1-1-2000

Proposed Portfolio 2000

Kristen Andrews
Rollins College

Drago Dzerve
Rollins College

Bradley Joseph
Rollins College

Jimmy Park
Rollins College

Travis Shelhorse
Rollins College

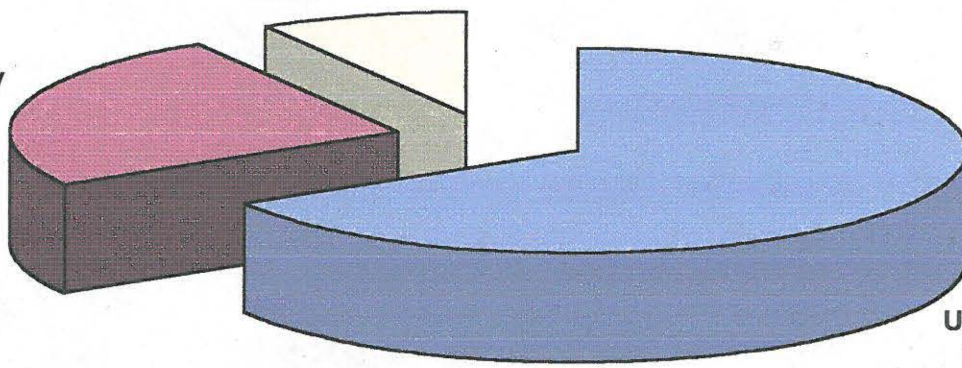
See next page for additional authors

Authors
Kristen Andrews, Drago Dzerve, Bradley Joseph, Jimmy Park, Travis Shelhorse, and Joni Stetson

CRUMMER
Graduate School of Business
Rollins College

SUNTRUST

PROPOSED PORTFOLIO 2000



Kristen Andrews
Drago Dzerve
Bradley Joseph
Jimmy Park
Travis Shelhorse
Joni Stetson

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Objective, Strategy & Philosophy

The overall objective of the Crummer SunTrust Portfolio is to generate perpetual funding for Crummer student scholarships on an inflation adjusted basis. To meet this objective, a Trans-Seasonal Hedging Strategy is proposed. The Trans-Seasonal Hedging Strategy incorporates both value and growth components to combat against changes in the "investing season" as well as fixed income to hedge against downturns in the market. Incorporated within this Trans-Seasonal Hedging Strategy, is investing through indexes, and international diversification, along with an optimization process. This combination eliminates unsystematic risk and creates a portfolio that lies on the efficient frontier.

The overall philosophy of the portfolio is capital preservation and growth. In light of this philosophy, the stocks selected are typically industry leaders. Furthermore, stocks were only selected in mature sectors and markets, while index and mutual funds were utilized in rapidly changing sectors and international markets. In order to hedge against downturns in the market, U.S. Treasury Bonds are also being held in the portfolio.

Asset Allocation

The overall asset allocation strategy was determined by examining the make up of the entire asset market as well as the S&P 500. In the overall asset allocation, international equity was constrained to no less than 15% and no more than 30% of the portfolio. In the sector allocation of US equity, constraints were established at plus or minus 2% of the S&P 500 sector weights, except for the technology sector. These constraints, along with a number of others, were then utilized to optimize the portfolio in an effort to transition the portfolio to a point on the efficiency frontier.

Risk & Return

Utilizing the outcome of the optimization process, a portfolio was created that is predicted to equal the returns of the S&P 500 while having a lower standard deviation. The new portfolio will outperform the S&P 500 by way of a better reward to variability trade off. It is not projected to outperform by way of alpha. This is due to an efficient market. An efficient market has increasing relevance in the case of this portfolio for two reasons. The first is the fact that there is no guarantee that a stock can be purchased at the price it is being recommended at because of the lag time between proposal and purchase. The second is the long term characteristic and low turnover rate of the portfolio, limiting the chance to take advantage of target prices.

Through the optimization process and asset allocation strategy, the proposed portfolio is well positioned to perform as well as the S&P 500 while not being subjected to as much risk. Furthermore, this portfolio meets the overall objectives as well as the philosophy of capital preservation and growth.

BACKGROUND

Objectives

The overall objective of the Crummer SunTrust Portfolio is to generate perpetual funding for Crummer student scholarships on an inflation adjusted basis. The portfolio is funded through five one hundred thousand-dollar gifts over a five-year period with distribution beginning at the end of year two. The total number of scholarship awarded will be a function of the performance of the portfolio. Distribution shall be composed of six percent of the two-year moving average in year two; subsequently the three-year moving average will be used as the base.

Strategy

A Trans-Seasonal Hedging Strategy is proposed to meet the overall objective of this portfolio. This strategy was selected because it most appropriately fits the needs and nature of the portfolio as a whole. The basic need of the portfolio is to provide consistent, perpetual, and increasing funding for scholarships. The increases or growth of the portfolio is required to provide both additional scholarships and maintain the real asset value of the portfolio. The basic nature of the portfolio is that of "Buy and Hold". Keeping these two critical aspects in mind while maintaining a long-term perspective, results in the Trans-Seasonal Hedging Strategy.

A Trans-Seasonal Hedging Strategy is here defined as a portfolio that incorporates both value and growth components to combat against changes in the "investment season" as well as fixed income to hedge against downturns in the market. This three-segment approach embraces changes in season and remains productive even in bear market conditions, thus complementing both the need and nature of the portfolio.

Although market history is a poor way to design a portfolio, it does consistently predict that the market is volatile and unpredictable. Keeping in mind the nature of the market as a whole, it is imperative to diversify investments into many different sectors. Furthermore, recent market history depicts an extended period of growth sector gains and an overall bull market. This trend will not continue to infinity, yet it may reappear in time. As for what the future of the market entails, we do not contend to know. Yet a properly constructed portfolio can weather the predicted volatility in the market while remaining productive, hence the Trans-Seasonal Hedging Strategy.

Philosophy

The philosophy of the Trans-Seasonal Hedging Strategy is for capital preservation and growth. Another important aspect of the fund is its overall passive nature; under most conditions the composition of the fund will only be changed annually. The portfolio is based on sustainable growth that is adequately diversified to reduce non-systematic risk of individual stocks and funds. The Trans-Seasonal Hedging Strategy is seeking consistent returns by selecting companies that have strong financial foundations and that are industry leaders.

In sectors that are highly volatile, such as technology, an index fund will be used to mitigate the risk of picking individual stocks. This use of an index fund maximizes the diversity effect while also providing significant growth potential. The portfolio does not seek to pick individual stocks in this sector due to the unpredictability of the market and the rate of which these sectors are changing. Due to the unpredictability of this industry, the portfolio hopes to match the strong growth of recent years, while at the same time not allowing the portfolio to be over exposed.

The portfolio will hold a portion of international investments to enhance the power of diversification. . This strategy hopes to limit a portion of the capital from being highly correlated to the domestic positions. Since it is very difficult to research individual stocks in foreign markets, a number of foreign funds have been selected to represent the global markets. Actively traded funds have been chosen to leave the responsibility of "kicking the tires" to the experts who have the resources and experience to effectively and efficiently select foreign stocks.

The combination of a Trans-Seasonal Hedging Strategy, investing through indexes, and international diversification, along with an optimization process eliminates any unsystematic risk and creates a portfolio that lies on the efficient frontier. In doing this, the portfolio resembles the returns of the S& P 500, but provides a better reward to variability trade off.

Vehicles

Three vehicles have been selected to represent the asset holdings of the Crummer SunTrust scholarship fund: Domestic Equities, Foreign Equities, and Fixed Income. Using the world market composition as a benchmark, a majority percentage of the capital will be invested in domestic equities, while foreign equities and fixed income will makes up smaller proportions.

Domestic Equities

The domestic equities portion of the portfolio is modeled after the sector breakdown of the S&P 500. For the majority of the sectors, individual stocks were selected for their overall relative value in the market as related to similar industry equities.

The technology sector is widely considered a growth component of the market. Furthermore, since the portfolio has a buy and hold tendency, and the sector is rapidly changing, the portfolio will continue its passive stance in this sector by holding the NASDAQ 100 index tracking stock.

Foreign Equities

Foreign equities will be utilized to provide growth and greatly increase overall diversity. In order to maximize this diversification effect while keeping in mind the limited availability of information and the buy and hold tendency of the portfolio, foreign equities will be represented by shares of actively traded mutual funds. Two separate types of mutual funds will be utilized to help represent the greater asset market: Established Market Funds and Emerging Market Funds. By utilizing several different funds in both established and emerging markets, the overall diversity of the fund increases while lowering the portfolio standard deviation; thus less volatility.

While actively traded funds do not tend to outperform the relative market indices, this strategy of using active managers allows for the economical investment into many more markets than otherwise feasible. Furthermore, active managers may be able to capitalize or limit gains or losses in rapidly changing markets.

Fixed Income

Thirty year Treasury Bonds are the only vehicles utilized in the fixed income section of the portfolio. Treasury Bonds provide a virtually risk free investment (except inflationary risk) and consistent annual returns. Treasury Bonds, when combined with stock holdings, aid in overall capital preservation while aiding to portfolio diversity through low covariance with domestic equities.

Investing Climate

The overall domestic investing climate has been very good during recent years. Many individuals and mutual funds have experienced very high returns in comparison to historical returns. These high returns have been largely realized in the technology sectors, with a specific emphasis on computers, the Internet and related industries.

More recently, short-term interest rate hikes and the likelihood of further hikes, in an effort to slow down the economy, have had little effect on the momentum of the market. History tells us that these great investing times cannot last forever. With likely interest rate hikes in the near future, domestic investors need to be prepared for the volatility ahead.

Foreign markets have not had the same great success as domestic markets. However, it seems that Japan and the rest of Asia are continuing to reform and grow. This turnaround, while slow, is good news for all investors. Europe is increasingly becoming an economic powerhouse. The creation of the EU and the unification of its monetary systems have given the Europeans previously unrealized leverage over foreign governments and companies. Europe, however, has experienced some problems associated with the weakening of the Euro, but this weakening has recently ceased. Overall, the stabilization of the Euro combined with the increasing clout of the European Union may enable some European companies to become much more competitive and possibly even dominant in the not so distant future.

Emerging markets are impossible to characterize in a few sentences, although there are some generalities that need to be highlighted. First, with China and India, which represent the majority of the Earth's inhabitants, moving to industrialization, there may be significant opportunities for investment. Other general areas of interest are Central and South America. As the countries in these regions emerge from corruption and create the needed infrastructure, companies are bound to emerge and expand rapidly. Russia appears to possibly be at the bottom of its economic frustrations, yet with no real hope in sight, investing would be very risky.

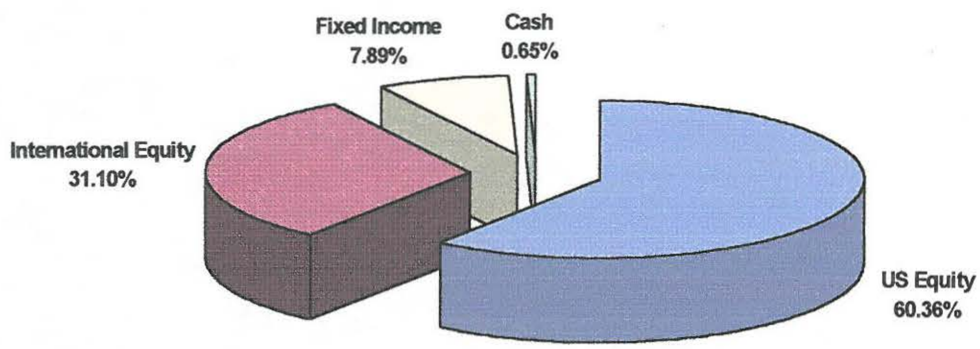
In light of this investing climate, decisions must be made to determine the overall composition of the portfolio. As mentioned before, domestic and international equities will be utilized as well as U.S. Government bonds. The allocation of assets is the single most important component of a well-diversified portfolio. The asset allocation of the proposed portfolio as well as the method that it was derived from follows.

ASSET ALLOCATION

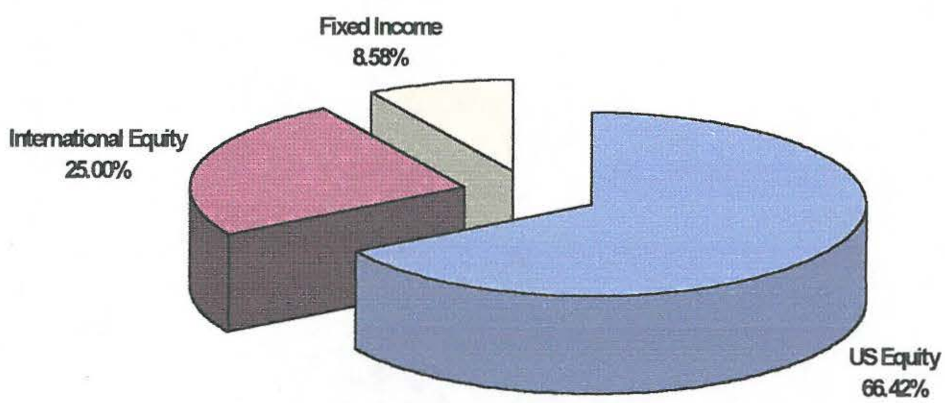
Overall Asset Allocation of Portfolio

While taking into account our objectives, strategy, philosophy, and vehicles; the new portfolio was developed through optimization using historical data and estimates of future performance. To optimize the portfolio, certain constraints were used to insure proper diversification and investment strategy fit.

The current portfolio, as of March 8, 2000 is allocated as follows:



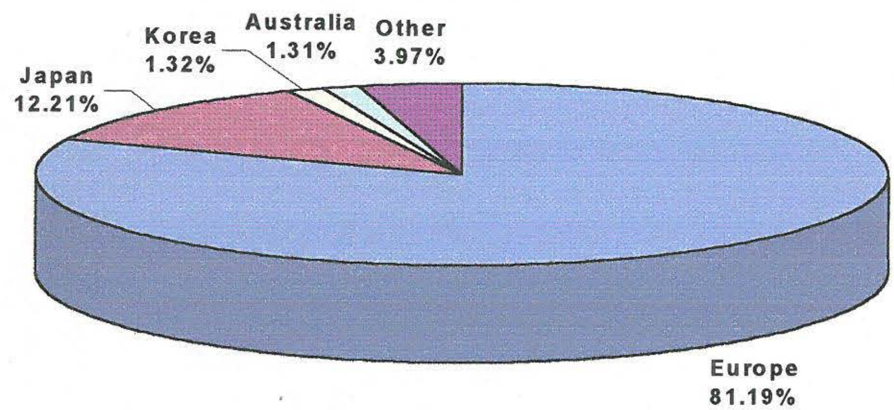
After optimization, the new portfolio allocation is:



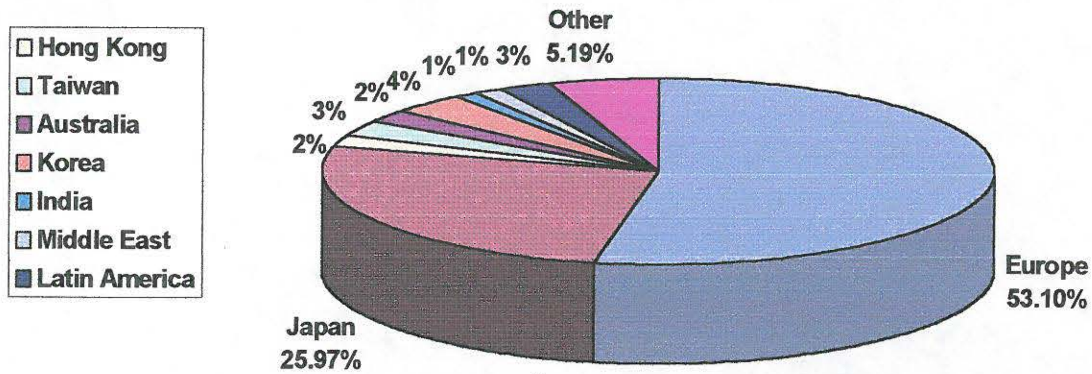
In optimizing the portfolio, to go along with our objectives, strategy and philosophy, the international equity portion was constrained to no less than 15% of the portfolio and no more than 30% of the portfolio. There were no constraints placed on the US Equity and Fixed Income portion of the portfolio.

