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Large Cap Investment Recommendations for the Crummer Graduate School of Business SunTrust Investment Portfolio [2003]

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1 Introduction and Background

The Crummer portfolio was started four years ago with a gift given from SunTrust. The gift has been dispersed in yearly installments of $100,000 and will total $500,000 this year. The current holdings of the portfolio were valued at $327,608.58 at the end of year 2002. The recommendations and portfolio holdings are regulated by the investment policy set forth this year. The policy has been changed this year and all recommendations set forth in the following report adhere to the policy statement.

We have used Reiley & Brown's definition of a large cap stock (market capitalization greater than $6,000,000,000) and Morningstar's growth/value classifications. The large-cap portion of the portfolio is currently classified into large-cap growth and large-cap value. Some of the current holdings as well as some of the proposed stocks have been labeled as core stocks by Morningstar. The core classification is made up of stocks in the gray area between growth and value.

We have been charged with the task of evaluating the large-cap securities in the existing portfolio, as well as recommending any additions and changes. We have justified our decisions using several evaluative techniques. It is important to remember that some evaluative measures are inappropriate for some securities. The following represents our findings and recommendations.

2 State of the Economy

The U.S. economy is dealing with several concerns; the stock market is sagging; unemployment is high; and investors are uncomfortable investing in the market due to an era of corporate scandals. In addition, a fear tax is being levied on the economy. Furthermore, the U.S. economy is struggling to begin its recovery against a myriad of fears: fear of war with Iraq, fear of war with North Korea, and the fear of terrorism.

The fear tax can be seen by rising oil prices, stagnating business investment, and decreasing stock prices. Experts believe the fear of war has raised oil prices by $3 to $4 dollars a barrel. Businesses have been deferring capital investments invest until the uncertainty of war is cleared up. The Federal Reserve has stated that their interest-rate hands are tied because oil premiums and other aspects of geopolitical risk have reportedly fostered continued restraint on spending and hiring by businesses. The lack of capital spending coupled with low plant utilization levels will inhibit a quick rebound. Furthermore, uncertainty about employment has caused consumer spending to slowdown.

Morgan Stanley economists have lowered their current first half of 2003 GDP growth rates to an estimated 1% growth rate followed by accelerated growth the second half of the year. This outlook is based on the bold prediction that the war with Iraq is successful, meaning that the war is as brief and as easy as the Gulf War and that a regime change takes place. Other scenarios could bring more uncertainty to the market, such as another terrorist attack, or an Iraqi delivered chemical or biological attack. A successful war with Iraq will clear up some of the geopolitical uncertainty in the world causing oil prices to decrease and ultimately causing businesses to start investing again.

Eventually, if the optimistic predictions take place, in the fourth quarter of 2003 or the first quarter of 2004, consumers spending will increase following an increase in business spending. The lag in consumer spending will be a result of the trend of businesses delay hiring until recovery is fully established.

3 Investment Strategy

In a stagnant economy with a high degree of event (war, terrorism, or corporate shenanigans) risk it is important for a portfolio manager to "play defense" with a portfolio such as the Crummer-Sun Trust Investment Portfolio which is rebalanced once a year. Although the long-term nature of this portfolio permits the assumption of greater risk than would be wise for a prudent individual investor, excess risk (speculation) is not typically rewarded in uncertain economic conditions. With payrolls falling more than 300,000, an unemployment rate of 5.8%, decreasing consumer spending, and consumer credit (exclusive of mortgages and home equity credit) rising by nearly 10% in January 2003, the risks-reward tradeoff calls for a conservative management approach.

We have embodied this philosophy in our primary screens. Both screens begin by looking for profitable companies with low leverage selling at low price to book multiples. One screen looks for companies within that universe showing high relative growth while the other looks for companies selling at low prices (low P/E).

The specific screens are:

<u>Value</u>

Market Capitalization	> $6 Billion
Current P/E ratio	< 15
Current P/B ratio	as low as possible
Leverage	as low as possible
Five year average net profit margin	greater than 5%
Current year net profit margin	greater than 1%

<u>Growth</u>

Market Capitalization	> $6 Billion
Annual EPS Growth Rate	> 10%
Next Year Growth Rate	> 5%
Current P/B ratio	as low as possible
Leverage	as low as possible
Five year average net profit margin	greater than 1%
Current year net profit margin	greater than 1%

The combination of low price to book ratio, low leverage and history of profitability in these screens offers some confidence that these companies are conservatively managed and will be able to withstand a period of uncertain economic conditions. Consistent with our view that the economy will grow slowly at best, we also looked for companies with high (relative) dividend yields and reasonable dividend growth rates.

Our screens produced 83 value and 36 growth names. Of interest, nine of the eighteen current Crummer-Sun Trust large-cap holdings were identified by one or both screens.

After preliminary evaluation, we recommend retaining the following current holdings in the value portfolio: Citigroup (C), Caterpillar (CAT), General Electric (GE), Masco (MAS), MBNA Corporation (KRB), and Proctor & Gamble (PG).

We recommend retaining the following current holdings in the growth portfolio: Anheuser Busch (BUD), Cardinal Health (CAH), Dow Chemical (DOW), Healthcare Corporation of America (HCA), Pfizer (PFE), Sysco Corporation (SYY), and United Parcel Service (UPS).

We propose the following potential additions to the value portfolio: Equity Office Products (EOP), General Dynamics (GD), HJ Heinz (HNZ), Six Continents (SXC), and Occidental Petroleum (OXY).

We propose the following potential additions to the growth portfolio: Affiliated Computer Services (ACS), Johnson & Johnson (JNJ), Paychex (PAYX), Target (TGT), and United Technologies (UTX).

4 Existing Stock Holdings

As part of the analysis, the risk free rate and equity risk premium were to be estimated. The risk free rate was taken to be the 10-year treasuries rate at 3.68% and the equity risk premium as the arithmetic average of the difference of excess returns of the market and 30-year treasury bonds at 6.55%. We have used DuPont analysis, capital asset pricing, dividend discount, and free cash flow models to compare existing portfolio holdings. As stated previously, some of the evaluative measures are not appropriate for some securities. For example, it is not appropriate to use the dividend discount model to evaluate QQQ since most of the companies making up the trust do not pay dividends. These recommendations are based upon our economic outlook, stock research and industry evaluation. Each recommendation is based upon the totality of our evaluations and not a single evaluative method.

4.1 Anheuser-Busch (BUD) –Core

4.1.1 Company

Anheuser-Busch Companies, Inc. is the world's largest brewer, one of the largest theme park operators in the U.S., the second-largest U.S. manufacturer of aluminum beverage containers, and the world's largest recycler of aluminum beverage containers. Significant brands: *Budweiser*, *Michelob*, and *Busch* families of beer, *Natural Light* and *O'Doul's*. Beer and related products: about 95% of '01 sales, 95% of operating profits.

