

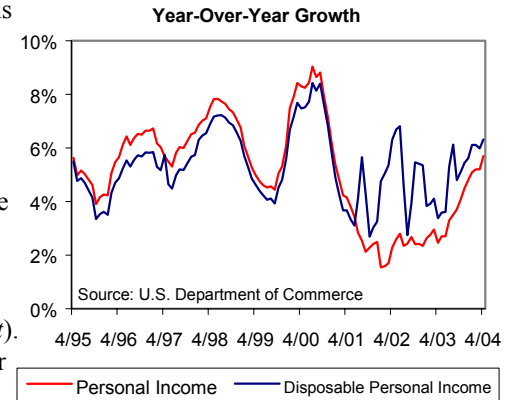


# MARKET UPDATE

Asset Consulting Group, Inc.

May 2004

**The Economy-** Another month of strong economic activity and robust job growth has cemented market expectations of a Federal Reserve interest-rate hike on June 30. The Institute for Supply Management's (ISM) manufacturing index rose 0.4 points to 62.8 in May, its highest level since January and the seventh straight monthly reading above 60 (a level above 50 indicates expansion in the sector). The ISM service-sector index fell 3.2 points to 65.2 from its all-time high in April, but still recorded the third-strongest month in the index's seven-year history. The May ISM index readings suggest that U.S. economic growth has remained above 4% in the current quarter, with few signs of slowing. Undaunted by surging oil prices and moderately higher long-term interest rates, U.S. auto sales jumped 8.5% to an annualized pace of 17.8 million vehicles in May, the highest level since last August. The strongest year-over-year economic growth in twenty years has led to a resurgence in new hiring, calming fears that weak job and income growth might slow the economic expansion. The economy added 248,000 new jobs in May, topping economists' estimates by 23,000 jobs, while the previous two months' figures were revised higher, producing the largest three-month jobs growth in more than four years. The jump in hiring has coincided with a surge in U.S. personal income growth. While disposable personal income growth, which measures income left over after paying for taxes and basic necessities, remained solid over the last few years as tax cuts supported consumer spending. Top-line personal income growth, which is measured before taxes, lagged, reflecting a weak job market (*see chart*). Earlier this year, many economists feared that consumer spending might falter in the face of a weak labor market as the immediate effects of the 2003 tax cuts on income growth subsided, driving expectations that the Federal Reserve would leave interest rates unchanged in 2004. Surging economic growth and recent improvements in the labor market have fueled a rebound in the growth of personal income, reinforcing the economy's ability to withstand higher short-term interest rates. Following the release of the stronger-than-expected May jobs report, the rate on the July fed funds futures contract on the Chicago Board of Trade rose to 1.27%, reflecting market expectations of a 100% probability of a 0.25% increase in the fed funds rate to 1.25% at the Fed's June 30<sup>th</sup> meeting. The January 2005 fed funds contract is now at 2.28%, suggesting an additional 1% increase in the overnight rate by the end of the year.



**Equities-** Rising for the first time in three months, the S&P 500 returned 1.37% in May, led by a rebound in cyclical sectors. The Technology, Materials, Industrial, and Financial sectors of the S&P 500, among the sectors that are most sensitive to changes in the business cycle, all outperformed the broad index in May, offsetting weaker returns from more defensive sectors (*see table*). In contrast, on a year-to-date basis, defensive sectors have still outperformed their cyclical counterparts by a wide margin. Reflecting these trends, the S&P 500 Barra Growth index outperformed the Barra Value index by 0.45% in May, but still trails the value index by 0.96% for the year. Analysts expect the strongest earnings growth over the next few years to emerge from the more cyclical sectors. According to Thomson Financial, the Technology, Materials, Industrial, and Consumer Discretionary sectors are the only four broad S&P 500 sectors expected to produce stronger operating earnings growth in 2004 and 2005 than that of the broad index. The Telecom and Energy sectors are expected to produce the weakest earnings growth. The Russell 2000 index of small-cap stocks returned 1.59% in May, topping the S&P 500 by 0.22%. On a year-to-date basis, the Russell 2000 still holds a small 0.98% return advantage over the S&P 500.