International Equity Allocation

The allocation of the international equity portion of the current portfolio, as of March 8, 2000 is as follows:



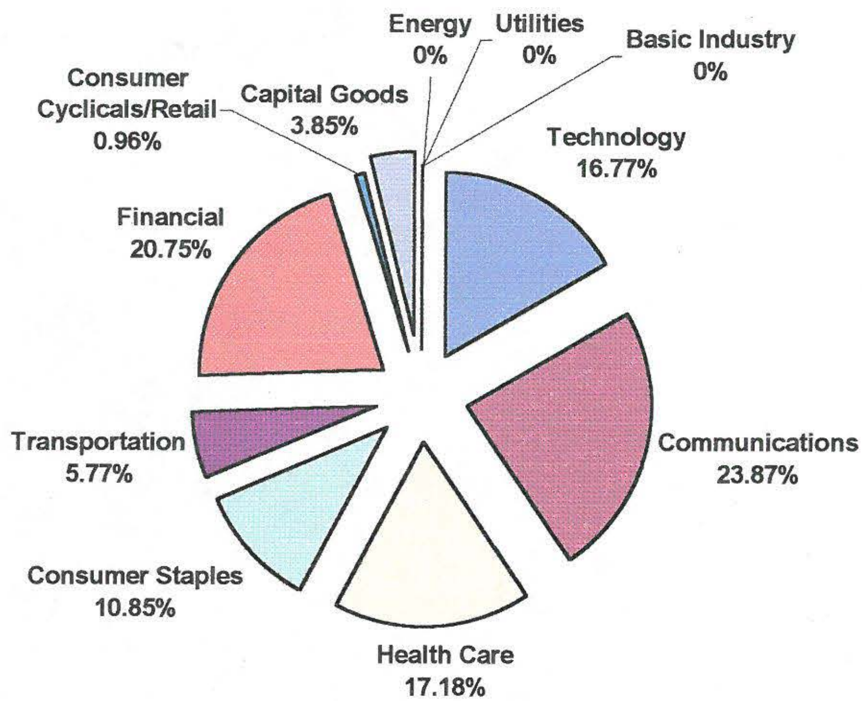
As this graph shows, over 81% of the international portion of the current portfolio is invested in Europe. This translates into over 25% of the **overall** portfolio being invested in Europe alone. With this high concentration in Europe, the portfolio is not getting the complete benefit of international diversification. In fact, the current overall portfolio is highly speculative in Europe. In order to diversify completely, international funds that were not concentrated in Europe were added before optimizing the international equity portion of the new portfolio. These new funds included a pacific fund and an emerging markets fund. After optimization, the allocation of the international equity portion of the new portfolio is as follows:



With this increased international diversification, 13.28% as opposed to over 25.25% of the overall portfolio is invested in Europe. This better reflects the actual international composition of Europe with regards to the rest of the world and eliminates international speculation. With an increase in investment in Japan as well as an increase in the number of countries invested in, the portfolio is now in a better position to take advantage of international diversification.

US Equity Sector Allocation

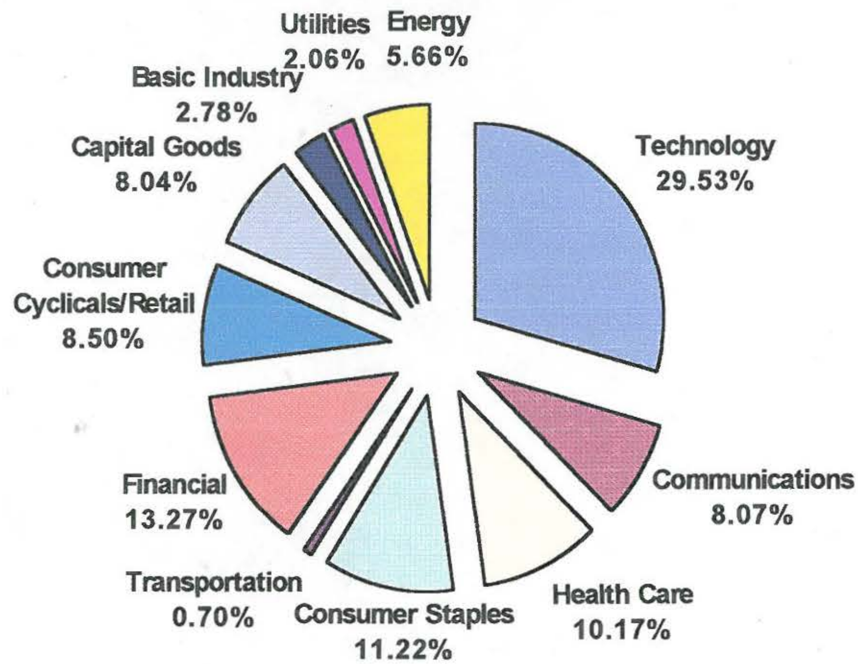
The US equity sector allocation of the current portfolio as of March 8, 2000 is as follows:



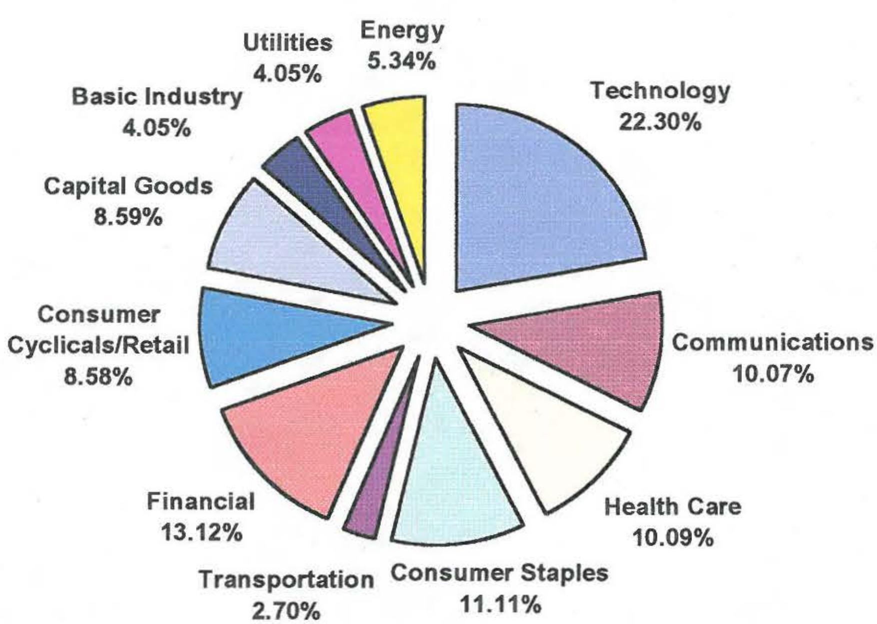
* In order to create this allocation chart more appropriately, GE was broken out into 50% Financial, 40% Capital Goods, and 10% Consumer Cyclicals/Retail, as per their total revenues.

In order to completely eliminate unsystematic risk, and eventually approach the efficient frontier, it was necessary to come closer to representing the sector allocation of the S&P 500, which can be seen on the following page (as of March 8, 2000).

S & P 500 Sector Allocation



The current portfolio is highly speculative in a number of sectors. In order to be consistent with our objectives, strategy, and philosophy, this speculation has to be eliminated. In order to eliminate this speculation, a number of constraints were used in optimizing the sector allocation of the US equity portion of the portfolio. In all of the sectors, with exception of the technology sector, the allocation was limited to that of the S&P 500 as of March 8, 2000 plus or minus two percent. With regards to the technology sector, the allocation was limited to no less than 20% and no more than 30%. The In constraints were loosened for the technology sector due to its inherent risks. This loosened constraint gave more leeway in the optimization process. After optimization, the sector allocation of the new portfolio is as follows:



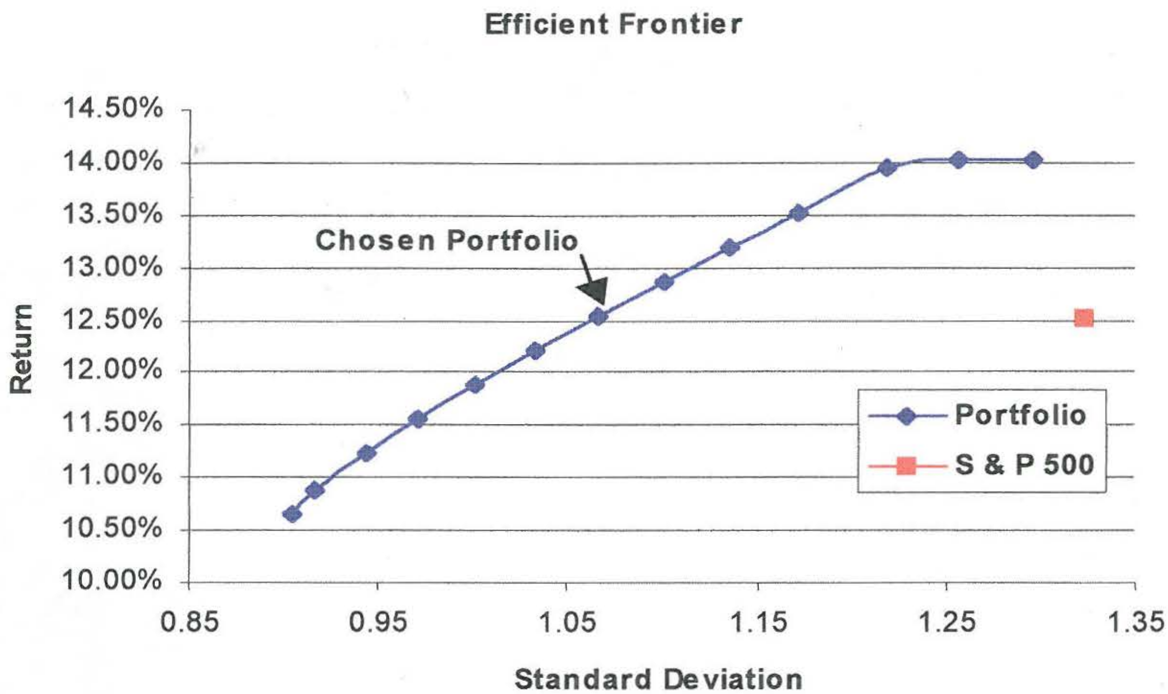
In addition to diversifying the US equity portion of the portfolio among sectors, each sector had to be diversified among individual stocks. This might be considered one of the most important parts of the process. With the exception of the technology sector, individual stock picking is one of the ways that it was attempted to distinguish the portfolio from the S&P 500. However, this proved to be difficult due to the fact that there is no guarantee that a stock can be purchased at a good price because of the lag time between proposal and purchase. With this, along with the long-term characteristic of the portfolio, an efficient market had to be assumed.

In stock picking, the Trans-Seasonal Hedging Strategy was used. With regards to the technology sector, it was decided to continue to use the NASDAQ 100 index due to the risks of picking individual stocks within this sector. The NASDAQ 100 represents a major portion of the growth component of the portfolio, whereas a greater number of the individual stock picks represent the value component of the portfolio.

In optimizing the mix of stocks held in the portfolio, certain constraints on individual securities and sector allocation had to be included. Furthermore, transaction costs, margin of diminishing return, and the risk of allocating too much of the portfolio to one particular stock had to be taken into account. Thus, the investment in an individual stock was constrained to no less than 1% and no more than 3.55%. In addition, the sale of less than $2,000 worth of a current holding was not allowed.

EFFICIENT FRONTIER

The new portfolio allocations are all based on a point that was picked on the efficient frontier. The efficient frontier was created using optimization at different levels of risk.



The standard deviations of the individual stocks, indexes, mutual funds, and bonds were calculated using the weekly historical returns over the past three years ending March 8, 2000. Since three years worth of data for the NASDAQ 100 was not available, the historical returns of the NASDAQ composite were used instead. After running a regression analysis, it was determined that the NASDAQ 100 has a 99% correlation to the NASDAQ composite. The regression can be seen in Appendix B.

Projected returns of the individual stocks, indexes, mutual funds, and bonds were calculated using the CAPM model. In doing this, an efficient market was assumed, and therefore, there is no projected alpha for any of the portfolios on the frontier. The projected return for each of the portfolios is merely the risk free rate plus beta times the market risk premium.

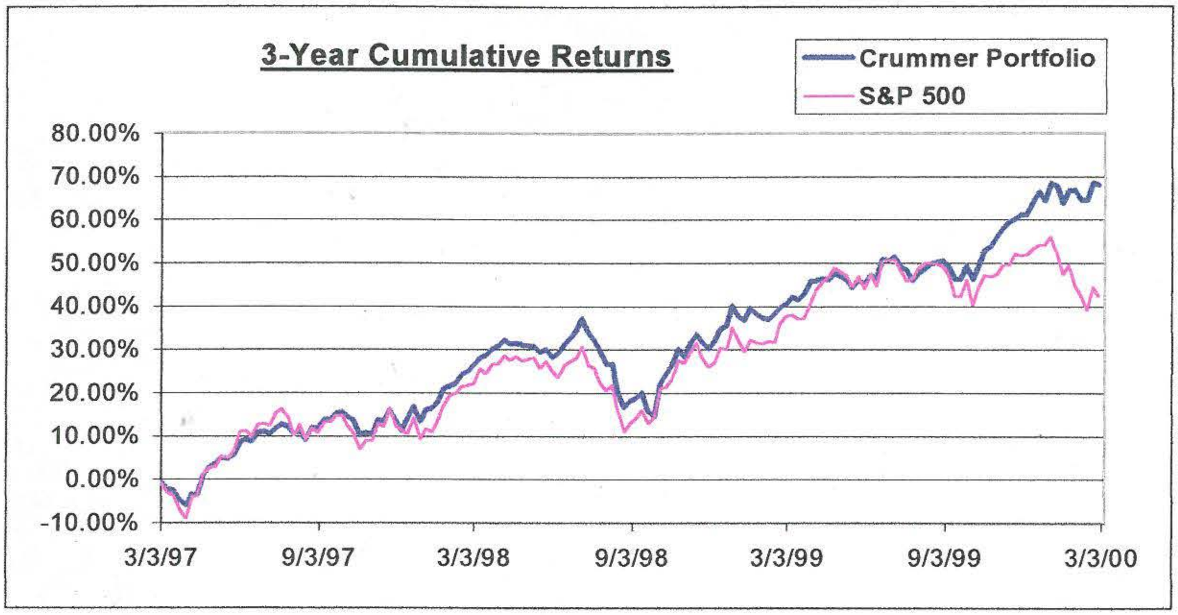
RISK AND RETURN

The beta of the chosen portfolio is 1.005, which is slightly higher than the beta for the market, for which we used the S&P 500. The expected return of the chosen portfolio is 12.55%, which is .03% higher than the projected return of the S&P 500. If the beta of the portfolio were 1.000, the expected return would be 12.52%, identical to that of the S&P 500. The beta/return relationship between the portfolio and the S&P 500 are identical. The projected return of the S&P 500 was calculated using the weekly historical returns ending March 8, 2000. However, by assuming an efficient market through the use of the CAPM model, the projected returns for the S&P 500 and the portfolio are relative. An increase in the projected return for the S&P 500 would result in a relative increase in the projected return for the portfolio. With the assumption of an efficient market, there is no projected alpha.