4.1.2 Industry

BUD is in the Beverage – Brewers industry. This industry is considered part of the food, beverage, and tobacco sector. The Alcoholic Beverage Industry maintains a relatively stable demand and has traditionally remained non-cyclical. The current outlook is expected to continue into the future. Demand has been slowly, but steadily increasing. Capacity utilization rates for brewers are much higher than those of the economy. Growth rates of the industry are expected to be 1-1.5% for 2003. BUD is the leader in this mature market but some further competition has arisen from micro-breweries. While BUD is incapable of matching the rapid growth rates of successful micro-breweries, the company is the industry leader and should provide stable returns.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	13.20%	12.00%	11.60%	11.20%	21.10
Industry	13.20%	14.10%	18.10%	12.10%	15.80
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.50

Zacks Industry: BEVERAGES-ALCO

4.1.3 Evaluation

When looking at the DuPont analysis it is important to note that BUD has a return on assets of 17.77% compared with the industry average of 10.64%. The return on equity is 65.81% vs. an industry average of 43.87.

BUD has refocused itself on its core beer business. It has sold unrelated businesses such as the St. Louis Cardinals and focused on increasing production efficiency.

BUD is a fairly stable stock in the alcohol beverage market. It has maintained profitability and should be seen as a relatively strong stock in a shaky economy. The very low beta shows the non-cyclical nature of the industry. Because BUD has very stable returns in an unstable economy, it is recommended to keep BUD at its current levels.

Recommendation: **Retain**
Valuation Range: $54 - $56
Standard Deviation: 22.21%
Expected Return: 13.6%

Budweiser (BUD) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	622.0	**Risk free Rate (10-year)**	3.68%
Sales	3,706.2	**Equity Risk Premium**	6.55%
Common Stock Equity	945.2	**Beta**	0.10
Total Assets	3,500.7	**Expected Return (CAPM)**	**4.34%**
Net Income	622.0	**Annual Dividend**	$0.78
Common Equity	945.2	**Dividend Yield**	1.61%
Return on Equity	**65.81%**	**Dividend Growth Rate**	8.46%
(Net Income/Common Equity)			
		Cash From Operations	3,087.07
Return on Sales	**16.78%**	**Capital Expenditures**	(813.33)
(Net income/Sales)		**Free Cash Flow**	2,273.73
Total Asset Turnover	**1.06**	**Shares Outsanding**	855.90
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$2.66
Return on Assets (ROA)	**17.77%**	**FY 2003 Growth**	12.0%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	11.7%
Financial Leverage	**3.70**	**Long Term Growth**	4.1%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	18.22
		Valuations	
Return on Equity	**65.81%**	**Capital Asset Pricing Model**	**$50.50**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$55.65**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$58.97**
Current Price (Mar 21, 2003)	**$48.40**	**Average Valuation**	**$55.04**
		Standard Deviation	**4.27**
		Discount/(Premium)	**$6.64**

4.2 Cardinal Health (CAH) –Growth

4.2.1 Company

Cardinal Health, Inc. is a leading provider of products and services for the healthcare industry including pharmaceutical distribution, medical-surgical products, and pharmaceutical services covering the continental US.

4.2.2 Industry

Many sectors of the Healthcare Industry are struggling and profit margins have become extremely thin. However, the outlook for companies that provide products wholesale and services to hospitals is strong. Profitability in the industry will likely come from increases in efficiency rather than expansion of the market. Furthermore, the industry is somewhat recession proof as there is always a need for healthcare and healthcare products. The Healthcare Industry is also expected to grow as the baby boomers age and average life expectancies increase.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	23.00%	20.70%	19.70%	19.50%	18.00
Industry	18.20%	17.80%	19.70%	19.10%	17.10
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.50

Zacks Industry: MED-WHSL DRG/S

4.2.3 Evaluation

Cardinal's return on sales is 5.69% compared with a negative return on sales for the industry. All three of the models used for evaluating CAH gave consistent results and show that the stock is currently undervalued.

Cardinal Health is a stable company that does not bear the same market risks as other companies in the health care industry. As other health care companies are hurting, Cardinal Health has managed to maintain growth and profitability. Cardinal benefits from having an excellent management team with a long-term orientation. Cardinal also has an excellent track record of being a cash generator. S&P estimates that revenue growth will be 15-16% during 2003. We recommend that the portfolio maintain its holdings of CAH at its current levels for the aforementioned reasons.

Recommendation: **Retain**
Valuation Range: $64 - $67
Standard Deviation: 39.15%
Expected Return: 13.4%

Cardinal Health (CAH) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	1,022.0	**Risk free Rate (10-year)**	3.68%
Sales	17,953.0	**Equity Risk Premium**	6.55%
Common Stock Equity	4,762.0	**Beta**	0.30
Total Assets	17,730.0	**Expected Return (CAPM)**	**5.65%**
Net Income	1,022.0	**Annual Dividend**	$0.10
Common Equity	4,762.0	**Dividend Yield**	0.17%
Return on Equity	**21.46%**	**Dividend Growth Rate**	16.48%
(Net Income/Common Equity)			
		Cash From Operations	983.90
Return on Sales	**5.69%**	**Capital Expenditures**	(285.40)
(Net income/Sales)		**Free Cash Flow**	698.50
Total Asset Turnover	**1.01**	**Shares Outsanding**	448.80
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$1.56
Return on Assets (ROA)	**5.76%**	**FY 2003 Growth**	20.7%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	19.9%
Financial Leverage	**3.72**	**Long Term Growth**	5.6%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	37.12
		Valuations	
Return on Equity	**21.46%**	**Capital Asset Pricing Model**	**$61.03**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$32.75**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$68.01**
Current Price (Mar 21, 2003)	**$57.77**	**Average Valuation**	**$64.52**
		Standard Deviation	**4.94**
		Discount/(Premium)	**$6.75**

4.3 Caterpillar Corp. (CAT) – Value

4.3.1 Company

Caterpillar is the leading supplier of agricultural equipment and the world's number one maker of earth moving machinery. The company makes a variety of construction, mining, and logging machinery, as well as engines for trucks, locomotives, boats, and electrical power-generation systems. Caterpillar operates plants on six continents and sells its equipment globally via a network of some 220 dealers in about 2,700 locations. Caterpillar also offers rental services through more than 1,200 outlets worldwide. Furthermore, it provides financing and insurance for its dealers and customers. The company also sells Cat-branded products, such as boots, and other items made by third parties.

