

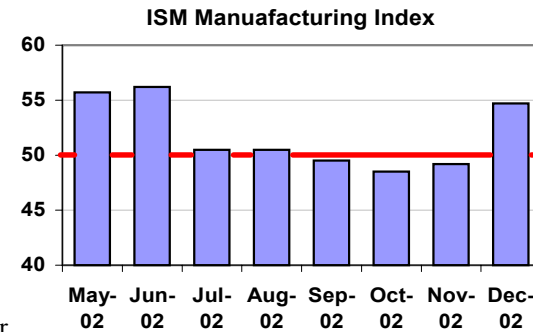


MARKET UPDATE

Asset Consulting Group, Inc.

December 2002

The Economy- As 2003 begins, many economists are asking themselves the same question they were one year ago – what catalyst will push the economy out of its doldrums and into high gear. On December 10, the Federal Reserve voted to leave interest rates unchanged, noting that recent economic indicators “are not inconsistent with the economy working its way through its current soft spot.” The Fed’s unenthusiastic assessment of the economy’s recent performance is a reflection of the economy’s seemingly persistent inability to make it over the steep hill it has been facing since the end of the 2001 recession. Despite numerous attempts over the past year, the economy has never made it over the top. The economy has grown for at least four straight quarters, and still the unemployment rate is stuck at an eight-year high. The weak labor market has supported tepid consumer spending growth that many economists believe may have resulted in the worst holiday shopping season in three decades. Weak demand from both businesses and consumers has resulted in a new downturn in the manufacturing sector following 2002’s first-half, inventory-led rebound. Meanwhile, a gradual turnaround in corporate profits has failed to invigorate the stock market, which has fallen for three straight years for the first time in 60 years. A slight improvement in economic data in recent weeks suggests that the economy is making another run at the hill. The Conference Board’s leading indicators index posted its biggest gain in a year in November. The ISM manufacturing index jumped to 54.7 in December (see chart), indicating expansion in the manufacturing sector for the first time in four months (a reading above 50 signals expansion). Consumer confidence continued to stabilize in December, while the housing market remained strong, supporting moderate growth in consumer spending. Despite the economy’s recent signs of life, many economists are still waiting for a major economic catalyst to emerge for 2003. That catalyst may have to come from the geopolitical front. At its November meeting, the Fed noted that “greater uncertainty, in part attributable to heightened geopolitical risks, is currently inhibiting spending, production, and employment.” Rising tensions with North Korea and the prospect of war with Iraq will likely continue to weigh on the U.S. economy and financial markets in the months ahead.



Data Source: ISM

Equities- A holiday rally failed to materialize as the S&P 500 steadily faltered into year-end, finishing December down 5.88%. Value stocks outperformed growth stocks by a small margin, while small-cap stocks once again topped their large-cap counterparts. The year 2002 poignantly illustrated the advantages of portfolio diversification across asset classes. Equity investors had nowhere to hide in 2002 as all four major equity styles (large, small, growth, and value) converged to finish the year down by at least 20%. The gap between value and growth stocks continued to narrow as the S&P 500 Barra Value index, down 20.85% on the year, outperformed the Barra Growth index by just 2.74%. The Russell 2000 plummeted 20.48% in 2002, besting the S&P 500 by only 1.62%. All ten sectors of the S&P 500 finished the year with negative returns. The carnage was felt globally, as the MSCI World index lost 19.54% in 2002. Conversely, the Lehman Aggregate surged 10.26% in 2002, while the CSFB Tremont Hedge Fund Index had risen 1.96% through the end of November. Despite the S&P 500’s two straight years of negative returns through 2001, a diversified portfolio of investments easily outperformed the index again in 2002, once again underlining the danger of trying to time the markets with concentrated, undiversified portfolios. The S&P 500 has now fallen for three straight years for the first time since 1941. The index last fell for four straight years in 1932. Interestingly, despite the losses of the past three years, the S&P 500 has returned 9.3% per year over the past decade and 11.5% per year since 1987, emphasizing the long-term nature of the stock market.