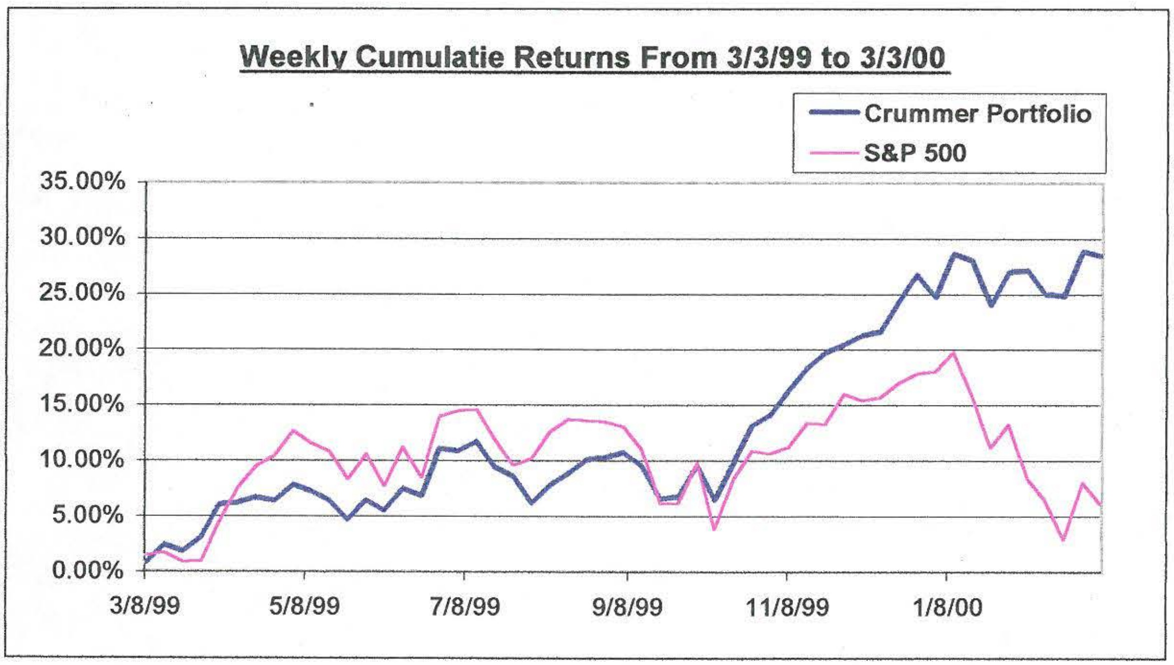
The aspect of the portfolio that interests us the most is its standard deviation. The portfolio's standard deviation is 1.0685, while the standard deviation for the S&P 500 is 1.3235. This is because the portfolio is on the efficient frontier, while the S&P 500 is not. The portfolio is projected to return the same percentage return as the S&P 500 for a lower level of risk. This is due to the elimination of unsystematic risk. Some key statistics can be seen below.

Measure	Crummer Portfolio	S&P 500
Beta	1.005	1.000
Alpha	.00%	.00%
Expected Return	12.55%	12.52%
Standard Deviation	1.0685	1.3235
Variance	1.14165	1.75154
3-Year Cumulative Return	68.26%	42.44%
3-Year Average Return	19.09%	12.52%

Following is a graph of the proposed portfolio's 3-year cumulative return versus the S&P's return over the same time period.



If the portfolio were started one year ago, as of March 8, 2000, the returns would still be outpacing the S&P 500, as can be seen from the chart below.



Other measures were also calculated to compare the returns of the proposed portfolio to that of the S&P 500. The Sharpe, Appraisal, Treynor and Jensen ratios are presented in a chart below.

Ratio	CRUMMER PORTFOLIO	S&P 500
Sharpe	.061	.049
Treynor	.0652	.0652
Jensen	0.00	0.00

The proposed portfolio is expected to yield equal returns, while reducing total risk. The reward-to-variability ratio, which is the increase in the expected return of the portfolio per unit of additional standard deviation, is .061, compared to .049 for the S&P 500. This measure is more commonly referred to as the Sharpe ratio. The proposed portfolio allows for the same returns as the S&P 500, with a decreased amount of risk. This ratio is what distinguishes the proposed portfolio.

The Treynor measure, which gives excess return per unit of risk, but uses systematic risk instead of total risk, is the same for the S&P 500 and the new portfolio. Again, this is because projections are based on the CAPM model, assuming an efficient market.

The Jensen measure is the average return on the portfolio over and above that predicted by the CAPM, given the portfolio's beta and the average market return. In other words, it represents the portfolio's alpha. Based on the assumption of an efficient market, the projected alpha of the portfolio is 0.00%. There are two things that contribute to the assumption of an efficient market and a zero alpha. The first is that there is no guarantee that a stock can be purchased at the price it is being recommended at. The second is the long-term characteristic and low turnover rate of the portfolio, which limits the chance to take advantage of target prices.

The portfolio's returns are 85.82% correlated to the returns of the S&P 500 at the 95% confidence interval. R-squared, however, which tells what fraction of the portfolio's volatility is attributable to market movements, is 73.65%. The remaining volatility, 26.35%, is an estimate of the firm-specific impact on the portfolio as well as the impact of international diversification.

ADDITIONAL INVESTMENT

Taking into account an additional investment of $100,000 and $700 of available cash, as well as the current positions of the portfolio as of March 8, 2000, the yellow box represents how the funds should be spent to create the proposed portfolio. These are approximations due to the fact that the exact dollar amounts may not be able to be achieved because of stock prices at time of actual purchase.

Company/Index	Symbol	Current $ Value (3/8/00)	Add/Sub	New $ Value	Overall Weight
Nasdaq 100	QQQ	10,903	19,867	30,769	14.81%
Hughes Electronics	GMH	10,701	(3,709)	6,992	3.37%
News Corporation	NWS		2,085	2,085	1.00%
AT & T	T	4,823		4,823	2.32%
McKesson HBOC	MCK	2,553		2,553	1.23%
Columbia/HCA	COL		2,748	2,748	1.32%
Johnson & Johnson	JNJ	4,047		4,047	1.95%
Pfizer	PFE	4,574		4,574	2.20%
Anheuser-Busch	BUD	4,384		4,384	2.11%
Coke	KO		2,067	2,067	1.00%
P&G	PG		6,201	6,201	2.99%
Office Depot	ODP	2,672		2,672	1.29%
Delta Airlines	DAL	3,753		3,753	1.81%
American Express	AXP	4,910		4,910	2.36%
Bear Sterns	BSC		4,611	4,611	2.22%
Citigroup	C	5,454		5,454	2.63%
General Electric	GE	6,255		6,255	3.01%
Mattel	MAT		3,846	3,846	1.85%
Black & Decker	BDK		7,367	7,367	3.55%
Caterpillar	CAT		2,076	2,076	1.00%
Lincoln Electric	LECO		7,275	7,275	3.50%
Dow Chemical	DOW		5,574	5,574	2.68%
Enron	ENE		5,574	5,574	2.68%
Cleco	CNL		7,374	7,374	3.55%
INVESCO European	FEURX	16,018		16,018	7.71%
Montgomery Internatl	MNIGX	17,491		17,491	8.42%
Fidelity Pacific	FPBFX		14,542	14,542	7.00%
Montgomery Emerging	MNEMX		3,885	3,885	1.87%
Treasury Bond		8,500	9,324	17,824	8.58%
TOTAL		107,037	100,706	207,743	100.00%

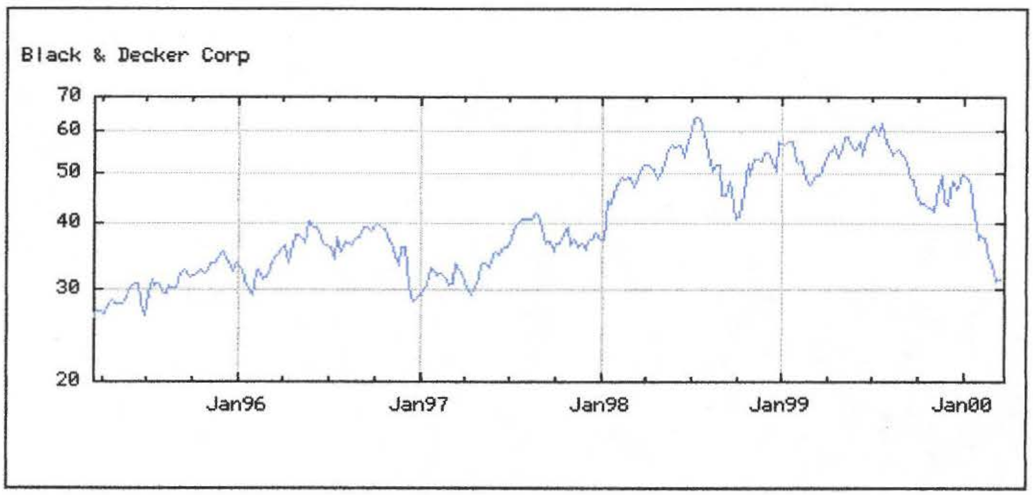
Consumer Cyclicals: 8.58%

Although the economy is booming and many of the companies within the consumer cyclical sector have good valuations, Cyclicals are currently out of favor and therefore are trading below value. This means that many of these companies can be purchased as a value for investors. Due to the nature of mature markets for most of the companies within this sector, new product introductions and cost-containment efforts are the key to improved profitability.

Black and Decker (BDK)

Black and Decker is the world's largest producer of power tools and is a leading supplier of household goods. The company's operations consist of three segments: Power Tools and Accessories (70% of 1999 sales), Hardware and Home Improvement (19%), and Fastening and Assembly Systems (11%). The U.S. accounted for 59% of sales in 1998, Europe 30%, and other countries 11%. Although sales are strong in the U.S., profits have declined in part from a drag in foreign sales.

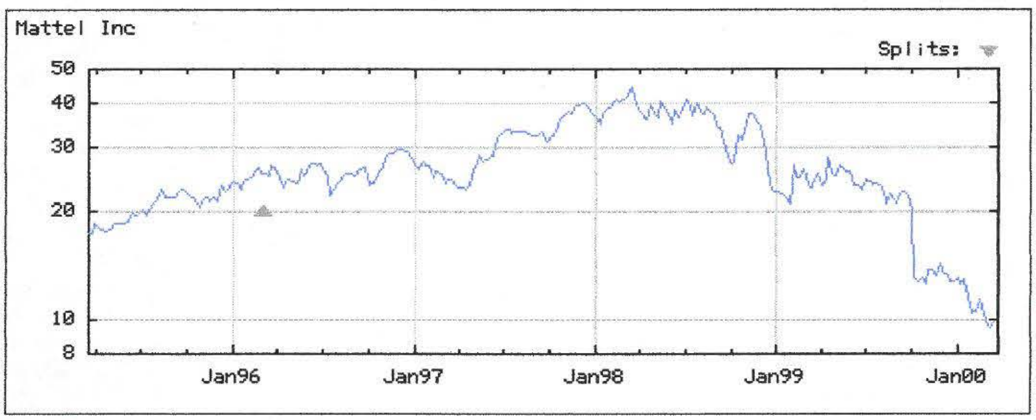
Black and Decker focused on cost efficiency and increasing productivity in 1999. Decreases in operating costs were a direct cause of this effort, increasing profit margins for the company by almost 200 basis points. However, price decreases reduced some of these margins and the divesting of non-core businesses contributed to Black and Decker's decline as well. The future for Black and Decker, however, looks good. The company has invested a great deal in their research and development department in order to continue their line of new and innovative products. New products coupled with cost reduction measures should produce positive results for Black and Decker in the following years. Earnings are expected to grow 12% for the year 2000 and sales are expected to rise 4% to 7% for the next several years. We feel that Black and Decker is a strong holding and can be purchased now at a value for the portfolio.



Mattel (MAT)

Mattel is the number one toy maker in the world. The company's brands include Barbie (about 40% of sales), Fisher-Price, Disney entertainment lines, Hot Wheels and Matchbox cars, Tyco Toys, Cabbage Patch Kids, and American Girl dolls and books. The company is hoping to reduce its reliance on its biggest customers, Toys "R" Us and Wal-Mart, through its own catalog and Internet sales. Mattel has plants in six countries and the U.S. About 34% of its sales are from international markets.

Mattel's two biggest problems are leadership (or lack of) and The Learning Company's losses. CEO and Chairman, Jill Barad, stepped down at the same time that poor year-end results were posted. The Learning Company acquisition in May 1999 turned out to be a disaster for the company, with a pretax loss of $206 million for Mattel. However, Mattel is a strong company with a strong core brand. Once management is back on track and leadership restored, we expect to see Mattel rebound from its current problems. The portfolio will capitalize, however, on Mattel's current problems by purchasing the stock at a low point, and therefore gaining a value.

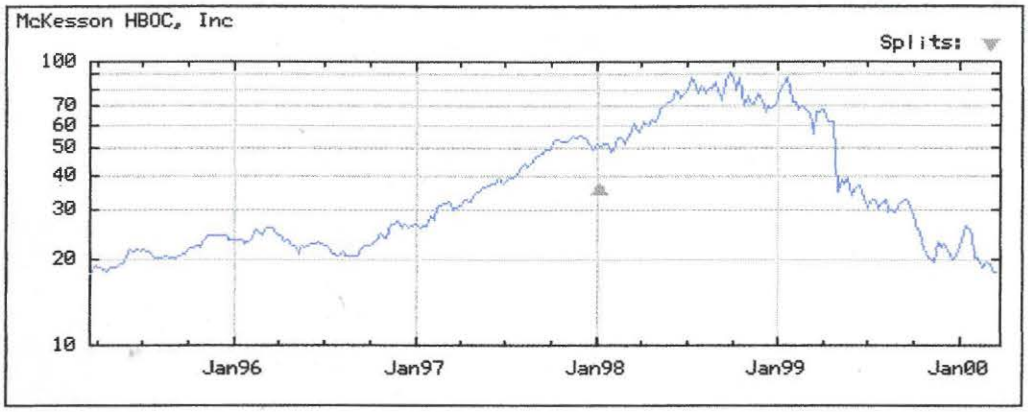


Consumer Staples: 11.11%

This sector includes a number of industries, including household products, beverages, office supplies, and food processing. Many of the companies within this industry experience high competition and low profit margins due to the maturity of many markets. Therefore, it is important for these companies to streamline operations and perform constant cost containment measures in order to compete within their industry.

McKesson HBOC (MKC)

McKesson HBOC is a healthcare supply management company in North America. The company is a wholesale distributor to chain and independent drug stores, hospitals, alternate health care sites, food stores and mass merchandisers. The company also provides software solutions, technological innovations and comprehensive services to the healthcare industry. They recently sold their water bottling division for $1.1 billion to continue to concentrate on their core competencies.