4.3.2 Industry

In the United States, the Machinery Industry ebbs and flows with the economy. In a slowly recovering economy the Machinery Industry is projected to show growth at an increasing rate over the next five years. The Heavy Machinery Industry over the past five years has had negative earnings and Caterpillar is no exception. Beginning in 2003, however, the cyclical industry is expected to respond with stable earnings growth rates. Although the projections for 2003 is that Caterpillar will under perform the industry, its stability and worldwide presence make it a stable force. Overseas, the Machinery Industry is booming and should show consistent growth over the next few years.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	-10.60%	0.50%	40.20%	10.70%	21.70
Industry	-13.50%	12.20%	32.60%	12.00%	18.20
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: MACH-CONST/MNG

4.3.3 Evaluation

At the beginning of an economic recovery, the Machinery Industry is projected to be one of the first industries to rebound as the need to replace depreciated assets becomes a necessity to meet demand. This economic reality compounded with Caterpillar's overseas presence positions them to have both stability and growth in the recent future. In recent years Caterpillar has cut management levels and is poised to respond to global economic rebound. Furthermore, the P/E ratio is in line with the industry average generated with a higher ROE. This analysis recommends continuing to hold Caterpillar in the portfolio.

Recommendation: **Retain**
Valuation Range: $57 - $60
Standard Deviation: 25.1%
Expected Return: 11.3%

Caterpillar (CAT)			
In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	660	**Risk free Rate (10-year)**	3.68%
Sales	19,871	**Equity Risk Premium**	6.55%
Common Stock Equity	5,978	**Beta**	0.90
Total Assets	32,374	**Expected Return (CAPM)**	**9.58%**
Net Income	660.0	**Annual Dividend**	$1.40
Common Equity	5,978.0	**Dividend Yield**	2.66%
Return on Equity	**11.04%**	**Dividend Growth Rate**	8.79%
(Net Income/Common Equity)			
		Cash From Operations	1,360.00
Return on Sales	**3.32%**	**Capital Expenditures**	(1,260.00)
(Net income/Sales)		**Free Cash Flow**	100.00
Total Asset Turnover	**0.61**	**Shares Outsanding**	344.18
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$0.29
Return on Assets (ROA)	**2.04%**	**FY 2003 Growth**	-1.7%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	50.9%
Financial Leverage	**5.42**	**Long Term Growth**	9.6%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	180.87
		Valuations	
Return on Equity	**11.04%**	**Capital Asset Pricing Model**	**$57.58**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$55.33**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$66.15**
Current Price (Mar 21, 2003)	**$52.55**	**Average Valuation**	**$59.69**
		Standard Deviation	**5.71**
		Discount/(Premium)	**$7.14**

4.4 Citigroup, Inc. (C) –Value

4.4.1 Company

Citigroup is the world's second-largest financial services firm (behind Japan's Mizuho Holdings), the leading credit card issuer, and the first US bank with more than $1 trillion in assets. Citigroup offers banking (mainly through Citibank), asset management, insurance, and investment banking through more than 2,600 locations in the US and some 3,000 offices in about 100 other countries. Subsidiaries include investment bank and brokerage Salomon Smith Barney, insurer Travelers Life and Annuity, consumer lending unit CitiFinancial, and Primerica Financial Services (term life insurance and asset management). Citigroup is also a leader in online financial services.

4.4.2 Industry

The Financial Services Industry is made up of insurance companies, credit business, insurance brokers, asset managers, and other financing operations. The driving force behind the industry is in the amount of debt service paid. In poor economic times consumers are less likely to have the means to pay off their entire credit billing every month, which shows as increased income to financial services companies. It has been reported by the Federal Reserve in the Household Debt-Service Burden report that total debt payments as a percentage of personal income is in the range of the highest levels in 20 years. Although these circumstances can lead to increased bankruptcies and loss of payment, there are stable projected returns for the industry.

As the economy enters recovery the need for increased debt service is only expected to increase as the economy is stimulated. Further, the current low interest rates have sparked an onset of refinancing which will bolster earnings.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	13.70%	20.10%	10.30%	12.30%	12.60
Industry	10.70%	16.00%	14.80%	16.30%	13.80
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: FIN-MISC SVCS

4.4.3 Evaluation

The Financial Services Industry is facing uncertainty from volatility in the economy. However, even with said uncertainties, with an era of low interest rates in an effort to boost the economy will increase the demand for credit. Citigroup has outperformed the industry over the last five years and is expected to continue to outperform in earnings over the next year and over the next five years with return on equity in line with the industry. This analysis recommends holding CitiGroup in the portfolio

Recommendation: **Retain**
Valuation Range: $40 - $42
Standard Deviation: 38.7%
Expected Return: 10.2%

Citigroup (C)			
In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	16,722	**Risk free Rate (10-year)**	3.68%
Sales	102,977	**Equity Risk Premium**	6.55%
Common Stock Equity	79,366	**Beta**	1.50
Total Assets	1,031,568	**Expected Return (CAPM)**	**13.51%**
Net Income	16,722.0	**Annual Dividend**	$0.80
Common Equity	79,366.0	**Dividend Yield**	2.15%
Return on Equity	**21.07%**	**Dividend Growth Rate**	27.73%
(Net Income/Common Equity)			
		Cash From Operations	15,933.00
Return on Sales	**16.24%**	**Capital Expenditures**	(3,630.00)
(Net income/Sales)		**Free Cash Flow**	12,303.00
Total Asset Turnover	**0.10**	**Shares Outsanding**	5,062.02
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$2.43
Return on Assets (ROA)	**1.62%**	**FY 2003 Growth**	22.3%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	11.7%
Financial Leverage	**13.00**	**Long Term Growth**	13.1%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	15.31
		Valuations	
Return on Equity	**21.07%**	**Capital Asset Pricing Model**	**$42.22**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$40.24**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$41.80**
Current Price (Mar 21, 2003)	**$37.20**	**Average Valuation**	**$41.42**
		Standard Deviation	**1.04**
		Discount/(Premium)	**$4.22**

4.5 Danaher Corporation (DHR) – Growth

4.5.1 Company

Danaher's business consists of three segments: controls, tools, and measuring equipment. DHR's controls group produces a wide range of monitoring, sensing, controlling, and testing products. Notable brands include Veeder-Root (measuring and leak-detection systems for underground fuel-storage tanks), Fluke (devices for measuring electronic voltage, frequency, pressure, and temperature), and Pacific Scientific (electric motors, drives, and safety equipment). The company also produces mechanics' hand tools, automotive specialty tools, and accessories, which it makes under numerous brand names, including Sears' line of Craftsman tools.