S&P 500 Sectors - Total Return	May	YTD
	2004	2004
Technology	4.97%	-2.47%
Materials	2.46%	-4.17%
Industrials	2.44%	1.26%
Financials	1.84%	1.88%
<b>S&amp;P 500</b>	<b>1.37%</b>	<b>1.47%</b>
Utilities	0.91%	2.19%
Cons. Discret.	0.77%	0.42%
Energy	-0.57%	7.52%
Healthcare	-0.14%	2.39%
Cons. Staples	-1.24%	5.62%
Telecom	-4.10%	0.81%

Data Source: Bloomberg

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**Equities- (cont'd)**- The Wilshire Micro Cap index, which consists of all stocks in the Wilshire 5000 with market capitalization's below that of the largest 2,500 companies in the index, lost 0.96% in May, but is still up 3.43% this year.

**Fixed Income-** Amid rising inflation expectations and the specter of a near-term Federal Reserve interest-rate hike, the ten-year Treasury yield rose 0.13% in May to 4.66%, driving the Lehman Aggregate index to a -0.40% return for the month. The difference between the nominal ten-year Treasury yield and the inflation-protected ten-year Treasury yield, a measure of market expectations for inflation over the next decade, widened to 2.69% by the end of May from 2.42% at the beginning of the month. The broad Lehman Aggregate underperformed similar-duration Treasury securities as weak returns in the corporate sector offset marginal outperformance from the mortgage and asset-backed sectors. The Lehman Credit index trailed similar Treasury securities by 0.30% in May, its worst month since September of 2002. Despite improving credit fundamentals, corporate bonds have now underperformed similar-duration U.S. Treasury securities on a year-to-date basis. Indicative of improving fundamentals, the ratio of the number of Moody's investment-grade corporate bond credit-rating downgrades to upgrades has fallen to 0.76 in 2004, indicating that more bonds are being upgraded than downgraded for the first time since 1998. In line with the decline in investment-grade corporate bonds, the Lehman U.S. Corporate High Yield index fell 1.69% in May, erasing its positive year-to-date return, despite a continued improvement in the level of defaults. According to Lehman Brothers, the U.S. high-yield default rate fell to a five-year low of 3.82% in May, down from 4.29% in April and a peak of 10.59% in February of 2002.

**International-** Despite a weaker U.S. dollar, the MSCI EAFE index trailed U.S. stocks in May, returning 0.43%. A stronger euro more than offset a slightly weaker yen as currency shifts added more than 1.7% to the index's -1.27% local-currency return. The Lehman Global Treasury Ex-U.S. index rose 0.75% on a US-dollar basis, but fell 0.14% on a local-currency basis as interest rates rose across the majority of international fixed-income markets. Over the last year, the yield on the ten-year Japanese government bond has more than tripled from 0.43% to nearly 1.68% in an environment of accelerating economic growth. Japan's economy grew an annualized 5.6% in the first quarter, surpassing economists' expectations and fueling optimism that the return of strong consumer spending may finally support a sustained economic expansion. While real Japanese economic growth has accelerated, deflation is still prevalent. Japan's GDP price deflator, a measure of price changes within the country, was an annualized -2.6% in the first quarter. The European Central Bank (ECB) once again decided to leave interest rates unchanged as first-quarter GDP growth in the euro region, while less than half that of the U.S. and Japan, appears to be coming in moderately higher than economists' expectations. The ECB is forecasting a "gradual" recovery for the euro region this year. The MSCI Emerging Markets index lost 1.97% in May, bringing its year-to-date return to -1.23%. Over the last two months, concerns over China's decision to attempt to slow its rapid pace of growth and a shift toward tighter monetary policy in the U.S. have driven the index down 9.98%.

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# INDICES REPORT

Asset Consulting Group, Inc.