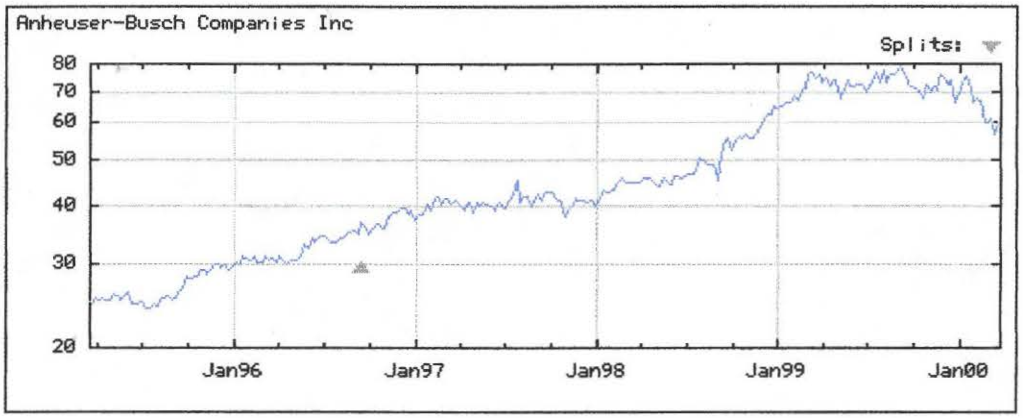
They are the world's largest healthcare services company and are positioned to achieve accelerated revenues and earnings-per-share growth as they continue to provide integrated information based solutions that reduce costs and improve the quality of healthcare delivery (which is touted as one of the strongest aspects for growth in this industry for the upcoming year). The company's growth prospects in direct delivery already skyrocketed in 1999 in the United States, helping to more than double their net income from the year before.

The stock has suffered in the last year due to lawsuit troubles based on poor management and accounting techniques. Investors have lost confidence in the company, hindering the rebound of its stock price. Due to the expectation of long-term growth for the future and the loss the portfolio would undertake if sold now, we have chosen to hold this security. Although the portfolio will suffer near term loss, holding the security will benefit the portfolio in the long run.

Anheuser-Busch (BUD)

Anheuser-Busch Cos. is the holding company parent of the largest U.S. brewer (Anheuser-Busch, Inc.). The company holds 50% of the market. Leading brands include Bud, Bud Light, Michelob and Busch as well as specialty brands such as Red Wolf. The company has joint ventures or licensing agreements in China, Japan, Mexico, several South American countries, and throughout Europe. In addition to being the largest brewer, Anheuser-Busch also has a presence in the entertainment industry – operating nine theme parks. The company has decided to concentrate on these two areas alone, divesting ownership in Eagle Snacks and the St. Louis Cardinals.

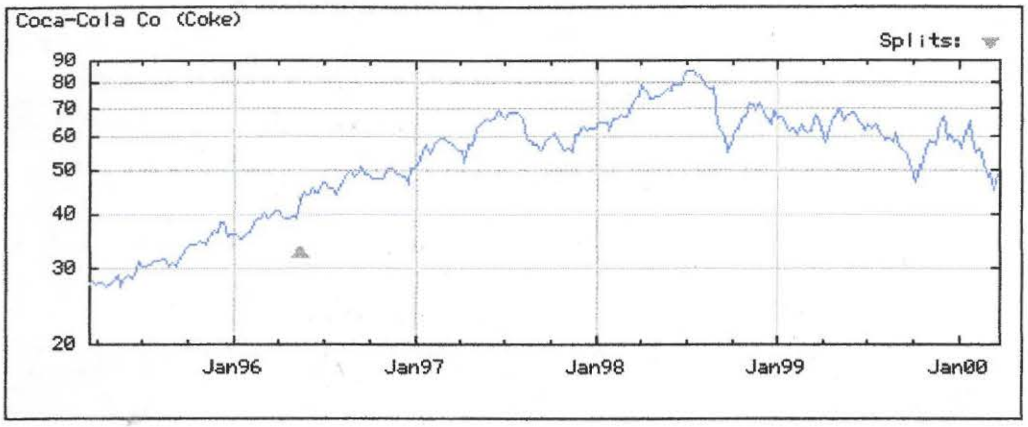
Unit Sales volume and share earnings hit new highs in 1999 for Anheuser-Busch. This is attributed to successful pricing, distribution, and marketing strategies. The company's market share at the end of 1999 increased by 0.6 percentage points, reaching 47.4% of all domestic shipments. Anheuser-Busch's 51% equity stake in Grupo Modelo, the largest Mexican brewer, accounted for nearly 12% of the company's total 1999 income. With a presence in over 70 countries, the company is poised to take advantage of foreign consumption. Earnings are expected to grow at a rate of 11% for the year 2000 and to continue with double-digit earnings in the next 3 to 5 years. Taking all of these factors into consideration, we see this company continuing to be a leader in the industry for many years to come and consider it a good hold for the portfolio.



Coca-Cola (KO)

Coca-Cola is the world's largest soft-drink company. The company focuses on the production and sale of soft drink and non-carbonated beverage concentrates and syrups. Coca-Cola also owns a 44% stake in the bottler, Coca-Cola Enterprises. Coke has a global presence, with two-thirds of sales coming from outside the United States. These sales have helped Coca-Cola to grasp 51% of the global soft-drink market.

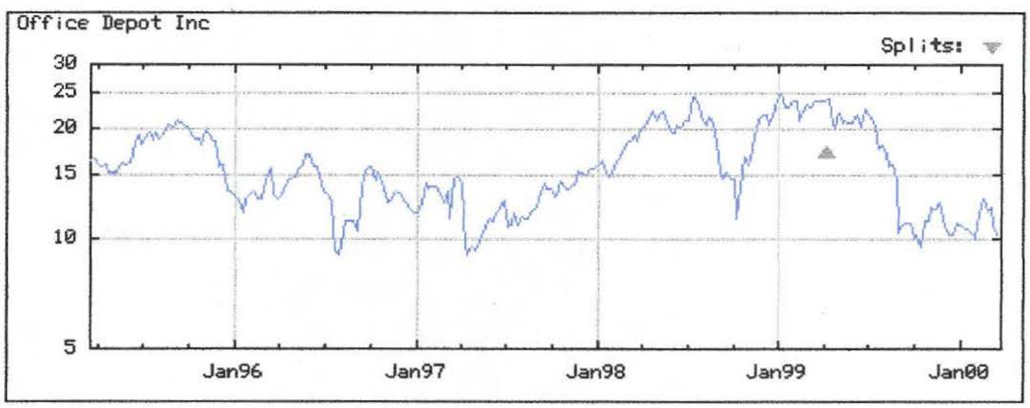
Coke has gone through some turbulence in the last year due to a number of factors. With much of its product line over seas, Coke suffered from the weak economic condition in many foreign markets. In addition, quality control problems hindered sales in Europe, with more money allocated toward marketing in this area to try to combat the problem. Write-offs of approximately $1.6 billion were announced. Half of this is due to plant closings in Russia and central Europe. The other charges account for a 20% reduction in employees worldwide. Management changes were also in effect, with Douglas Daft replacing Douglas Ivester as the new CEO this past February.



Despite all of Coke's recent problems, it remains the leader in the industry with a strong financial base along with incredible brand equity. In addition, Coke's acquisition of Cadbury Schweppe's brands outside of the U.S. broadens its product line even more. Again, because of these problems, the portfolio will benefit by purchasing the stock at a low point. Therefore, the portfolio gains a strong company at a value price.

Office Depot (ODP)

Office Depot is the leader in the office supply superstore industry in North America. Their target market is mainly small firms, home offices, and individual customers. However, nearly one-third of its sales comes from its business service segment, which contracts services to large firms. Currently, Office Depot has a strong presence in 17 countries and has expanded its presence overseas by acquiring Viking Office Products, which sells office products internationally through catalogs.



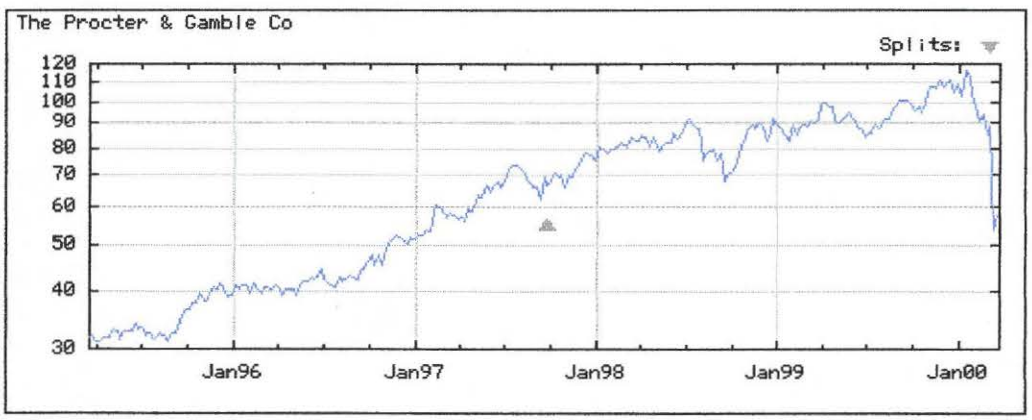
Competitive pricing and increased competition for their retail stores has scared some investors off recently. However, Office Depot's business service segment, international division, and e-commerce segment are all growing faster than the retail business, putting it ahead of its competition and encouraging us to hold Office Depot for the portfolio.

Although retail competition is increasing, we feel Office Depot is positioning itself well in these other areas in order to bounce back from its downturn. In addition, a $500 million share repurchase program is underway for the company, which should benefit earnings in the future. Earnings are expected to grow at an annual rate of 15% - 20% for the next four years.

Proctor & Gamble (PG)

Proctor & Gamble is the number one US maker of household products, with five main categories: laundry and cleaning, paper goods, beauty care, food and beverages, and healthcare. The company manufactures and markets more than 300 brands of products in more than 140 countries. Half of its sales come from outside of the United States.

The company is currently in a restructuring program (termed Organization 2005). This restructuring involves reorganizing operations along product lines instead of geographical location as done in the past. This reorganization should result in a faster time to market for new products, accelerated long-term sales growth, increased earnings growth, and an end result savings of $900 million annually, beginning in 2004. However, until that point is reached, Proctor and Gamble will incur an after tax charge of $1.9 million over the next six years along with 15,000 job cuts worldwide. In addition, with the announcement of missing earnings expectations, PG recently had a drop of almost 30% of share value in one day.



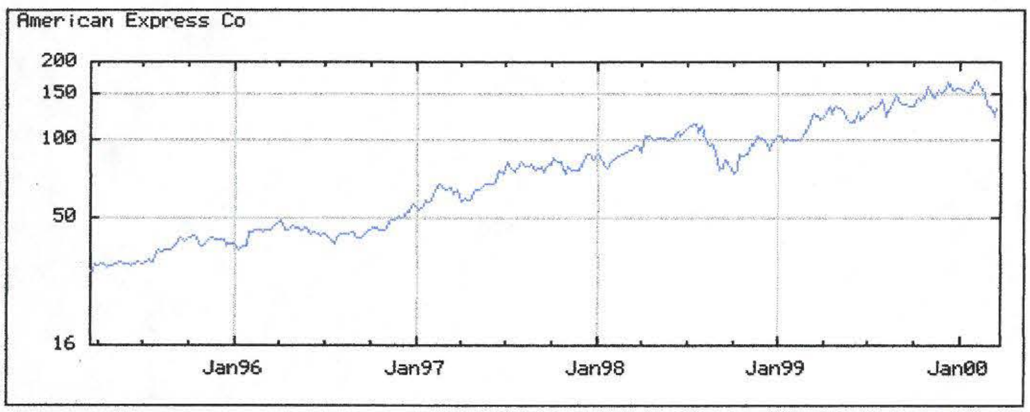
Despite this gloomy outlook, we feel that Proctor & Gamble is currently a good buy. New product innovations and a favorable price climate should fuel the company's growth in the near term. In addition, Proctor & Gamble carries a strong brand line including top sellers as Tide, Pampers, and Crest. Brand loyalty is high for these products. This brand equity along with new innovation, quicker time to market, and current restructuring all makes P&G an attractive company at a value price for the portfolio.

Financial Services: 13.12%

The financial services sector in the United States is going through significant changes due to the recent merger and acquisition activity. In addition, the traditional way of banking is undergoing changes with new financial products entering the market as well as non-financial firms entering the industry. With the technological ability for the financial industry to enter the Internet, a new arena of competition has struck this sector. Due to the growing economy, this sector has gained favorable operating conditions, which enables these companies to take advantage of opportunities for future expansion.

American Express (AXP)

American Express is composed of three units: Travel Related Services, American Express Financial Advisors, and American Express Bank. The main focus of the company is on its corporate travel and credit card businesses as well as its new online bank. The company's growth strategy focuses on three principal themes: expanding international presence, strengthening the charge card network, and broadening financial services offerings.



The number of American Express cards in use increased for the first time in nine years, thanks to the success of the new AMEX Blue card. The Blue credit card contains a computer chip enabling users to buy products on the Internet easier.

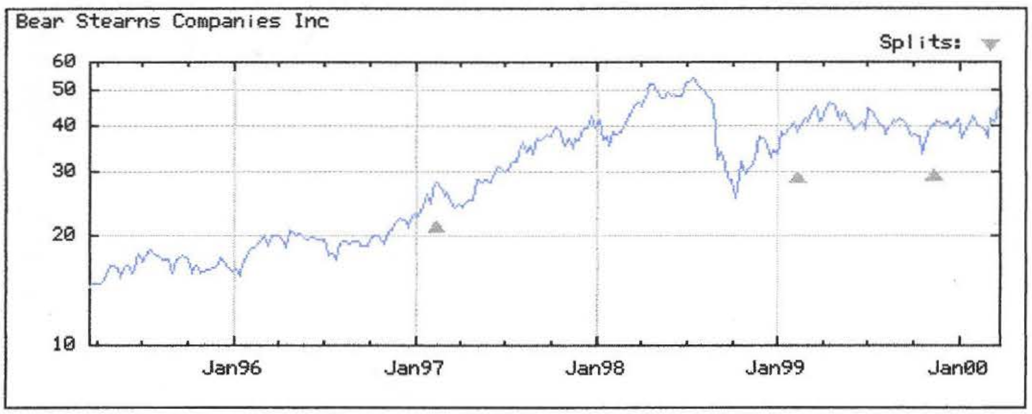
American Express has continued to enhance its product line-up with the addition of ATM's, becoming the second largest ATM owner in the United States. In addition, the company is expanding its presence on the Internet with new e-commerce sites. New products and continued innovation enhance the company's ability to cross-sell into other areas including the Financial Advisors unit. All of these factors add up to anticipated continued growth for the company and therefore a hold for the portfolio.

Bear Sterns Company (BSC)

Bear Stearns is among the leading securities trading, investment banking, and brokerage firms in the United States. The company provides asset management, clearing and custody, fiduciary, securities lending, trust, and mergers and acquisition services to corporations, governments, institutional and individual investors worldwide. Their largest presence overseas is in Japan and China as well as Latin America, where they are the leading underwriter of equity issues.

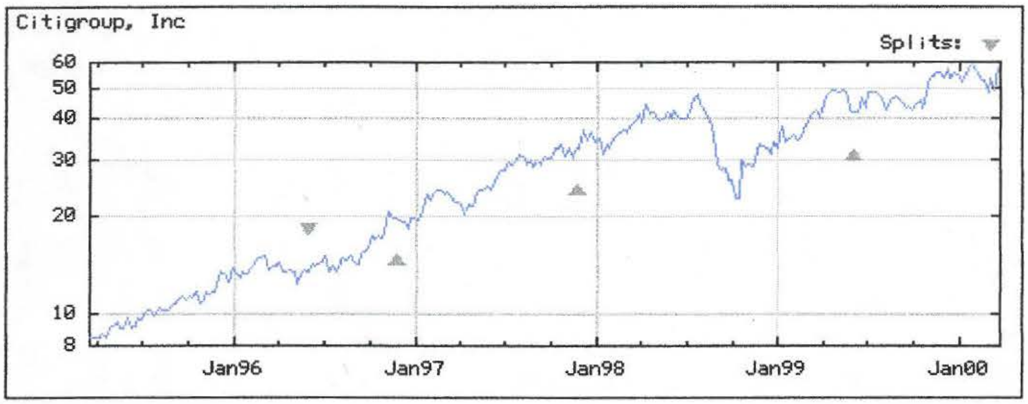
The company had a strong 4th quarter, posting its highest quarterly figure ever of more than \$2.5 billion. A repurchase program boosted earnings by \$0.05 a share. Another \$500 million repurchase program has also been approved.