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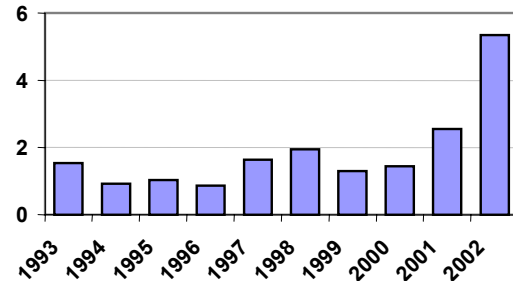
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Fixed Income- The ten-year Treasury yield fell 0.39% in December and corporate bonds posted their second stellar month in a row, fueling a 2.07% return for the Lehman Aggregate. The index's return was limited by weak performance in the mortgage-backed bond sector. For all of 2002, the Lehman Aggregate returned 10.26%, pulling its three-year trailing annualized return upward to 10.1%. Within the Aggregate index, riskier bonds underperformed in 2002, despite the strong year-end rally in corporates. The U.S. investment-grade credit sector posted a 1.87% negative excess return to benchmark Treasury securities, while corporate high yield bonds underperformed Treasury securities by 13.29%. The underperformance of corporate credit was indicative of steadily deteriorating average credit quality. For all of 2002, Moody's Investors Service downgraded its credit ratings on 246 investment-grade credits, while upgrading just 46, a ratio of more than 5-to-1, more than twice 2001's ratio of 2.6-to-1, and more than three times the nine-year trailing average downgrade/upgrade ratio of 1.5. Nevertheless, the corporate bond sector is entering 2003 with positive momentum and improving fundamentals. Corporate bonds have outperformed U.S. Treasury securities for two months in a row, corporate earnings have grown for three straight quarters, and the 12-month trailing global high-yield default rate peaked in early 2002 and has declined nine of the last 11 months to 8.7% through the end of November. Moody's is projecting a decline in the default rate to 7.1% in 2003, significantly lower than 2002's rate, but still well above historical averages.

Average Annual Moody's Downgrade/Upgrade Ratio For Investment-Grade Credits



Data Source: Lehman Brothers

International- A weakening U.S. dollar enhanced the return on international stocks to U.S. investors by a wide margin in December. In local currency terms, the MSCI EAFE index returned a negative 7.25% in December, trailing the S&P 500 by 1.37%. Adjusted to U.S. dollars, the EAFE lost just 3.35%, boosted by a weaker dollar. For all of 2002, currency movements lifted the EAFE's return by more than 10% as the U.S. dollar posted its largest annual decline against a basket of major foreign currencies since 1990. International equity investors will likely continue to monitor the value of the dollar more closely than usual over the next few years. Over the long run, currency movements should be an insignificant contributor to diversified international equity returns. In fact, according to Federal Reserve data, over the last 29 years, the dollar has returned -0.1% annually against a basket of major foreign currencies, having almost no effect on international equity returns. Over the last 12 years though, the dollar has risen an average of 1.5% per year versus major foreign currencies, lowering the return to U.S. investors on international stocks. If historical averages hold, a reversion-to-the-mean trend would suggest a weaker dollar in the years ahead, a positive for U.S. investors with money abroad. Thanks to a weaker dollar, the EAFE outperformed the S&P 500 in 2002 for the first time in three years.

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INDICES REPORT

Asset Consulting Group, Inc.