4.5.2 Industry

Although industrial machinery has been relatively weak based on the recent economic softness and plant over capacity, those portions dealing with "industrial staples" continue to do well servicing maintenance needs and smaller, niche operators who continue to grow. As the economy begins to bounce back, these same companies should benefit from a strong position as its larger customers come back on-line and begin to update neglected facilities.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	15.90%	16.70%	12.20%	14.80%	25.30
Industry	-1.90%	18.90%	19.30%	12.30%	18.40
S&P 500	-1.10%	22.70%	9.90%	8.00%	18.80

Zacks Industry: MCH-GENL INDL

4.5.3 Evaluation

Danaher business providing "industrial staples," hand tools, controls and measuring equipment generally sees consistent use/growth. The company has grown strongly through both growth and acquisition over the last few years with no indication of any slowdown. We inherited this position from the mid-cap portfolio and see no reason to eliminate it.

Recommendation: **Hold**
Valuation: $76 - $80
Standard Deviation: 25.3%
Expected Return: 13.9%

Danaher (DHR) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	434.1	Risk free Rate (10-year)	3.68%
Sales	4,577.2	Equity Risk Premium	6.55%
Common Stock Equity	3,009.6	Beta	0.90
Total Assets	6,029.1	Expected Return (CAPM)	9.58%
Net Income	434.1	Annual Dividend	$0.10
Common Equity	3,009.6	Dividend Yield	0.15%
Return on Equity	14.42%	Dividend Growth Rate	14.97%
(Net Income/Common Equity)			
		Cash From Operations	710.30
Return on Sales	9.48%	Capital Expenditures	(65.40)
(Net income/Sales)		Free Cash Flow	644.90
Total Asset Turnover	0.76	Shares Outsanding	152.53
(Net Sales/Total Assets)		Free Cash Flow per Share	$4.23
Return on Assets (ROA)	7.20%	FY 2003 Growth	16.7%
*(Return on Sales * Total Asset Turnover)*		FY 2004 Growth	12.1%
Financial Leverage	2.00	Long Term Growth	9.3%
(Total Assets/Common Equity)		Price/Free Cash Flow	16.20
		Valuations	
Return on Equity	14.42%	Capital Asset Pricing Model	$75.05
*(Return on Sales * Total Asset*		Dividend Discount	$4.47
*Turnover * Financial Leverage)*		Discounted Cash Flow	$87.83
Current Price (Mar 21, 2003)	$68.49	Average Valuation	$81.44
		Standard Deviation	9.04
		Discount/(Premium)	$12.95

4.6 Dow Chemical (DOW) –Value

4.6.1 Company

Dow Chemical Co. manufactures basic chemicals and plastics like ethylene, propylene, benzene, styrene, acetone, chlorine/caustic soda, ethylene oxide/glycol, vinyl chloride, propylene oxide/glycol, polyethylene, and polystyrene. Specialty products include surfactants, polyurethanes, polycarbonates, films, solvents, latexes, and epoxies. Address: 2030 Dow Center, Midland, MI 48674. Tele.: 989-636-1000. www.dow.com.

4.6.2 Industry

Concerns for the stocks in the Diversified Chemicals Sector center on poor fundamentals in key products and individual company issues. The Diversified Chemicals Index was down 8.6% in 2002, with a mixed performance by the major chemical companies in the Index, including DuPont and Dow Chemical, versus a 22.5% decline for the S&P 1500. Year to date through February 7, the Diversified Chemicals Index was off 9.4%, versus 5.8% for the S&P 1500.

Production for the chemicals industry, as measured by the Federal Reserve's production index for chemicals and products, is expected to rise modestly in 2003, after a flat annual performance in 2002. Chemical output in December 2002, at 105.3 (1997 = 100), was up 1.5% from the year-earlier level, but off from its recent high in July 2002. Production gains should remain modest in the near-term along with the overall U.S. Economy. The industry's operating rates have risen as a result of greater output combined with modest additions in capacity. In December 2002, the utilization rate was 74.5%, versus 73.6% in the year-earlier period. The producer price index for chemicals and products in December 2002 was 155.3 (1982 = 100), up 5.6% from the year-earlier level, and up from its recent low at the start of 2002. Prices for petrochemicals and plastics strengthened for most of 2002; but much higher feedstock costs will crimp profit margins. Caustic soda prices declined through the second quarter but are now climbing as a result of recovering demand, and makers of titanium pigment are also implementing price increases.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	-33.30%	233.30%	156.40%	8.50%	45.90
Industry	-6.30%	14.20%	21.60%	10.70%	18.30
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: CHEM-DIVERSIFD

4.6.3 Evaluation

Dow provides the raw materials for a large segment of the economy. Even in times of weak economic growth, Dow's position as supplier to those who supply the necessities of life should provide stability. This, coupled with a nearly five percent dividend, makes Dow a solid holding in this portfolio.

Recommendation: **Retain**
Valuation: $30 - $32
Standard Deviation: 27.8%
Expected Return: 13.3%

Dow Chemical (DOW) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	(405.0)	**Risk free Rate (10-year)**	3.68%
Sales	27,609.0	**Equity Risk Premium**	6.55%
Common Stock Equity	7,626.0	**Beta**	0.80
Total Assets	39,562.0	**Expected Return (CAPM)**	**8.92%**
Net Income	(405.0)	**Annual Dividend**	$1.34
Common Equity	7,626.0	**Dividend Yield**	4.46%
Return on Equity	**-5.31%**	**Dividend Growth Rate**	2.89%
(Net Income/Common Equity)			
		Cash From Operations	2,108.00
Return on Sales	**-1.47%**	**Capital Expenditures**	(1,623.00)
(Net income/Sales)		**Free Cash Flow**	485.00
Total Asset Turnover	**0.70**	**Shares Outsanding**	912.66
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$0.53
Return on Assets (ROA)	**-1.02%**	**FY 2003 Growth**	238.2%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	152.7%
Financial Leverage	**5.19**	**Long Term Growth**	8.8%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	56.49
		Valuations	
Return on Equity	**-5.31%**	**Capital Asset Pricing Model**	**$32.70**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$35.89**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$39.90**
Current Price (Mar 21, 2003)	**$30.02**	**Average Valuation**	**$36.16**
		Standard Deviation	**3.61**
		Discount/(Premium)	**$6.14**

4.7 General Electric (GE) –Core

4.7.1 Company

General Electric Co. is one of the largest & most diversified industrial cos. in the world. Indus. segments incl. Aircraft Engines (17% of '01 revs.; 17% of oper. pfts.); Appliances (9%, 4%); Broadcasting (8%, 10%); Indus. Pdts. & Systems (17%, 12%); incl. lighting, locomotives, motors, indus. systems; Materials (10%, 10%); mainly plastic; Power Systems (30%, 34%) turbine-generators; Technical Pdts. & Svcs. (9%, 13%), medical systems, computer svcs. Also has GE Capital (provided $5.6 bill. in other inc.) Fgn.: 50% of sls.; R&D, 3.2%. Has abt. 310,000 empls., 534,000 stkhldrs. Off./dir. own less than 1% of stk. (3/02 Proxy). Chairman & CEO: Jeffrey Immelt. Inc.: NY. Addr.: 3135 Easton Turnpike, Fairfield, CT 06431. Tel.: 203-373-2211. Internet: www.ge.com.