Bear Stearns is a leader in the brokerage industry and has a strong financial base. By purchasing this company, the portfolio adds a strong company while further diversifying within the financial services sector.



Citigroup (C)

Citigroup has become the largest financial services company through the merger of Citicorp and Travelers Group in 1998. The company offers credit cards, banking, insurance, and investment services in almost 100 countries. Operations are divided into global consumer, global corporate and investment bank, asset management, and investment activities.



Earnings per share for 1999 increased 60% from the prior year. This growth was the result of acquisitions, internal growth, and effective cost-control measures. The company recently formed an alliance with Commerce One to create a Web portal linking Citigroup's corporate clients. This alliance not only creates the Internet presence Citigroup was previously lacking, but also provides tremendous growth opportunities by taking advantage of Commerce One's large business to business community. Earnings should continue to benefit from these expanded product offerings and distribution channels, as well as continued cost savings efforts. For these reasons, the portfolio will continue to hold Citigroup.

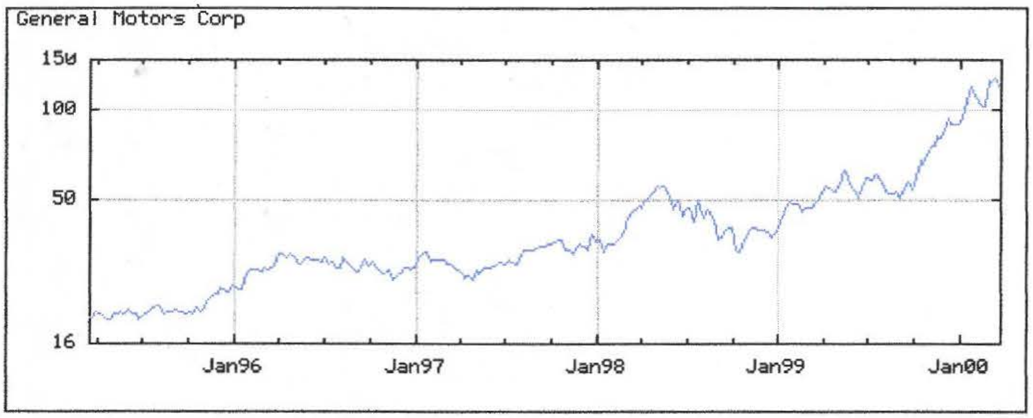
Communication Services: 10.07%

Wireless communications, long distance communications and local telephone service make up this sector. The outlook for this sector is fairly positive, driven by the rapid expansion of the wireless communications industry. A negative pressure on this industry is the transition from traditional landline long distance service to voice over IP and other technologies. In realizing this transition, many of the long distance and wireless service providers have ventured into the Internet access business through both acquisitions of Internet service providers as well as cable systems. Furthermore, except for wireless services, the other portions of this sector are fairly mature. This maturity means consolidation, price pressures, and heavy competition; thus shrinking profits.

Hughes Electronics (GMH)

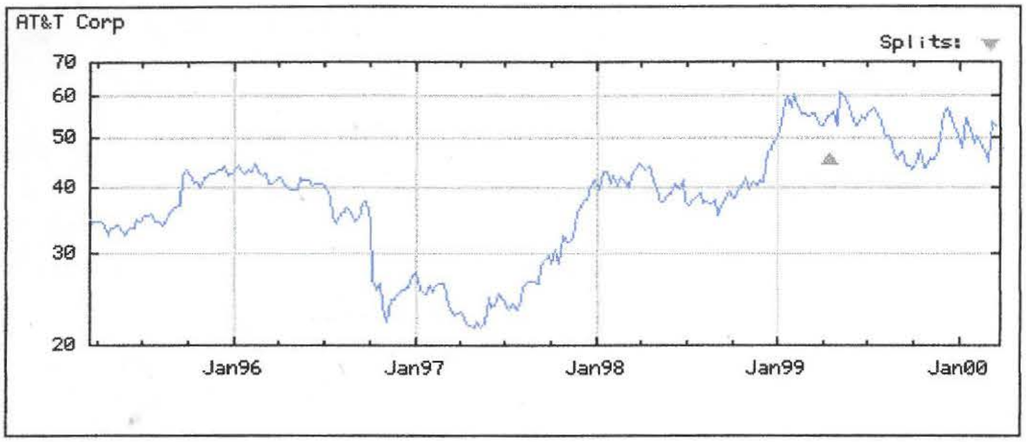
Hughes Electronics is a provider of satellite TV, telephone, and Internet services. Hughes plans to sell its satellite manufacturing and will focus on its communication services business. These communication services businesses include DIRECTV, the largest US satellite TV broadcaster. With 9 million customers, the 19-satellite network will offer broadband video and data. Year to date growth of new customers was 42% over the prior year. These new customers, however, can hurt profitability due to high sales and installation costs for the near term. GM cut its stake in the company to 35%, further benefiting the stock price.

We believe that Hughes will continue its growth and therefore have chosen to keep Hughes in the portfolio. However, due to the success and growth of this company, the portfolio has experienced excess returns and has become somewhat unbalanced. Consequently, we chose to sell a portion of Hughes in order to rebalance the portfolio into the appropriate percentages.



AT&T (T)

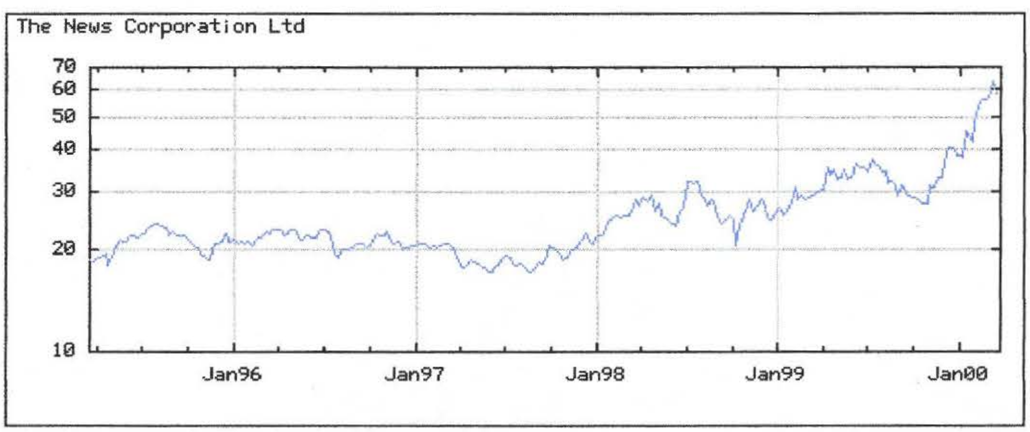
AT&T is the largest U.S. telecom company, with 90 million customers. The company currently offers long distance, wireless phone service, Internet access, and local and international phone services for businesses. AT&T is now looking to become the number one US cable operator with the planned purchase of MediaOne. This acquisition would allow the company to provide local phone service through cable, along with newly acquired TCI Corp. AT&T now has a position overseas after forming a venture with Concert, a British Telecommunications company.



AT&T is focusing primarily on two areas: its wireless unit and enhancing operations. Operations are looking to become more efficient through service bundling, network capacity increases, and cost cutting. While AT&T is currently number one, the company is aware that broadband capabilities and wireless communications are inherent to their future success. We believe AT&T will be able to continue to lead the industry, and consequently benefit the portfolio for the long-term. For this reason, we choose to hold AT&T in the portfolio.

News Corp (NWS)

News Corp is a global media and entertainment company, holding the number three spot in media conglomerates, after Time Warner and Disney. The company publishes newspapers, magazines and books as well as owns 83% of Fox Entertainment Group along with 22 other US television stations. News Corp is in the communications industry, yet they are broadly diversified into such things as satellite television holdings in Europe, Pacific Rim and Latin America. This may also serve as an inroad into the broadband Internet access for currently unwired areas of the world. They also have new media ventures such as the Healtheon / WebMD merger in which they hold 10.8% of the equity.



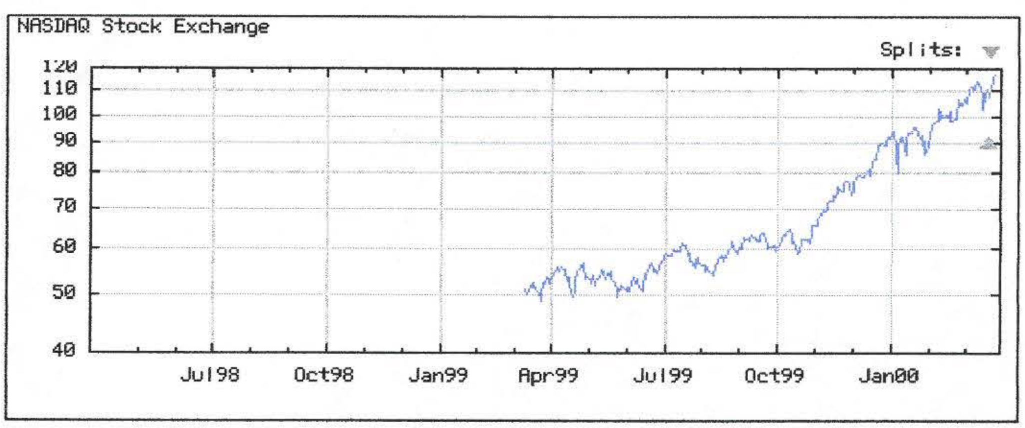
Overall, the industry (communications / printed media) is growing slowly and is experiencing higher cost of goods sold. However, the new media ventures and satellite television services provide good growth opportunities. Thus, we find News Corp to be a good addition to the portfolio, further diversifying the Communications Sector.

Technology: 22.3%

This sector is primarily composed of computer or electronics related industries. Overall, the outlook for this sector is very promising with specific emphasis placed on computer networking, computer peripherals, and semiconductor equipment. The sector is restrained slightly by the decreased national defense spending by the government, thus creating a pullback in electronics for the defense industry segment. The technology sector may be somewhat susceptible to downturns in the overall economy. If consumer spending flattens out or actually decrease, many portions of this sector will be severely effected. Other portions of the segment, while still being affected, may not be as adversely effected due to their commercial non-cyclical nature.

NASDAQ 100 (QQQ)

The NASDAQ 100 is primarily composed of leading edge technology companies. These companies are from very diverse industries such as computer hardware, computer software, communications, retailing, biotech, and health care. Recently, the NASDAQ 100 has suffered from three 10% or greater single day corrections. These corrections have seemingly had little effect on the overall momentum of the index. Furthermore, many analysts view the NASDAQ 100 as being extremely overvalued. While this may be true, the long-term time horizon of the Crummer SunTrust Portfolio makes this index tracking stock attractive for its growth characteristics and its diverse sector composition. We have chosen to increase our holdings in this index in order to better mirror the S&P 500's percentage in technology while still keeping our risk to a minimum by not holding individual securities within this sector.



As you will see by examining the ten largest holdings, these are the companies that are leaders in the "new economy."

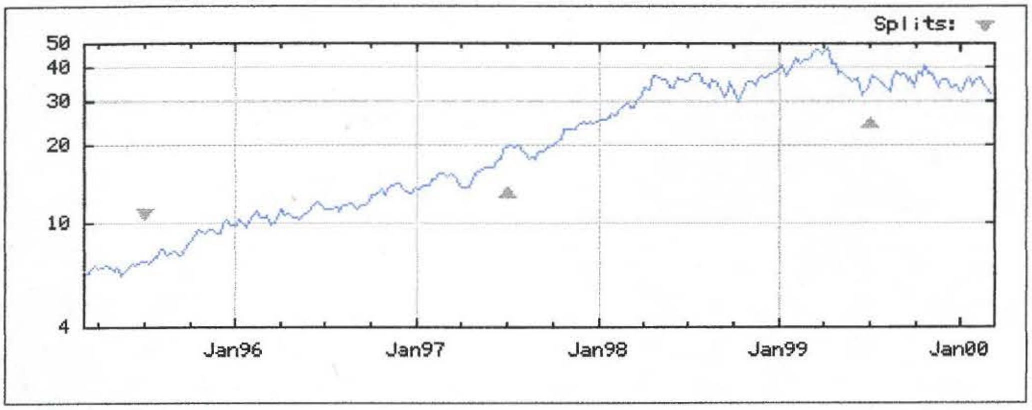
Rank	Company	Symbol	Percent
1	Microsoft Corporation	MSFT	7.34
2	Cisco Systems, Inc.	CSCO	6.72
3	Intel Corporation	INTC	6.34
4	QUALCOMM Incorporated	QCOM	4.84
5	Oracle Corporation	ORCL	4.21
6	JDS Uniphase Corporation	JDSU	3.68
7	Nextel Communications, Inc.	NXTL	2.82
8	Sun Microsystems, Inc.	SUNW	2.7
9	VERITAS Software Corporation	VRTS	2.59
10	Dell Computer Corporation	DELL	2.23
		Total	43.47

Healthcare

The S&P Healthcare Stock indexes under-performed in 1999, partially reflecting certain legal and regulatory issues impacting the industry, coupled with some questionable accounting practices. However, long-term growth prospects remain sound. The companies with the greatest potential are those that are on the forefront of new drug delivery technology, those with new high tech products and generic companies with a strong product pipelines. Breakthroughs in new technology, along with the development of new pharmaceutical products, are brightening prospects for the overall drug industry. Drug delivery companies are also benefiting from greater interest from pharmaceutical firms, with the latter seeking collaborations with delivery companies in an effort to extend the commercial lives of their drugs. Taking all of these facts and assumptions into consideration, we chose to concentrate the portfolio holdings by purchasing the stock of three different healthcare companies, Pfizer, Johnson and Johnson and Columbia.

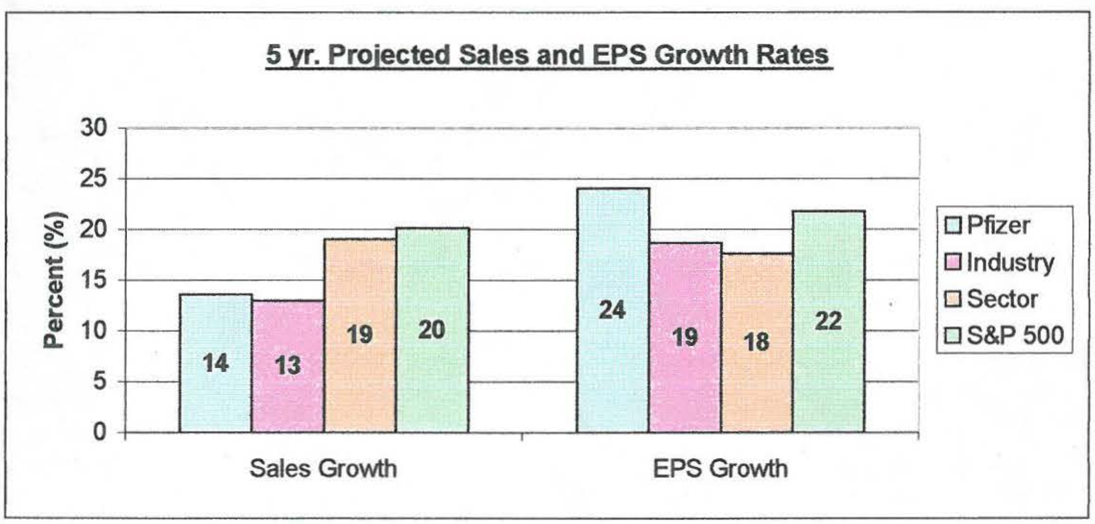
Pfizer, Inc. (PFE)

Pfizer Inc. is a global healthcare company that operates in two separate business segments. The first segment is the Pharmaceutical segment, which includes prescription pharmaceuticals for treating cardiovascular diseases, infectious diseases, erectile dysfunction, allergies, arthritis and other disorders. The second segment is the Animal Health segment, which is composed of antiparasitic, anti-infective, and anti-inflamatory medicines and vaccines for livestock, poultry and companion animals. Some of their major products include Norvasc, Zoloft, Viagra and over the counter brands such as, Visine, Bengay and Cortizone.



