1.00%	5.69 %
Russell 2000 Value	Small Cap Value	3.46%	11.31%	3.46%	23.53%	55.45%	14.09 %	13.56 %	12.69 %
NASDAQ Composite	All Cap Stocks	3.13%	6.93%	3.13%	19.08%	56.41%	(9.35)%	(3.79)%	9.94 %
Wilshire 5000	Broad Equities	2.23%	8.32%	2.23%	16.39%	38.07%	(2.97)%	0.15%	10.49 %
<b><u>International Indices</u></b>									
MSCI World	Global Stocks	1.63%	9.70%	1.63%	19.53%	40.18%	(3.67)%	(0.55)%	7.04%
MSCI World Ex US	International Stocks	1.39%	11.65%	1.39%	25.35%	46.97%	(2.05)%	0.95%	4.31%
EAFE	International Stocks	1.42%	11.80%	1.42%	25.44%	47.28%	(2.14)%	0.59%	4.07%
EAFE Growth	International Stocks	1.96%	11.54%	1.96%	24.21%	42.10%	(4.82)%	(3.44)%	1.78%
EAFE Value	International Stocks	0.90%	12.06%	0.90%	26.63%	52.47%	0.49%	4.47%	6.28%
MSCI Emerging Markets Free Cap	Emerging Markets	3.26%	11.75%	3.26%	29.66%	57.41%	6.42%	9.18%	(1.84)%
IFCI Composite	Emerging Markets	3.42%	12.38%	3.42%	31.70%	62.38%	12.02%	13.03%	0.47%
MSCI Japan	Regional Stocks	1.81%	5.50%	1.81%	29.19%	44.21%	(3.86)%	0.30%	(3.03)%
<b><u>Domestic Fixed Income Indices</u></b>									
Treasury Bills	Short Bonds	0.08%	0.26%	0.08%	0.52%	1.13%	2.24%	3.60%	4.41%
Lehman Intermediate G/C	Intermediate Bonds	0.66%	1.68%	0.66%	3.51%	5.00%	7.32%	6.67%	6.57%
Lehman Intermediate Aggregate	Int. Core Bonds	0.65%	1.79%	0.65%	3.76%	4.38%	6.96%	6.66%	6.70%
Lehman Aggregate	Core Bonds	0.80%	2.07%	0.80%	4.48%	4.85%	7.28%	6.64%	6.89%
Citi Broad Investment Grade	Core Bonds	0.83%	2.13%	0.83%	4.56%	4.98%	7.28%	6.64%	6.90%
Lehman Govt/Credit	Core Bonds	0.91%	2.18%	0.91%	4.76%	5.63%	7.76%	6.69%	6.91%
Lehman Long Govt/Credit	Long Bonds	1.73%	3.82%	1.73%	8.96%	7.71%	9.25%	7.09%	7.96%
Lehman Government	Government Bonds	0.83%	1.84%	0.83%	3.89%	3.45%	6.90%	6.31%	6.66%
Lehman Mtg Backed Securities	Mortgage Bonds	0.63%	1.92%	0.63%	4.04%	3.47%	6.32%	6.53%	6.85%
Lehman Muni 10 Yr	10 yr Municipal Bond	0.42%	2.57%	0.42%	6.12%	6.71%	6.49%	5.67%	6.04%
Lehman U.S. Credit Index	Corporate Bonds	1.01%	2.60%	1.01%	5.88%	8.44%	8.91%	7.11%	7.33%
Merrill Lynch High Yield	High Yield Bonds	1.56%	5.34%	1.56%	11.80%	25.59%	8.58%	5.59%	7.13%
ML High Yield Conv	Convertible Bonds	0.73%	4.19%	0.73%	7.28%	12.13%	1.00%	4.07%	N/A

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