Periods Ending May 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 Core	1.37%	(1.73)%	1.47%	6.79%	18.33%	(2.13)%	(1.52)%	11.33 %
S&P Equal Weighted	Large Cap Core	1.96%	3.88%	8.62%	14.43%	32.91%	6.84%	6.15%	13.76 %
DJIA	Large Cap Core	(0.14)%	(3.26)%	(1.71)%	5.19%	17.64%	(0.19)%	1.19%	12.75 %
Russell 1000	Large Cap Core	1.44%	(1.75)%	1.50%	6.36%	18.92%	(1.66)%	(1.02)%	11.33 %
Russell 1000 Growth	Large Cap Growth	1.86%	(1.19)%	1.47%	4.98%	18.03%	(4.88)%	(5.44)%	9.65 %
Russell 1000 Value	Large Cap Value	1.02%	(2.31)%	1.54%	7.79%	19.82%	1.40%	1.98%	12.10 %
Russell Mid Cap	Mid Cap Core	2.48%	(1.26)%	3.80%	6.91%	27.17%	5.13 %	6.67%	12.84 %
S&P Mid Cap 400	Mid Cap Core	2.08%	(0.86)%	3.72%	5.47%	26.74%	5.65 %	9.70%	14.81 %
Russell 2000	Small Cap Core	1.59%	(2.69)%	2.45%	4.53%	30.29%	5.98%	6.69 %	10.09 %
Russell 2000 Growth	Small Cap Growth	1.99%	(2.68)%	2.28%	2.73%	29.77%	(0.42)%	(0.08)%	6.33 %
Russell 2000 Value	Small Cap Value	1.21%	(2.70)%	2.61%	6.33%	30.81%	11.78 %	12.50 %	13.05 %
NASDAQ Composite	Broad Equities	3.47%	(2.12)%	(0.83)%	1.35%	24.49%	(2.01)%	(4.27)%	10.45 %
Wilshire 5000	Broad Equities	1.38%	(1.84)%	1.81%	6.38%	20.46%	(0.48)%	(0.45)%	11.00 %
<b><u>International Equity Indices</u></b>									
MSCI World	Broad Global	0.98%	(1.65)%	1.66%	8.06%	24.17%	(0.41)%	(0.85)%	7.30%
MSCI World Ex US	Broad International	0.47%	(1.67)%	1.99%	9.81%	32.11%	2.04%	0.94%	4.51%
EAFE	Developed Markets Intl	0.43%	(1.16)%	2.57%	10.59%	33.17%	2.07%	0.73%	4.29%
EAFE Growth	Developed Markets Intl Growth	(0.11)%	(2.42)%	1.39%	8.37%	27.38%	(0.04)%	(2.52)%	2.01%
EAFE Value	Developed Markets Intl Value	0.97%	0.08%	3.73%	12.81%	39.07%	4.11%	3.79%	6.48%
MSCI Emerging Markets Free Cap	Emerging Market	(2.27)%	(9.73)%	(2.60)%	4.34%	36.72%	9.22%	2.93%	(1.37)%
IFCI Composite	Emerging Market	(1.36)%	(7.14)%	0.66%	8.00%	43.44%	14.17%	7.23%	1.49%
MSCI Japan	Japanese	(3.51)%	3.51%	5.07%	12.36%	48.97%	(2.40)%	(0.89)%	(3.36)%
<b><u>Domestic Fixed Income Indices</u></b>									
Treasury Bills	Cash	0.09%	0.25%	0.41%	0.51%	1.06%	1.79%	3.37%	4.32%
Lehman Intermediate G/C	Intermediate Govt/Credit Bonds	(0.45)%	(2.05)%	(0.40)%	0.47%	(0.43)%	6.23%	6.70%	6.86%
Lehman Intermediate Aggregate	Int. Core Bonds	(0.35)%	(1.86)%	(0.28)%	0.68%	0.34%	5.93%	6.60%	7.00%
Lehman Aggregate	Core Bonds	(0.40)%	(2.26)%	(0.42)%	0.60%	(0.45)%	6.29%	6.76%	7.30%
Citi Broad Investment Grade	Core Bonds	(0.43)%	(2.28)%	(0.41)%	0.59%	(0.39)%	6.28%	6.76%	7.30%
Lehman Govt/Credit	Govt/Credit Bonds	(0.51)%	(2.68)%	(0.59)%	0.39%	(1.52)%	6.76%	6.95%	7.36%
Lehman Long Govt/Credit	Long Govt/Credit Bonds	(0.71)%	(4.74)%	(1.26)%	0.08%	(4.83)%	8.33%	7.74%	8.74%
Lehman Government	Government Bonds	(0.37)%	(2.52)%	(0.53)%	0.35%	(2.27)%	6.14%	6.59%	7.09%
Lehman Mtg Backed Securities	Mortgage Bonds	(0.22)%	(1.56)%	(0.11)%	0.96%	1.50%	5.37%	6.34%	7.17%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	0.06%	(3.26)%	(1.14)%	(0.10)%	(0.40)%	5.63%	5.63%	6.38%
Lehman U.S. Credit Index	Corporate Bonds	(0.70)%	(2.90)%	(0.68)%	0.43%	(0.57)%	7.57%	7.34%	7.88%
Merrill Lynch High Yield	High Yield Bonds	(1.60)%	(1.62)%	(0.13)%	2.19%	11.34%	7.60%	5.04%	7.55%
Merrill Lynch Conv US	Convertible Bonds	0.37%	(1.19)%	2.08%	4.51%	12.45%	6.20%	7.30%	N/A

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