With the acquisition of Warner-Lambert, Pfizer now will have projected revenues of about $28 billion worldwide, which will make the new company first in sales in the U.S. and second in the world behind Switzerland's Novartis. Additionally, the new company will plow back approximately $4.7 billion into research and development, which will help provide a continuing and growing stream of income. This is important in developing new drugs and according to a recent Anderson Consulting report, "the success rate of newly approved medicines among leading pharmaceutical companies is expected to improve dramatically from a historical rate of 1 in 10 to about 3 in 10 by 2008."

The portfolio will continue to hold this security because of the company's ability to develop and market new drugs, which is important because of the increasing age of the baby boomer population. The graph below illustrates sales growth and EPS growth over the next five years for the S&P 500, the Healthcare sector, the major drug industry and Pfizer.

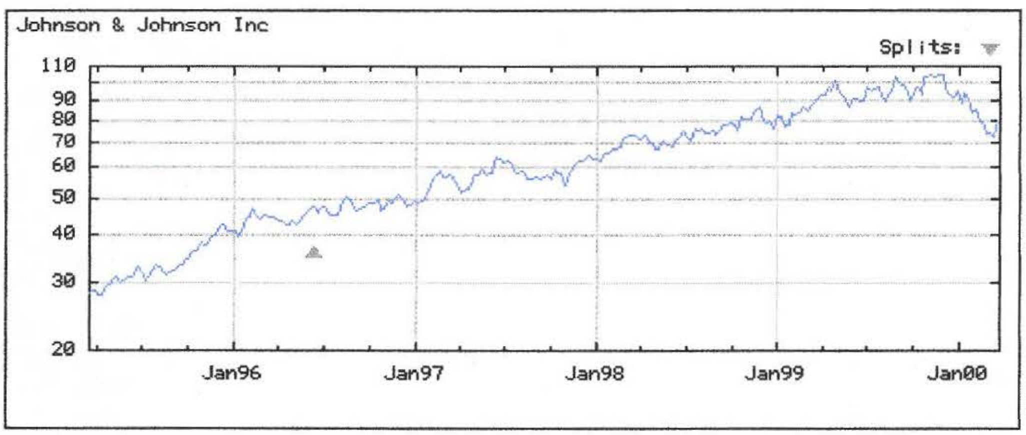


Even though sales growth is projected to lag in the Healthcare sector and the S&P 500, the sales growth will still outpace the industry average. In addition, EPS are expected to outpace the industry, the sector, and the S&P 500. Competition, however, is expected to dramatically increase mainly due to consolidation in the industry. Other risks include the Food and Drug Administration and the expiration of many profitable drug patents.

Johnson & Johnson (JNJ)

Johnson & Johnson manufactures a variety of products worldwide. The three segments that they serve are consumer, pharmaceutical, and professional. The consumer segment produces personal care and hygiene products such as Johnson's baby care products, Band-Aid bandages, Neutrogena skin and hair-care products and Tylenol products. The Pharmaceutical segment produces prescription drugs for allergy, antibacterial, dermatological and other pain management uses. The Professional segment manufactures products such as surgical and medical equipment and devices for use in the professional health field.

Earnings are expected to continue to rise throughout 2000 due to acquisitions, new product launches and price increases. Below is a graphical representation of the company's stock price for the last five years.



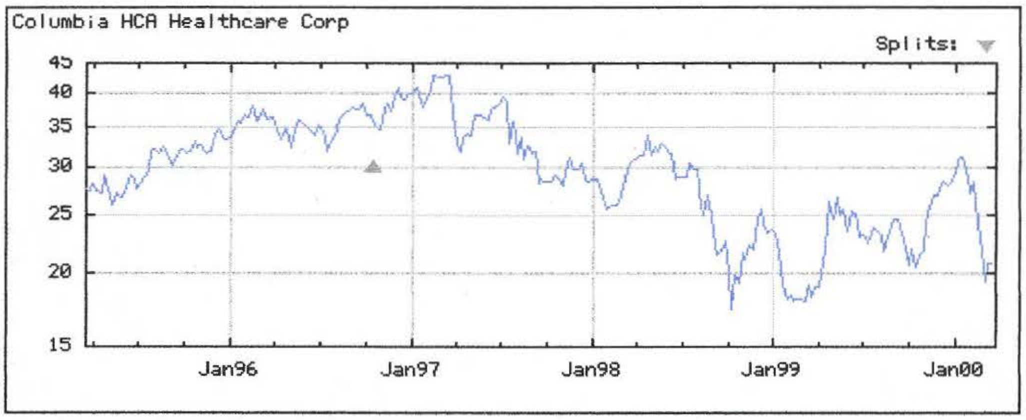
Johnson & Johnson is selling at a discounted P/E (24.75) to the industry (32.05), sector (37.72) and the S&P 500 (35.79). If Johnson & Johnson's P/E was to rise to the levels of each of the aforementioned ratios and EPS were to grow to its consensus estimate of \$3.36, then the stock price of Johnson & Johnson would be \$107.69, \$126.34 and \$120.25, respectively, by the end of year 2000. This represents a substantial discount to the current stock price of approximately \$71.

Potential pitfalls for the company include increased competition across all product lines and business units, sales and earnings per share growth less than the industry and sector averages, the Food and Drug Administration, and the increasing amount of mergers and acquisitions, which lead to greater economies of scale in the industry.

The portfolio will continue to hold this security because it helps diversify the holdings in the major drug industry and the health sector. Additionally, this security represents a value holding for the portfolio, along with a high dividend and payout yield.

Columbia/HCA Healthcare Corporation (COL)

Columbia/HCA Healthcare Corporation is a holding company whose affiliates own and operate hospitals and related health care entities. As of September 1999, the affiliates owned and operated 202 hospitals, 81 freestanding surgery centers and provided extensive outpatient and ancillary services. The facilities are located in 24 states, England and Switzerland.



Columbia/HCA also represents a value security for the portfolio, with the stock only selling at around 20 times earnings compared with the industry's P/E ratio of 25.67 and the sector's P/E of 37.72. Additionally, Columbia/HCA is only selling at 2.27 times book value, while the industry is at 3.26 and the sector is 13.20. If the company were valued as the rest of the industry is, or better yet, the rest of the sector or the S&P, the stock of Columbia/HCA would provide a hefty premium for the portfolio. Lastly, dividends are expected to grow at approximately 15% per year over the next five years, which will aid the total return of this security.

The 5-year growth rate in sales for the healthcare facilities industry is expected to be 25.90% compared to 20.14% for the S&P 500. Additionally, hospital management companies group profits are expected to grow 46.23% in 2000 and 14.39% in 2001. Economic forecasts indicate earnings for the S&P 500 companies will climb 9.58% in 2000 and 7.92% in 2001, indicating profits for this group are projected to grow at a higher tae than that of the market in both this year and next.

The portfolio will add this security to its holdings, which will round out all holdings held in the Healthcare sector. Columbia/HCA provides a value discipline to the portfolio, as do the other holdings in this sector. Finally, with Pfizer Inc., Johnson & Johnson, Columbia/HCA and McKesson/HBOC, which is a distributor of healthcare products but is labeled as a consumer non-cyclical, the portfolio is well diversified throughout the health care sector.

Transportation: 2.7%

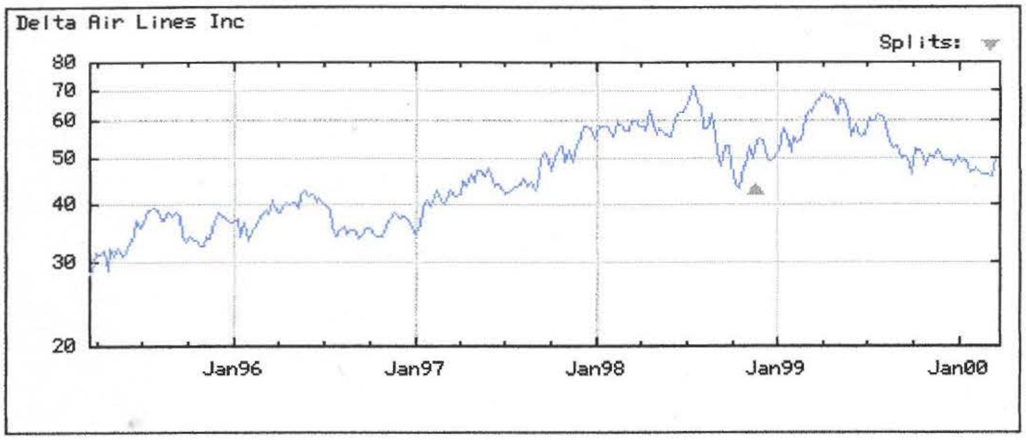
Many players in the transportation sector are in position to have solid gains in the upcoming year. Although this sector has been bogged down recently due to high oil prices, which often accounts for the second largest portion of operating costs, the expected growth for airfreight is 5.7% annually through 2002. This rate is expected to remain relatively low at least through 2000 because of continued margin squeezes that some industries face, which prompts them to ship their cargo by cheaper, ground delivery. Within the domestic market, passenger airlines continue to lose share to integrators such as DHL, Worldwide Express, FedEx and UPS.

Although the domestic market outlook for air cargo is not very bright, the international ton-miles percentages continue to gain. Air movements for Europe to the North America remain fairly healthy and shipments from Asia to the United States also represent a large portion of cargo shipments.

Rail traffic is expected to increase slightly in upcoming years, but the major mover in this sector is airline traffic. Airline traffic has been increasing over the past several years and is forecasted to continue to rise in the foreseeable future. For these reasons the portfolio will continue to hold Delta Airlines stock.

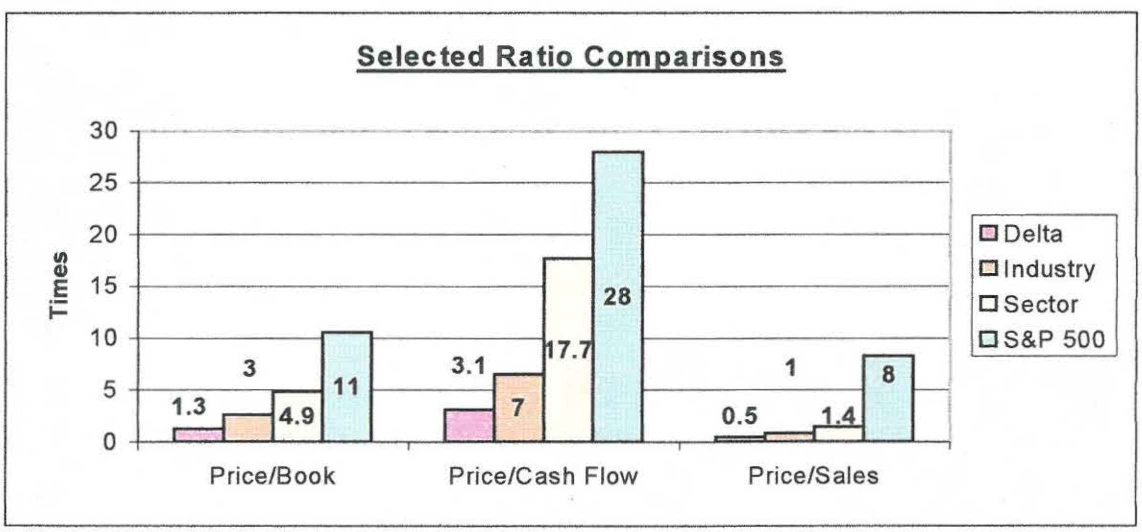
Delta Airlines (DAL)

Delta Airlines provides air transportation for passengers, freight and mail over a network of routes throughout the United States and abroad. Delta serves 184 domestic cities in 44 states and 42 cities in 29 foreign countries. The company conducts foreign operations principally in Asia, Latin America, Europe and North America. In 1999, the company's revenues rose 5% to $7.59 billion and net income rose 36% to $698 million. Increases in revenues are expected to rise higher in the upcoming years due to an increase in revenue passenger miles and passenger mile yield. The stock price is currently at an all time low and is an excellent value to the overall portfolio. Below is a depiction of the five-year stock performance for Delta Airlines.



Although Delta's upcoming profitability in their freight and mail business continues to see heavy competition from integrators, their passenger business is expected to continue to rise. In addition, the company has been slow to adapt to changes in the industry; they have taken on a new direction in the last few years. In recent times, the company has undergone complete revamping and restructuring of its operations and its routes. These changes have helped it to see an increase in unit revenues and profits. These changes along with the company's alliances will help Delta Airlines boost revenues and market position and enable the company's stock price to increase in the long run.

Delta Airlines is another value stock for the portfolio. The security is only selling at 5.39 times earnings while the airline industry is selling at 12.01 times and the transportation sector is selling at 35.82 times. Included in this is Delta's greater dividend yield of .21 versus a dividend yield of .18 for the airline industry. Further information on the value of Delta Airlines compared to the sector, industry and S&P 500 is presented below.



Industry analysts' forecasts currently indicate the airline industry's profits will decline by approximately 20% in 2000 but rebound 29.60% in 2001. Earnings of the S&P 500 are projected to climb 9.58% in 2000 and advance 7.93% in 2001. Indicated earnings for this group are expected to significantly trail the rate of growth anticipated for the market this year, but are expected to grow in excess of the market's rate of growth next year.

The portfolio will hold this equity due to its low value at this time along with heightened expectations of future revenue growth. One reason for such a low valuation has to do with the recent increases in oil prices, which has appreciated from around $11 per barrel a year ago to over $30 per barrel now. Airlines second biggest operational expense, behind human capital, comes from oil prices. Oil, however, is expected to depreciate in value over the next few months as OPEC increases production. Analysts are calling for oil to equalize around $22.50 per gallon, which should cause the stock price to spike a bit.

Capital Goods: 8.59%

New orders for non-military related capital equipment seem to be on a slight decline (less than 1%). Although the decline is small, it is a shift from previous years and could reflect a trend in the future. In addition, new orders for non-defense capital equipment fell approximately 10% in 1999.

Capital goods pricing has also grown at a very slow rate, if at all in some areas. One reason why the capital spending for machinery and equipment has not expanded as much as the economy has is that many chief financial officers are bracing for the eventual economic downturn. They don't want to cut capital spending as long as consumer demand remains high, but they are afraid of making large expenditures and being caught if the economy suddenly declines. To varying degrees, demand for each industry within this sector is driven by the overall health of the global economy. Therefore, the overall growth outlook remains solid, yet not overly zealous.