Periods Ending December 31, 2002

Index Name	Style	Returns							
		Month	Qtr	YTD	2 Qtrs	1 Year	3 Years	5 Years	10 Years
<u>Domestic Equity Indices</u>									
S&P 500	Large Cap Stocks	(5.87)%	8.45%	(22.09)%	(10.28)%	(22.09)%	(14.54)%	(0.58)%	9.33 %
DJIA	Large Cap Stocks	(6.07)%	10.44%	(15.06)%	(8.75)%	(15.06)%	(8.52)%	2.85 %	12.04 %
Russell 1000	Large Cap Stocks	(5.66)%	8.16%	(21.65)%	(10.14)%	(21.65)%	(14.16)%	(0.58)%	9.18 %
Russell 1000 Growth	Large Cap Growth	(6.91)%	7.14%	(27.89)%	(8.98)%	(27.89)%	(23.64)%	(3.84)%	6.71 %
Russell 1000 Value	Large Cap Value	(4.34)%	9.22%	(15.53)%	(11.29)%	(15.53)%	(5.15)%	1.16 %	10.81 %
Russell Mid cap	Mid cap	(3.94)%	7.91%	(16.19)%	(11.12)%	(16.19)%	(5.04)%	2.19 %	9.92 %
NASDAQ Composite	All Cap Stocks	(9.69)%	13.95%	(31.53)%	(8.73)%	(31.53)%	(31.03)%	(3.19)%	7.03 %
Russell 2000	Small Cap Stocks	(5.57)%	6.15%	(20.48)%	(16.56)%	(20.48)%	(7.55)%	(1.36)%	7.16 %
Russell 2000 Growth	Small Cap Growth	(6.90)%	7.50%	(30.27)%	(15.63)%	(30.27)%	(21.11)%	(6.59)%	2.62 %
Russell 2000 Value	Small Cap Value	(4.27)%	4.92%	(11.42)%	(17.41)%	(11.42)%	7.44 %	2.71 %	10.86 %
S&P Mid Cap 400	Mid Cap Stocks	(4.11)%	5.83%	(14.51)%	(11.68)%	(14.51)%	(0.05)%	6.41 %	11.96 %
Wilshire 5000	Broad Equities	(5.54)%	7.82%	(20.86)%	(10.30)%	(20.86)%	(14.36)%	(0.86)%	8.75 %
<u>International Indices</u>									
MSCI World	Global Stocks	(4.83)%	7.81%	(19.51)%	(11.92)%	(19.51)%	(16.42)%	(1.81)%	6.67%
MSCI World Ex US	International Stocks	(3.23)%	6.55%	(15.53)%	(14.30)%	(15.53)%	(16.68)%	(2.44)%	4.48%
EAFE	International Stocks	(3.36)%	6.48%	(15.66)%	(14.48)%	(15.66)%	(17.01)%	(2.62)%	4.32%
EAFE Growth	International Stocks	(2.30)%	6.28%	(15.76)%	(13.95)%	(15.76)%	(21.62)%	(5.22)%	1.76%
EAFE Value	International Stocks	(4.36)%	6.71%	(15.60)%	(14.99)%	(15.60)%	(12.46)%	(0.27)%	6.72%
MSCI Emerging Markets Free	Emerging Markets	(3.33)%	10.03%	(6.01)%	(7.91)%	(6.01)%	(13.98)%	(4.59)%	1.31%
MSCI Japan	Regional Stocks	(2.57)%	(5.61)%	(10.23)%	(17.03)%	(10.23)%	(22.99)%	(4.91)%	(2.51)%
JP Morgan Non-US Govt TR	Foreign Bonds	5.74%	6.05%	22.10%	9.12%	22.10%	4.71%	4.96%	6.51%
<u>Domestic Fixed Income Indices</u>									
Treasury Bills	Short Bonds	0.12%	0.43%	1.78%	0.88%	1.78%	4.11%	4.48%	4.62%
Lehman Intermediate G/C	Intermediate Bonds	2.18%	1.69%	9.82%	6.29%	9.82%	9.63%	7.48%	7.07%
Lehman Intermediate Aggregate	Int. Core Bonds	1.71%	1.53%	9.51%	5.37%	9.51%	9.60%	7.47%	7.17%
Lehman Aggregate	Core Bonds	2.07%	1.57%	10.27%	6.23%	10.27%	10.10%	7.54%	7.51%
Salomon Broad Investment Grade	Core Bonds	2.08%	1.60%	10.09%	6.27%	10.09%	10.07%	7.53%	7.53%
Lehman Govt/Credit	Core Bonds	2.65%	1.73%	11.02%	7.52%	11.02%	10.44%	7.61%	7.61%
Lehman Long Govt/Credit	Long Bonds	4.12%	1.87%	14.84%	11.41%	14.84%	12.68%	8.11%	9.03%
Lehman Government	Government Bonds	2.42%	0.73%	11.50%	7.44%	11.50%	10.63%	7.77%	7.56%
Lehman U.S. Credit Index	Corporate Bonds	2.95%	3.08%	10.53%	7.70%	10.53%	10.11%	7.29%	7.86%
Lehman Mtg Backed Securities	Mortgage Bonds	1.04%	1.35%	8.74%	4.05%	8.74%	9.37%	7.34%	7.28%
Merrill Lynch High Yield	High Yield Bonds	1.50%	6.67%	(1.15)%	3.30%	(1.15)%	0.34%	1.24%	6.32%

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