4.7.2 Industry

As a result of the current economic slowdown, companies have been sharply reducing their capital spending, which has led to cancellations and delays in purchasing such things as manufacturing equipment. However, the anticipated increases in federal spending for defense and national security should help Industrial conglomerates recover. Nevertheless, with uncertainty about capital spending still looming for the next few quarters and a continued sluggish economic environment likely to limit the group's stock market performance, the investment outlook is neutral.

Capacity utilization in December was 75.4%, a rate that is 6.1% below its 1972-2001 average. This industry consists of a variety of companies that offer a broad array of manufactured products and services, primarily to the industrial marketplace, and to a lesser extent to the consumer marketplace. Primary end markets include aerospace, automotive, chemicals, electronics, instrumentation, metals, and oil and gas. Products are mainly used as components in various manufacturing and industrial processes.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	12.70%	6.70%	9.60%	11.10%	16.10
Industry	3.90%	1.00%	13.60%	11.40%	13.30
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: DIVERSIFIED OP

4.7.3 Evaluation

As one of the largest and most diversified industrial companies in the world, GE offers a unique combination of products from finance to jet engines/turbines and broadcasting in a single portfolio. GE management continues to be one of the best and is focused on shareholder value. GE is a core holding.

Recommendation: **Retain**
Valuation: $31 - $32
Standard Deviation: 26.53%
Expected Return: 12.5%

General Electric (GE) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	4,087.0	**Risk free Rate (10-year)**	3.68%
Sales	32,585.0	**Equity Risk Premium**	6.55%
Common Stock Equity	62,258.0	**Beta**	1.00
Total Assets	555,523.0	**Expected Return (CAPM)**	**10.23%**
Net Income	4,087.0	**Annual Dividend**	$0.76
Common Equity	62,258.0	**Dividend Yield**	2.71%
Return on Equity	**26.26%**	**Dividend Growth Rate**	15.93%
(Net Income/Common Equity)			
		Cash From Operations	27,413.10
Return on Sales	**12.54%**	**Capital Expenditures**	(10,808.20)
(Net income/Sales)		**Free Cash Flow**	16,604.90
Total Asset Turnover	**0.23**	**Shares Outsanding**	9,951.06
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$1.67
Return on Assets (ROA)	**2.94%**	**FY 2003 Growth**	6.7%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	9.6%
Financial Leverage	**8.92**	**Long Term Growth**	10.0%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	16.78
		Valuations	
Return on Equity	**26.26%**	**Capital Asset Pricing Model**	**$30.86**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$39.08**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$41.73**
Current Price (Mar 21, 2003)	**$28.00**	**Average Valuation**	**$37.22**
		Standard Deviation	**5.66**
		Discount/(Premium)	**$9.22**

4.8 Harley-Davidson (HDI) –Growth

4.8.1 Company

Harley-Davidson, Inc. manufactures heavyweight custom and touring motorcycles and related products. The corporation also owns Buell Motorcycle (sport and performance motorcycles) and Eaglemark Financial, a wholesale and retail finance unit. Harley-Davidson is the only major American manufacturer of heavyweight motorcycles. With over 1,000 dealers worldwide foreign business represents about 18% of sales.

4.8.2 Industry

HDI is in the Automotive and Transport – Motorcycles and Other Small-Engine Vehicles Industry. The industry is expected to remain somewhat stagnant in the next couple of years. As the economy picks up, the sales of luxury products should also increase. While HDI has grown much faster than its industry over the past five years, the company growth is expected to more closely track industry growth over the next few years.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	26.30%	16.90%	17.30%	18.70%	20.80
Industry	6.70%	12.40%	18.00%	15.90%	12.90
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.50

Zacks Industry: LEISURE&REC PR

4.8.3 Evaluation

The DuPont analysis is in line with the industry. The CAPM and DCM models show HDI to be undervalued. However, it is important to note that HDI has announced that it will maintain current production levels. This has cause for concern as this is a hindrance to the growth of the company. This signifies that the company will not grow this year and should be considered when analyzing the stock.

HDI has been a pretty good performer over the last decade. A prudent investor has to take notice that the value of inventory was up 20% in 2002. Sales have also been strong because the company has celebrated its 100th year anniversary. However, the increased sales due to this anniversary are not sustainable in the long-term. The decision to maintain production levels at current levels for the year means that the company will probably not grow during the next year. This decision has hammered the stock price over the last several weeks and it is recommended that we liquidate our holdings of HDI and shift the money to more stable companies with a higher chance of growth.

Recommendation: **Sell**

Harley Davidson (HDI) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	164.9	**Risk free Rate (10-year)**	3.68%
Sales	1,135.5	**Equity Risk Premium**	6.55%
Common Stock Equity	532.1	**Beta**	1.30
Total Assets	933.4	**Expected Return (CAPM)**	**12.20%**
Net Income	164.9	**Annual Dividend**	$0.14
Common Equity	532.1	**Dividend Yield**	0.34%
Return on Equity	**30.99%**	**Dividend Growth Rate**	13.21%
(Net Income/Common Equity)			
		Cash From Operations	978.67
Return on Sales	**14.52%**	**Capital Expenditures**	(243.60)
(Net income/Sales)		**Free Cash Flow**	735.07
Total Asset Turnover	**1.22**	**Shares Outsanding**	302.70
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$2.43
Return on Assets (ROA)	**17.67%**	**FY 2003 Growth**	16.9%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	17.8%
Financial Leverage	**1.75**	**Long Term Growth**	11.8%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	16.91
		Valuations	
Return on Equity	**30.99%**	**Capital Asset Pricing Model**	**$46.07**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$8.43**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$39.97**
Current Price (Mar 21, 2003)	**$41.06**	**Average Valuation**	**$43.02**
		Standard Deviation	**4.31**
		Discount/(Premium)	**$1.96**

4.9 HCA Inc. (HCA) –Core

4.9.1 Company

HCA Inc.,(formerly HCA - The Healthcare Company) is the largest hospital management company in the United States. In 2001, HCA operated 178 general hospitals, mostly in the Southeast, TX, and CA, with 40,645 licensed beds and eight psychiatric units with 904 licensed beds.

HCA is in the Health Products and Services Industry. This industry has seen falling margins. Hospital management has become very competitive. Increases in revenues will likely come from increases in the volume of sales and increases in efficiency. As in the case of CAH, the aging baby boomer population as well as increases in the average life expectancy should prove beneficial for HCA.