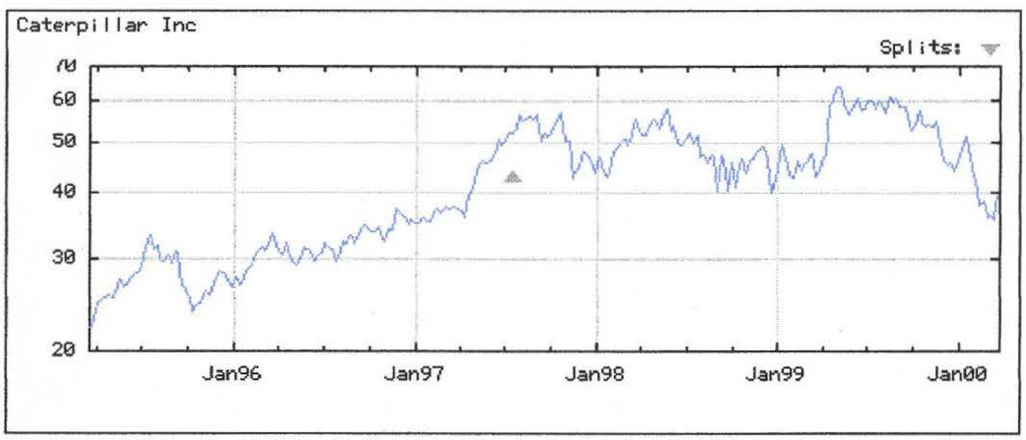
The Internet is also becoming a major player in this sector. The Internet has allowed manufacturers to be able to take orders directly from their customers, and therefore be less reliant on third-party distributors to market their products. Using this method, manufacturers are able to cater directly to many clients needs and cut down on inventory costs. On the other hand, the Internet is also giving customers greater access to information, so that they are able to find the lowest prices for the product or service that they are looking for. This fact means that the Internet revolution may become not only a help, but also a hindrance to the Capital Goods sector and manufacturers in general. As the purchasing power of the customer continues to grow, the competition will become fiercer and the profit margins will be squeezed tighter. For these reasons, we chose to add the below mentioned stock of Caterpillar. Caterpillar is a solid company, with a grasp on e-commerce and a broad product range.

Caterpillar (CAT)

Caterpillar, Inc. is the world's largest manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines. As one of the Fortune 500, Caterpillar and its dealers sell products in almost 200 countries and continue to focus on their growth oriented, high-tech strategy. More than half of the company's revenues comes from sales overseas. Cat also has a broad product range. The company's products are used in construction, mining, road building, forestry, energy, transportation, and material building.

At fiscal year end 1999, the company's revenues fell by 6% to $14.68 billion and net income decreased by 42% to $707 million. These prices reflect lower sales volume in this period. This loss was also due to the fact that many of its major market segments were either in a recession or just recovering from a recession. Although revenues declined slightly, the company was still able to prosper due to its diverse product line and by managing its costs.

This stock is a strong value at its recent low price and is expected to continue to rise in the future. Caterpillar is a good company to hold for the long-term because they have a solid foundation, a diversified product line, an ability to be flexible and is the reigning technological leader in product offerings. For the above stated reasons Caterpillar will be added to the portfolio to better diversify it's holdings by bringing in the Capital Goods sector.

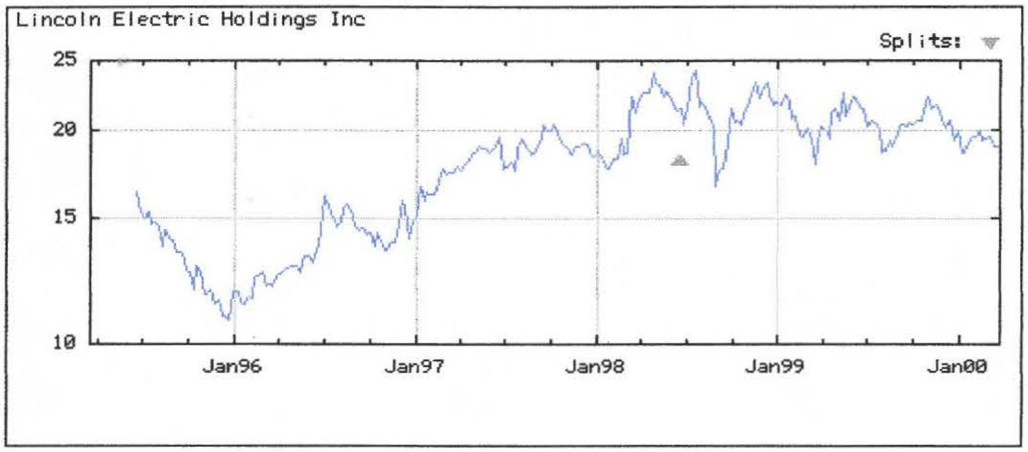


Lincoln Electric (LECO)

The other company that will be added to the portfolio in the Capital Goods sector is Lincoln Electric Holdings Inc., which is the parent company of The Lincoln Electric Company and its subsidiaries. Lincoln Electric is a full-line manufacturer of welding and cutting products and integral horsepower industrial electric motors. The company's welding product offering is very vast and accounts for over 90% of sales.

For fiscal year end 1999 the company had a decline of 9% in revenues to $822.3 million and net income decreased 30% to $50.9 million. Revenues reflect decreased volumes and were largely affected by a $32 million loss on the disposal of the company's electric motor business.

Although revenues declined slightly in fiscal year end 1999, the company is concentrating on larger volumes and has a solid strategy for controlled growth and a solid vision, mission and culture in place. Lincoln is ready to take on the next years with a momentum that will help boost their profits and their overall stock price. We believe that this stock is a value to the overall portfolio and will help to diversify into another area of capital goods.



Basic Industries: 4.05%

Consensus earnings estimates for the Basic Industries sector have slipped to 0.4% to $1.98 for the year 2000. Expected earnings growth for 2000 declined to 37.3%.

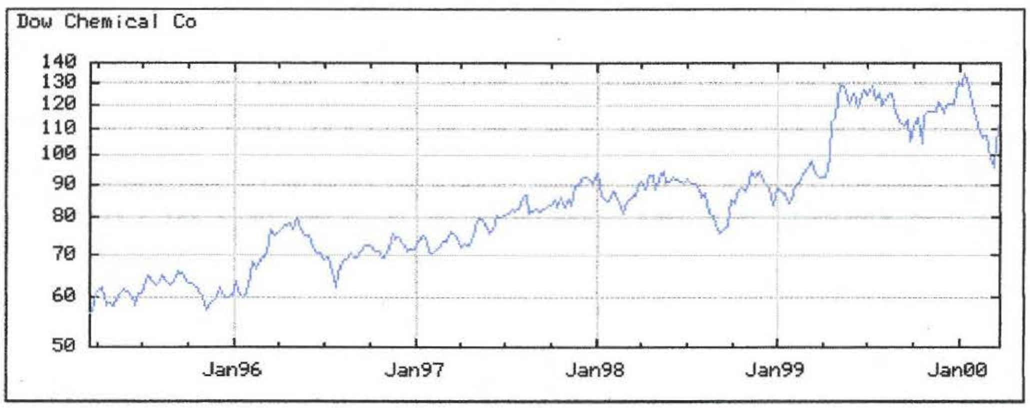
This sector includes industries such as Buildings, Containment, Chemicals, Metals, Forest Products, Steel and Textiles. The entire sector is expected to have 13.7 percent earnings per share growth in 2000 and 10.7 in 2001. The chemicals industry within this sector is projected to have 16.1 percent EPS growth for 2000 and 19.2% for 2001. Other industries, within this sector, that are projected to perform well, include Forest Products, Metals and Steel.

When looking at a company to help fine-tune the portfolio by adding the Basic Industries sector, we looked for a company that was well diversified, offered many high quality products, had been consistently successful and was taking full advantage of establishing themselves in e-commerce. Other important criteria included selecting a stock that had performed as well as, or better than the industry and sector as a whole, with solid financials. Dow Chemical Company fits all of these criteria and is an excellent addition to the portfolio for long-term growth and is offered at a value price. The stock also has a relatively low beta (.93), has a solid P/E ratio (16.41), a high ROE (17.49) and a low debt to equity ratio (.68). Other relevant factors related to Dow Chemical are given below.

Dow Chemical (DOW)

Dow Chemical Company manufactures and sells chemicals, plastic materials, agricultural and other specialty products and services. The Performance Plastics segment includes the adhesives, sealants and coating business, engineering plastics, basic epoxy products, fabricated products and polyurethanes. The Performance Chemicals segment includes specialty chemicals and emulsion polymers. Dow Agrosciences offers products for crop production, weed, insect and plant disease management, and industrial and commercial pest management. The Plastics segment consists of Polyethylene and Polystyrene businesses, Polypropylene and Insite Technology. The Chemicals segment produces basic chemicals for many industries that also serve as key raw materials in the production of many Dow products. The Hydrocarbons and Energy business encompasses the procurement of fuels and crude-oil based raw materials, as well as the supply of products and power for use in the company's operations.

Sales fell 2% in 1999 to $13.73 billion and net income fell 9% to $1.06 billion. Results reflect declining prices and the absence of an $816 million pretax gain on the sale of DowBrands in the first quarter of 1998.



Dow Chemical is being added to the portfolio to allow further diversification by including the Basic Industries sector. Dow is a solid Blue Chip stock that has performed well in the past. As investors are starting to take their money out of what many view as overvalued tech stocks, they are sinking more into companies such as Dow. The company should benefit from a return of investor interest in the basic industry stocks, as well as the return of Chinese buyers to the chemical market. The company should generate 7% EPS growth over the next three years and the price target was established at $140 per share.

Dow also recognizes how important e-commerce is and has establishes an e-business tool, which is dow.com. The company believes that this will have the power to positively impact customer and shareholder relationships. In order to leverage the power of the

Internet, the company has implemented many e-business technologies designed to integrate and enhance its best business practices, increase employee productivity and enrich customer interactions with Dow. More specifically, the new e-business site will empower customers and shareholders to serve themselves with the information they need, when they need it. It will also give them a better understanding of what Dow has to offer the marketplace in light of the e-business revolution.

Dow will be a good addition to the portfolio because it will bring in the chemical industry in the Basic Materials sector, which is coming back into favor among investors. This company also has a clear strategy and is making solid headway in the wave of the future.

Utilities and Energy: 4.05% and 5.34%

Over the past year there has been a notable increase in new merger announcements within the Utility and Energy sectors of the market. There has also been a significant amount of consolidation taking place within these sectors domestically. These announcements and consolidations have had an affect on the way business is being conducted.

One major factor is that of retail wheeling. The National Energy Policy Act (NEPA) specifically places retail-wheeling issues under the jurisdiction of individual states. Thus, states across the country have been grappling with the complex issue of how to restructure the industry to allow for retail competition. The goal is to create a market in which every homeowner and business can choose its own electric and utility service provider. This issue is becoming very important because as states slowly conform to this idea, competition will become stronger than ever. There will be higher marketing, selling and customer service costs in order to appeal to the largest amount of consumers.

These sectors are expected to both have continued earnings growth over the next several years. However, common dividends per share are not expected to rise as much as earnings. Profits will most likely be invested back into the companies in order to promote high growth and to stimulate further research and development.

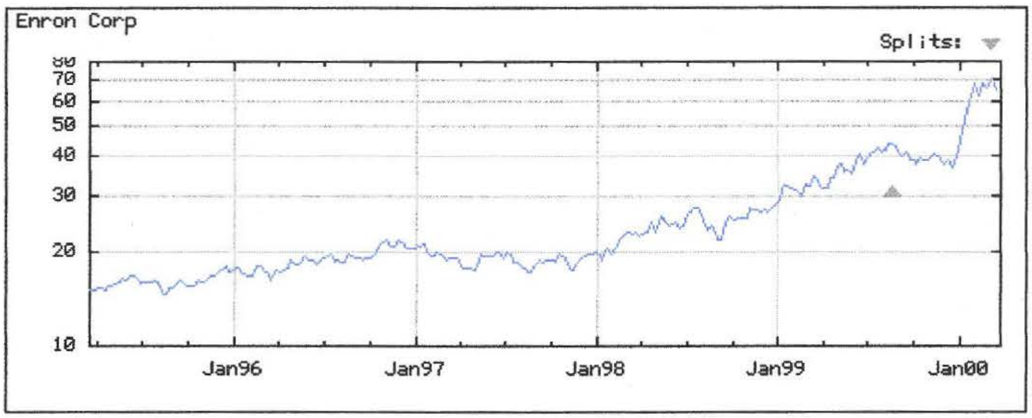
Another factor to consider in these sectors is their complex and changing regulatory environments. Many investors are unsure which companies will compete successfully in the significantly restructured utility and energy markets. This uncertainty about competition's impact will result in increased business risk and greater stock price volatility.

Due to the aforementioned positive information, we chose two companies, one from each sector, that are strategically placed to grow faster than their respective industries over the next several years. The companies that will be added to the portfolio are Enron and Cleco, each of which is discussed on the following page.

Enron Corporation (ENE)

Enron Corporation is one of the world's leading electricity, natural gas and communications companies. The company, which owns approximately $34 billion in energy and communications assets, produces electricity and natural gas, develops, constructs and operates energy facilities worldwide, delivers physical commodities and financial and risk management services to customers around the world, and is developing an intelligent network platform to facilitate online business.

Enron Corporation is engaged in the exploration for and production of natural gas and crude oil; transportation of natural gas through pipelines; generation and transmission of electricity; and the development and operation of power plants, pipelines and other energy related assets. For the nine months ended 9/99, sales rose 24% to $29.14 billion. Net income applicable to Common before acct. change rose 41% to $723 million. These results reflect acquisitions and a $468 million gain on sale of assets.



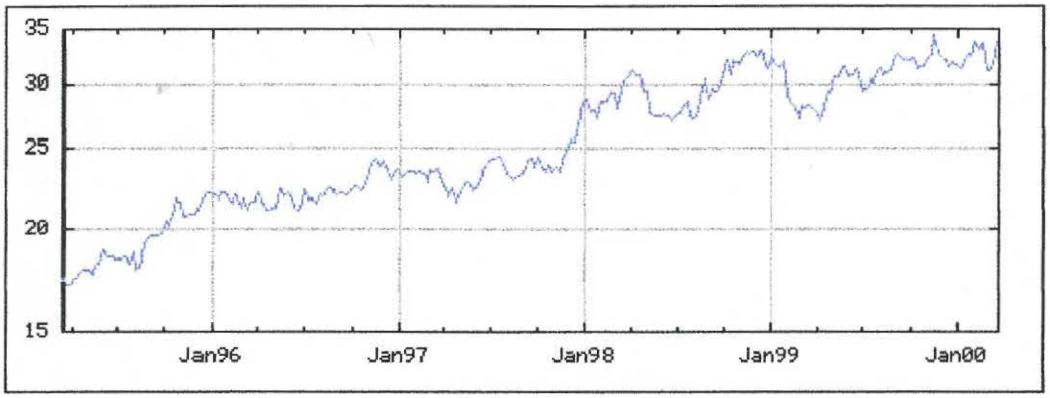
Over the past five years, Enron's growth has been 242.55% higher than the industry average and has exceeded industry average in earnings by 90.08%. The company has recently announced a joint venture with Sun Microsystems, dealing with its telecommunications strategy and has positioned itself adequately for the future. Enron is a strong diversified company that will be added to the portfolio in order to accelerate the portfolio's growth rate.

Cleco Corp. (CNL)

Cleco Corp., a holding company, is a public utility company engaged principally in the generation, transmission, distribution and sale of electric energy to more than 242,000 customers in 63 communities and other rural areas of Louisiana. Cleco operates and either owns or has an ownership interest in four-steam electric generating stations and a gas turbine. The company is the sole owner of Coughlin Power Station (CPS), Teche Power Station and Rodemacher Power Station Unit 1. The company owns a 50% interest in Dolet Hills Power Station Unit 1, and a 30% interest in Rodemacher Power Station Unit 2. The Company's aggregate electric generating capacity is 1.7 million kilowatts.

Cleco Corp. is also involved in joint ventures with such companies as Southwestern Electric Power Co. and Covenant Energy in order to develop its energy business.

For the nine months ending 9/30/99, revenues increased 58% to $629.2 million. Net income applicable to Common increased 8% to $46.9 million. Results reflect an increase in kilowatt-hour sales to residential customers. Net income was partially offset by increased maintenance and depreciation expenses as a percentage of revenues.

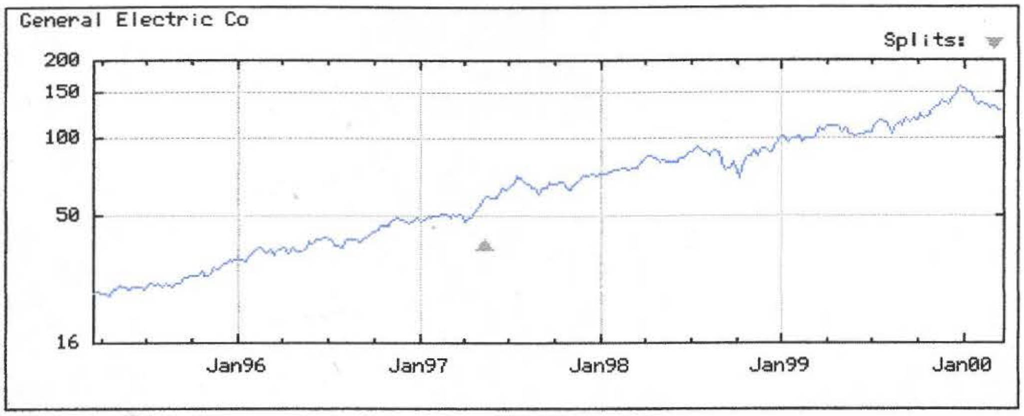


The company currently is ranked number one in service and reliability in the state of Louisiana and recently was awarded the Conservation Corporation of the Year Award from the Louisiana Wildlife Federation. The company employs 1,400 people and operates three primary businesses all related to electric services. Over the past five years, Cleco has had a revenue growth that is 18.24% higher than the industry average and has enjoyed a 58% increase in revenue in the past nine months. Due to the stability of the company, its business philosophy in regards to long-term environmental issues, and its continual growth over the past five years, we feel that it will be a strong addition to the portfolio.

General Electric (GE)

General Electric is a conglomerate and therefore does not fit neatly under one sector. In order to properly allocate percentages, GE was divided into the following sectors: 50% Financial, 40% Capital Goods, and 10% Consumer Cyclicals/Retail.

General Electric has the third largest market capitalization of any public company. The company has diversified into numerous industries, with 75% of its profits being generated from service operations. The largest operation within GE is GE Capital Services, which accounts for 30% of the entire company's operating profits and half of overall sales. GE Capital is the largest non-bank financial operation in the world. Under the leadership of Jack Welch, GE has decided that all businesses must be leaders within their industry or they are divested.

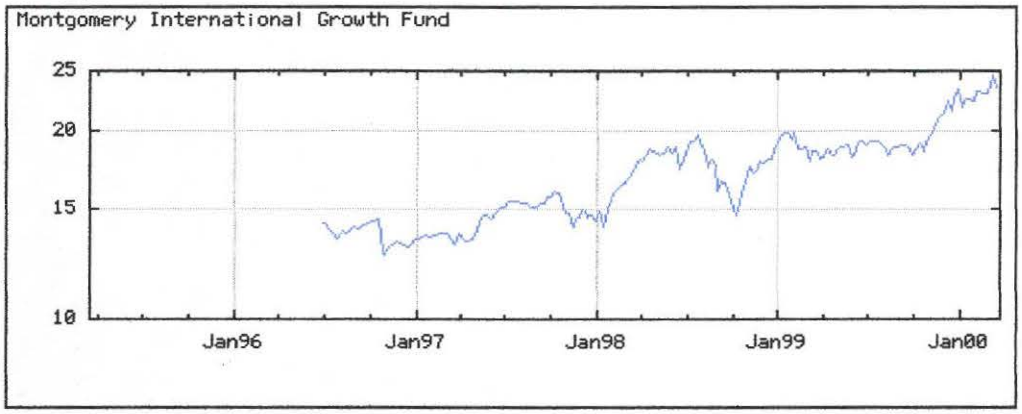


This core principal of quality within GE has led the company to excel across all divisions. NBC, although rumored to be a possible divestiture for the company, has reaped the benefits from Internet related advertising in the past year. The only line of business that has been sluggish recently for GE is their appliance group, which is quite typical of the industry. Even this business, however, should in time excel for GE due to product innovation and quality and cost control measures. GE has positioned itself as a leader within all business lines. Due to incredible management, effective and consistent productivity standards, and the insistence of being the leader among all business lines, we find GE to be a good long term holding for this portfolio and choose to keep it in the portfolio.

INTERNATIONAL EQUITY

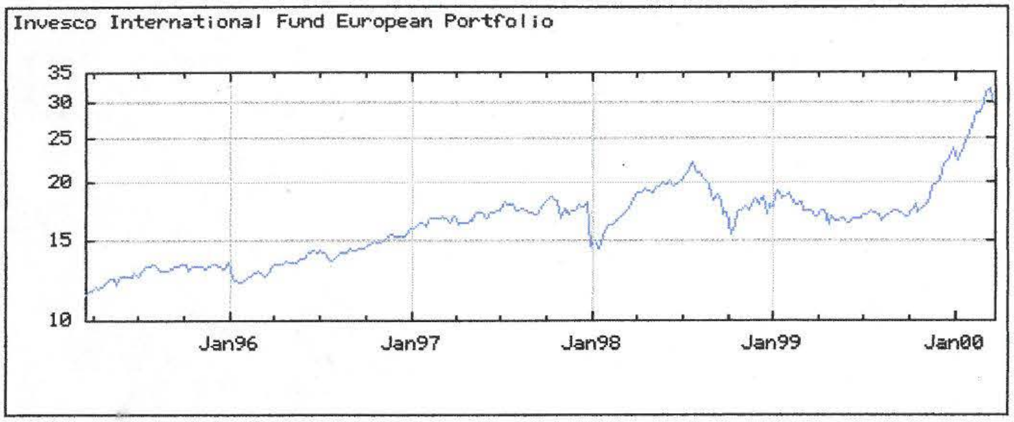
Montgomery International Growth Fund (MNIGX): 33.68%

Currently this fund has almost 64% of its holdings in Europe, 31% in Asia, and 1% in Latin America. The fund's policy is to seek capital appreciation by investing 65% of its assets into foreign companies with market capitalization's greater than $1 billion in at least three different countries. Of its $255 million in net assets, the fund currently has 32.6% invested in services, 22% in financials, and 12.3% in technology. The fund has an average three-year total return of 21.41%. Due to the fund's strong performance and investment policy we have chosen to keep this fund as part of our international holdings in the portfolio.



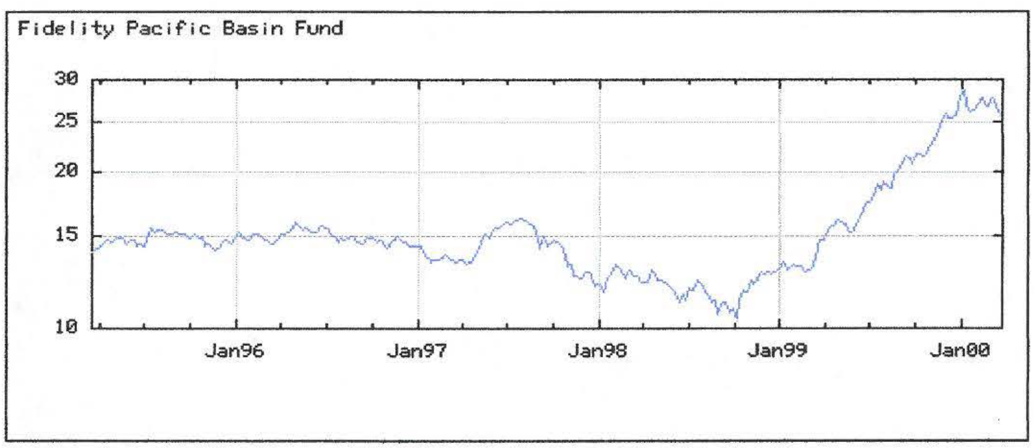
Invesco European Fund (FEURX): 30.84%

The European Fund seeks capital appreciation by investing at least 80% of its assets in securities of companies located in the following countries: England, France, Germany, Belgium, Italy, the Netherlands, Switzerland, Denmark, Sweden, Norway, Finland, and Spain. There are no limitations to how much can be invested in one particular country. Currently, the fund has the largest presence in the United Kingdom (24%), followed by France (17%) and Germany (14%). Thirty-two percent of the funds $743 million are in technology followed by 12% in Industrial Cyclicals. The fund has an average five-year total return of 26.7%. This fund will be kept in the portfolio and will account for the majority of our holdings in Europe.



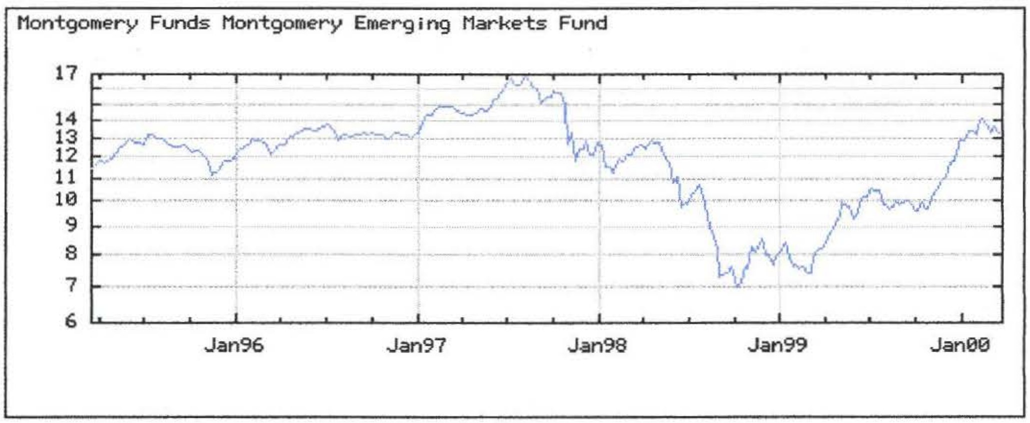
Fidelity Pacific Basin Fund (FPBFX): 28%

This funds policy is to invest 65% of its total assets in companies that have their principal activities in the Pacific Basin. This area includes: Australia, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, China, the Philippines, Singapore, Taiwan, and Thailand. Currently, 64.6% of its $964.87 million is invested in Japan, followed by Taiwan (Free China) with a 6.6% investment and a 5.4% investment in Australia. As of January 31, 2000, 27.7% of holdings were in the Technology sector, 12.6% in Finance, 10.8% in Industrial Machinery and Equipment, and 10.7% in Utilities. The funds one-year load-adjusted total return is 103% and three-year load-adjusted total return is 24.47%. Purchasing this fund will allow the portfolio to be further diversified internationally by allocating 28% of international equity into the Pacific.



Montgomery Emerging Markets Fund (MNEMX): 7.48%

This fund seeks capital appreciation by investing at least 65% of its assets in equity securities issued in emerging-markets, as designated by the World Bank or the United Nations. It may invest no more than 35% of assets in one country; the portfolio represents at least six emerging-market countries. Regionally, the fund currently has 26.6% of funds in North Asia and 28.81% in Latin America. The top five countries invested in currently (each around 12%) are Brazil, South Korea, Mexico, Taiwan, and India. Of the funds $351 million in assets, the majority (22.7%) is in the Service sector, 17.5% is in Financials, and 16.3% is in Industrial Cyclicals. Its five-year average total return is –0.08% and one-year average return is 63.16%. Despite the negative five-year return, this fund is a good overall long-term investment and is expected to outperform its peers while adding greatly to overall diversity and consistency through low covariance with domestic equities. By purchasing this Emerging Markets Fund, the portfolio will now have holdings in the smaller, developing countries, which are not invested in through the other three funds, further diversifying international holdings.



U.S. FIXED INCOME

U.S. Treasury bonds will compose the final 8.58% of the portfolio. U.S. Treasury bonds were selected because they are virtually risk-free and provide great diversification. Furthermore, U.S. Treasury bonds will act as a partial hedge against economic downturns.

The overall outlook for bonds is unclear. Recently, short-term interest rate hikes have hurt bond values. These short-term losses are largely immaterial due to the buy and hold nature of the portfolio and the overall desire for consistent returns.

Also effecting bond value is the overall state of the economy. With the U.S. experiencing its longest bull market, bond values have weakened. This expansion cannot continue forever, thus bonds may be poised to experience significant gains.

APPENDIX A: EQUITIES TABLE 3/8/00

Company Name	Market Price	Beta	Dividend Yield	Price/Book	Price/Earnings	EPS	5-Year Growth Rate
Dow Chemical	98.125	0.92	3.29%	3.02	17.85	$ 5.93	8.60%
Caterpillar	34.938	0.88	3.32%	2.57	14.89	$ 2.63	10.30%
Lincoln Electric	18.688	0.92	2.89%	1.93	11.89	$ 1.63	11.20%
P&G	58.000	0.84	1.36%	11.31	36.51	$ 2.58	13.20%
Coke	47.500	1.07	1.20%	13.97	54.88	$ 0.98	14.30%
Mattel	9.125	0.62	3.25%	2.32	N/A	$ (0.22)	12.90%
Black and Decker	31.063	1.45	1.26%	4.14	11.2	$ 3.40	14.40%
Enron	67.188	0.45	0.72%	6.09	54.98	$ 1.27	15.50%
Cleco	31.500	0.07	5.00%	1.69	14	$ 2.37	6.40%
News Media	64.813	0.87	1.00%	3.39	53.65	$ 0.71	12.00%
Bear Sterns	38.563	1.79	1.51%	1.11	6.74	$ 5.91	12.30%
Hughes Electronics	123.000	0.9	0.00%	4.03	N/A	$ (0.89)	32.40%
AT & T	53.000	0.75	1.78%	2.12	28.5	$ 1.74	13.40%
McKesson HBOC	18.500	0.38	1.20%	1.78	23.73	$ 0.84	17.50%
Johnson & Johnson	71.000	0.96	1.40%	6.97	26.68	$ 2.99	13.20%
Pfizer	32.438	0.81	1.07%	14.87	41.01	$ 0.82	18.10%
Anheuser-Busch	57.688	0.57	1.94%	6.94	21.02	$ 2.94	9.20%
Office Depot	10.688	1.43	0.00%	2.22	19.79	$ 0.62	17.20%
Delta Airlines	47.500	0.86	0.21%	1.25	5.41	$ 8.71	14.30%
Montgomery International	24.190	0.83	1.18%	6.19	31.11	-	-
Fidelity Pacific Fund	27.200	1.18	1.02%	3.16	46.51	-	-
Montgomery Emerg Fund	13.870	1.29	1.22%	4.35	29.11	-	32.18%
Invesco Euro Fund	30.970	0.67	1.01%	11.83	50.27	-	-
American Express	122.750	1.34	0.58%	7.07	28.37	$ 5.42	13.50%
Citigroup	50.500	1.42	1.91%	4.07	18.85	$ 2.86	13.90%
Nasdaq 100	222.500	2.5	-	-	-	-	-
General Electric	130.313	1.22	1.21%	11.12	42.1	$ 3.22	14.30%
Columbia	20.750	0.9	0.37%	2.23	20.12	$ 1.08	14.50%

APPENDIX B: REGRESSION of NASDAQ 100 vs. NASDAQ COMPOSITE INDEX

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.998388277
R Square	0.996779151
Adjusted R Squai	0.996715997
Standard Error	2.050404039
Observations	53

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	66355.6096	66356	15783.33396	3.16188E-65
Residual	51	214.4119929	4.2042		
Total	52	66570.02159			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-13.99305836	1.237382872	-11.31	1.65251E-15	-16.47720621	-11.50891
X Variable 1	0.048464865	0.000385769	125.63	3.16188E-65	0.047690401	0.049239