Hospital management has received some bad press as of late due to questionable conduct on the part of Tennet healthcare. There is also concern about the FTC limiting mergers that form what could be seen as monopolistic hospital management in a geographical area. Increases in Medicare payments are expected to continue to rise as a whole. Same hospital admissions are expected to rise at 3-5% due in large part to the aging population mentioned earlier.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	15.60%	17.00%	14.00%	15.20%	15.30
Industry	20.50%	14.90%	19.10%	19.00%	13.90
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.50

Zacks Industry: MED-HOSPITALS

4.9.2 Evaluation

The DuPont analysis shows that HCA is in line with the industry. The CAPM and DCM models show that HCA is undervalued. The DDM model may not be an appropriate measure for the company since it has a relatively low dividend and a low dividend growth rate. The company has chosen to use excess cash on acquisitions as opposed to increasing the dividend in hopes of increasing the sales volume. Additionally, the company has historically limited its outlier payment claims to the 5-6% industry average. This trend is expected to extend into the future and should lessen scrutiny by the Federal Trade Commission. The bad publicity surrounding Tennet Healthcare has had a slightly negative on HCA, but should dissipate in the future.

HCA has good fundamentals to support its price. It is expected to continue growing during the next five years. The stock has also managed to grow while many medical companies have been declining. Neither the dividend nor the expected dividend growth rates are exceptional. However, the company has a very low beta and should supply us with dividend payments as well as capital appreciation. It is our recommendation that we maintain our current position with HCA.

Recommendation: **Retain**
Valuation Range: $44 – $46
Standard Deviation: 28.21%
Expected Return: 12.1%

Hospital Corporation of America (HCA)			
In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	234.0	**Risk free Rate (10-year)**	3.68%
Sales	4,929.0	**Equity Risk Premium**	6.55%
Common Stock Equity	1,434.3	**Beta**	0.40
Total Assets	4,631.8	**Expected Return (CAPM)**	**6.30%**
Net Income	234.0	**Annual Dividend**	$0.08
Common Equity	1,434.3	**Dividend Yield**	0.20%
Return on Equity	**16.32%**	**Dividend Growth Rate**	0.83%
(Net Income/Common Equity)			
		Cash From Operations	2,618.67
Return on Sales	**4.75%**	**Capital Expenditures**	(1,810.67)
(Net income/Sales)		**Free Cash Flow**	808.00
Total Asset Turnover	**1.06**	**Shares Outsanding**	512.50
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$1.58
Return on Assets (ROA)	**5.05%**	**FY 2003 Growth**	16.6%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	14.0%
Financial Leverage	**3.23**	**Long Term Growth**	6.2%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	25.46
		Valuations	
Return on Equity	**16.32%**	**Capital Asset Pricing Model**	**$42.67**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$2.51**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$48.63**
Current Price (Mar 21, 2003)	**$40.14**	**Average Valuation**	**$45.65**
		Standard Deviation	**4.22**
		Discount/(Premium)	**$5.51**

4.10 Masco (MAS) –Core

4.10.1 Company

Masco Corporation is a major domestic manufacturer of high-end kitchen and bathroom products. Estimated share of U.S. faucet market: 35%; cabinet market: 22%. Also produces other building and home improvement products. Brand names include: *Delta*, *Peerless*, and *Mariani* (faucets); and *Merillat* and *Kraftmaid* (cabinets). In 11/00, sold 18% ownership of MascoTech common shares. Discontinued furniture operations 1/96. 2001 depr. rate, 8.9%. Has 55,400 employees, 6,000 stockholders. Officers and Directors own 3.5% of common stock; FMR Corp., 8%; Montag & Caldwell, 5.4% (4/22/02 Proxy). Chrmn.: R. A. Manoogian. Pres.: R. Kennedy. Inc.: Delaware. Add.: 21001 Van Born Rd., Taylor, Michigan 48180. Tel.: 313-274-7400. Internet: www.masco.com.

4.10.2 Industry

Building Product demand centers on home sales and home renovation. Low mortgage rates and early signs of an economic bottom have recently driven housing, but any improvement in the economy may pose a threat. A moderate recovery should keep mortgage rates in check, but any upturn in rates will make recent industry home sales totals hard to top. Remodeling projects have also been driven by funds provided by high levels of refinancing, and might also decelerate if interest rates are near bottom. The commercial part of the sector may stay sluggish for a while, but an improving economy will finally prompt commercial parties to start long delayed projects.

A big slump in consumer confidence since mid-2002 and the lack of a labor revival have yet to slow building products demand. Segment performance should still be driven by industry-specific factors. For instance, very low interest rates have enabled many to refinance their homes, with the newly available funds being used in many cases for renovation projects. Although a modest rise in interest rates may cause some to reconsider plans, the need to repair an aging housing stock will keep remodeling going at a decent pace. That should leave demand solid for products such as bathroom and kitchen cabinets, shingles and roofing products.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	6.40%	9.60%	14.00%	14.40%	11.40
Industry	14.80%	20.70%	20.30%	15.20%	11.50
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: BLDG&CONST-MIS

4.10.3 Evaluation

Masco is in the sweet spot of the current economy. As a major supplier of home improvement products including kitchens and bathrooms, Masco is well positioned to continue to take advantage of the increased emphasis on home and hearth. Continue to hold Masco.

Recommendation: **Retain**
Valuation: $21 - $23
Standard Deviation: 27.14%
Expected Return: 13.8%

Masco (MAS) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	179.2	**Risk free Rate (10-year)**	3.68%
Sales	2,518.0	**Equity Risk Premium**	6.55%
Common Stock Equity	7,626.0	**Beta**	0.80
Total Assets	11,434.0	**Expected Return (CAPM)**	**8.92%**
Net Income	179.2	**Annual Dividend**	$0.56
Common Equity	7,626.0	**Dividend Yield**	2.90%
Return on Equity	**9.40%**	**Dividend Growth Rate**	6.19%
(Net Income/Common Equity)			
		Cash From Operations	898.04
Return on Sales	**7.12%**	**Capital Expenditures**	(228.15)
(Net income/Sales)		**Free Cash Flow**	669.89
Total Asset Turnover	**0.88**	**Shares Outsanding**	493.24
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$1.36
Return on Assets (ROA)	**6.27%**	**FY 2003 Growth**	10.4%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	13.0%
Financial Leverage	**1.50**	**Long Term Growth**	8.5%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	14.24
		Valuations	
Return on Equity	**9.40%**	**Capital Asset Pricing Model**	**$21.07**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$21.81**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$23.99**
Current Price (Mar 21, 2003)	**$19.34**	**Average Valuation**	**$22.29**
		Standard Deviation	**1.52**
		Discount/(Premium)	**$2.95**

4.11 MBNA Corporation (KRB) –Core

4.11.1 Company

MBNA Corporation is one of the country's largest lenders through bank credit cards. It has two wholly owned foreign bank subsidiaries, MBNA Europe and MBNA Canada. The company is the leading issuer of affinity credit cards, which are marketed through the endorsements of membership associations and financial institutions. It also provides deposit, individual loan, and card processing services.

4.11.2 Industry

KRB is in the Financial Services – Consumer Loans Industry. The outlook for the industry is mixed. Due to very low interest rates, consumers have become much more likely to borrow and carry credit card balances. On the other hand, the weak economy and high unemployment rates have caused an increase in the default rate on loans and owed balances. Companies that lend to people with average to above average credit ratings are expected to fare better than those finance people with lower credit ratings due to weak employment numbers. KRB is less exposed to the higher default rates because its customers have very good credit ratings. These customers are more likely, however, to carry a monthly balance on debt. Trends in the increasing use of debt increase in variety of products that are commonly financed, and more customized debt instruments are expected to help grow the industry.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	22.80%	10.90%	11.40%	14.20%	9.00
Industry	15.40%	12.30%	25.30%	15.90%	8.50
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.50

Zacks Industry: FIN-CONS LOANS

4.11.3 Evaluation

Looking at KRB in a DuPont analysis reveals that the company is in line with the industry. All of the other models used to evaluate the stock show that KRB is currently undervalued.

KRB is well positioned for growth as the economy continues to struggle. The company is more mature and expected to have slower growth into the future than the industry. However, this is offset by the financial strength and stability of the company. KRB is also expected to maintain a higher P/E ratio and carry less risk than the industry.

While new regulations have affected the industry, KRB is posed to make strong earnings in the future. KRB pays a good dividend and has a strong expected dividend growth rate. It is our recommendation that we maintain our current holdings.

Recommendation: **Retain**
Valuation Range: $18 - $20
Standard Deviation: 27.11%
Expected Return: 18.8%

MBNA CORP (KRB) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	398.0	**Risk free Rate (10-year)**	3.68%
Sales	2,555.6	**Equity Risk Premium**	6.55%
Common Stock Equity	2,135.5	**Beta**	1.40
Total Assets	12,658.1	**Expected Return (CAPM)**	**12.85%**
Net Income	398.0	**Annual Dividend**	$0.32
Common Equity	2,135.5	**Dividend Yield**	2.00%
Return on Equity	**18.64%**	**Dividend Growth Rate**	13.89%
(Net Income/Common Equity)			
		Cash From Operations	2,832.93
Return on Sales	**15.57%**	**Capital Expenditures**	(367.60)
(Net income/Sales)		**Free Cash Flow**	2,465.33
Total Asset Turnover	**0.20**	**Shares Outsanding**	1,277.70
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$1.93
Return on Assets (ROA)	**3.14%**	**FY 2003 Growth**	11.1%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	11.7%
Financial Leverage	**5.93**	**Long Term Growth**	11.7%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	8.29
		Valuations	
Return on Equity	**18.64%**	**Capital Asset Pricing Model**	**$18.06**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$15.15**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$20.01**
Current Price (Mar 21, 2003)	**$16.00**	**Average Valuation**	**$17.74**
		Standard Deviation	**2.45**
		Discount/(Premium)	**$1.74**

4.12 *Mirant (MIR) – Small Value*

4.12.1 Company

Formerly Southern Energy, Mirant (pronounced MEER-uhnt) has energy assets on both sides of the Mason-Dixon Line as well as around the world. A top North American energy trader, the company operates 22,000 MW of generating capacity in the Asia/Pacific region, Europe, the Americas, and the Caribbean. It markets electricity, natural gas, and other commodities and offers risk management services. Due to poor market conditions, Mirant is dissolving its European energy trading business and is scaling back its U.S. trading operations. Mirant has sold its 45% stake in Berlin utility, Bewag and its 49% stake in UK utility WPD Holdings. Former parent Southern Company spun off its stake in Mirant to shareholders in 2001.

4.12.2 Industry

The nonregulated Power Industry outlook appears grim. For the second straight quarter the Power Industry has sunk to the very bottom of Valueline's list of industry timeliness. There is a threat that long-term viability may not exist in the industry. Many companies took out large debts, which are coming due, causing companies to increase liquidity which can inhibit long-term growth.

Earnings Growth Rates	Last 5 yrs.	FY 2002	FY 2003	Next 5 yrs.	02 P/E
Company	NA	-44.20%	-27.30%	7.40%	1.30
Industry	2.20%	-8.20%	0.60%	5.60%	10.30
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: UTIL-ELEC PWR

4.12.3 Evaluation

Over the past year Mirant has dropped significantly verses the industry and is not expected to make any turnaround in the near future. Its very future will rely upon its ability to restructure its debt. Mirant in an effort to meet its debt requirements is in a cash heavy position. Compounding the situation is their downgraded credit rating. Further, Mirant no longer qualifies as a large-cap stock. This analysis recommends removing Mirant from the portfolio.

Recommendation: **Sell**

Mirant Corporation (MIR) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	(197)	Risk free Rate (10-year)	3.68%
Sales	22,507	Equity Risk Premium	6.55%
Common Stock Equity	5,231	Beta	1.60
Total Assets	21,375	Expected Return (CAPM)	14.16%
Net Income	(197.0)	Annual Dividend	$0.00
Common Equity	5,231.0	Dividend Yield	0.00%
Return on Equity	-3.77%	Dividend Growth Rate	0.00%
(Net Income/Common Equity)			
		Cash From Operations	683.00
Return on Sales	-0.88%	Capital Expenditures	(1,205.00)
(Net income/Sales)		Free Cash Flow	(522.00)
Total Asset Turnover	1.05	Shares Outsanding	402.49
(Net Sales/Total Assets)		Free Cash Flow per Share	-$1.30
Return on Assets (ROA)	-0.92%	FY 2003 Growth	-47.4%
*(Return on Sales * Total Asset Turnover)*		FY 2004 Growth	-24.5%
Financial Leverage	4.09	Long Term Growth	10.0%
(Total Assets/Common Equity)		Price/Free Cash Flow	(1.30)
		Valuations	
Return on Equity	-3.77%	Capital Asset Pricing Model	$1.93
*(Return on Sales * Total Asset*		Dividend Discount	$0.00
*Turnover * Financial Leverage)*		Discounted Cash Flow	$7.86
Current Price (Mar 21, 2003)	$1.69	Average Valuation	$4.90
		Standard Deviation	4.20
		Discount/(Premium)	$3.21

4.13 NASDAQ 100 Trust (QQQ) – Growth (assumed)

4.13.1 QQQ:

The NASDAQ 100 Trust (QQQ) is composed of the 100 largest non-financial companies listed on the NASDAQ Stock Exchange and is primarily tech and bio-tech companies. The outlook for the tech industry is considered rocky at best. The industry is experiencing some consolidation and is recovering from the tech bubble, while continuing to be subjected to the fallout of many non-profitable tech companies. The future outlook for QQQ is relatively low growth coupled with high risk. If the economy continues to be weak, QQQ will continue to suffer. It is unlikely that QQQ will return to its previous highs even if the economy does recover.

4.13.2 Evaluation:

QQQ is impossible to evaluate using most models since it is made up of 100 stocks. Most of these stocks do not pay a dividend. We did evaluate QQQ using the CAPM and found it to be slightly discounted. However, it must be taken into account that the model cannot give QQQ a negative evaluation because of the equations. It also must be taken into consideration that QQQ has shown great volatility during the weak economy.

QQQ has experienced very heavy losses over the past year due to tech firms overall performance. This trend is expected to continue or, at the very best, maintain at current market levels. Not only has QQQ declined greatly in value, it has also shown great volatility. Due to the gloomy past and expected performance of QQQ, we recommend liquidating our entire position and searching for replacements with better future outlooks.

Recommendation: **Sell**

QQQ In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	n/a	Risk free Rate (10-year)	3.68%
Sales	n/a	Equity Risk Premium	6.55%
Common Stock Equity	n/a	Beta	1.30
Total Assets	n/a	Expected Return (CAPM)	12.20%
Net Income	n/a	Annual Dividend	
Common Equity	n/a	Dividend Yield	
Return on Equity	n/a	Dividend Growth Rate	
(Net Income/Common Equity)			
		Cash From Operations	
Return on Sales	n/a	Capital Expenditures	
(Net income/Sales)		Free Cash Flow	
Total Asset Turnover	n/a	Shares Outsanding	
(Net Sales/Total Assets)		Free Cash Flow per Share	
Return on Assets (ROA)	n/a	FY 2003 Growth	
*(Return on Sales * Total Asset Turnover)*		FY 2004 Growth	
Financial Leverage	n/a	Long Term Growth	
(Total Assets/Common Equity)		Price/Free Cash Flow	
		Valuations	
Return on Equity	n/a	Capital Asset Pricing Model	$30.48
*(Return on Sales * Total Asset*		Dividend Discount	n/a
*Turnover * Financial Leverage)*		Discounted Cash Flow	n/a
Current Price (Mar 21, 2003)	$27.17	Average Valuation	$30.48
		Standard Deviation	
		Discount/(Premium)	$3.31

4.14 Pfizer (PFE) –Growth

4.14.1 Company

Pfizer fabricates pharmaceuticals for quite a few infirmities. The company's products include erectile dysfunction therapy Viagra, cardiovascular drug Norvasc, antidepressant Zoloft, and cholesterol-lowering Lipitor. In addition to prescription drugs, the firm makes OTC remedies, including halitosis hiders Certs and Dentyne; sniffle-and-sneeze treatments Benadryl and Sudafed; and a plethora of other products. Pfizer also keeps Fluffy and Fido in mind with its animal health products, including Revolution (antiparasitic). Subsidiaries in the Pfizer Pharmaceutical Group include Warner-Lambert, Parke-Davis, and Goedecke.

4.14.2 Industry

The political landscape and recently released economic stimulus package has opened the door for increased earnings and new drug launches in the Pharmaceuticals Industry. The industry has responded with multiple billion-dollar-selling drugs and an advertising campaign that is unparalleled for the industry. In an aging population the regular dependence on medications leads to a drug industry with a stable prospectus of sustained growth. The industry is threatened by legislation targeting greater discounts on drugs for the elderly and patent expirations on high grossing products. Threats notwithstanding, the drug industry has continued to thrive fueled by research and development and a consumer demand for performance.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	22.70%	14.20%	15.30%	16.30%	19.00
Industry	18.80%	11.50%	18.00%	22.50%	318.80
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: MED-DRUGS

4.14.3 Evaluation

Pfizer is one of the industry leaders in research and development, which poises itself for new discovery. Historically, it has been new drug discoveries that have been the life blood of the industry. That being said, Pfizer currently has nine drugs that are poised to reach one billion dollars in sales. The recent merger with Pharmacia will cut costs and add to long-term growth potential of Pfizer. Pfizer has a P/E ratio that is inline with the industry and has one of the highest returns on equity at almost 50%.

One of the risks facing the Pfizer holding is the pending three billion dollar patent infringement litigation. Litigation is not uncommon in the industry and should not affect the projected overall growth rate over the next year. The analysis supports holding Pfizer in the portfolio.

Recommendation: **Retain**
Valuation Range: $35 - $37
Standard Deviation: 36.73%
Expected Return: 12.6%

Pfizer Inc. (PFE) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		Model Parameters	
Net Income	8,619	**Risk free Rate (10-year)**	3.68%
Sales	34,206	**Equity Risk Premium**	6.55%
Common Stock Equity	18,953	**Beta**	0.60
Total Assets	44,876	**Expected Return (CAPM)**	**7.61%**
Net Income	8,619.0	**Annual Dividend**	$0.60
Common Equity	18,953.0	**Dividend Yield**	1.88%
Return on Equity	**45.48%**	**Dividend Growth Rate**	18.44%
(Net Income/Common Equity)			
		Cash From Operations	6,449.00
Return on Sales	**25.20%**	**Capital Expenditures**	(1,259.00)
(Net income/Sales)		**Free Cash Flow**	5,190.00
Total Asset Turnover	**0.76**	**Shares Outsanding**	6,162.16
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$0.84
Return on Assets (ROA)	**19.21%**	**FY 2003 Growth**	13.2%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	15.0%
Financial Leverage	**2.37**	**Long Term Growth**	7.5%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	37.95
		Valuations	
Return on Equity	**45.48%**	**Capital Asset Pricing Model**	**$34.39**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$36.92**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$35.67**
Current Price (Mar 21, 2003)	**$31.96**	**Average Valuation**	**$35.66**
		Standard Deviation	**1.26**
		Discount/(Premium)	**$3.70**

4.15 Procter & Gamble (PG) –Core

4.15.1 Company

The Tide is in at The Procter & Gamble Company (P&G), as are Pampers and Cover Girl. P&G is the number one US maker of household products, with brands in five main categories: baby, feminine, and family care; fabric and home care; beauty care; heath care; and food and beverage. It also makes pet food and water filters and produces the soap operas "Guiding Light" and "As the World Turns." Twelve of P&G's brands are billion-dollar sellers (Always/Whisper, Ariel, Bounty, Charmin, Crest, Downy/Lenor, Folgers, Iams, Pampers, Pantene, Pringles, and Tide). The company bought hair-care giant Clairol (Nice & Easy, Herbal Essences, Aussie) from Bristol-Myers Squibb in 2001.

4.15.2 Industry

Proctor and Gamble is synonymous with the Household Products Industry. The consumer staple industry seems to be relatively unaffected by the current recession. The industry has benefited from ridding itself of excessive inventories and becoming more efficient. As the major indices such as the Dow Jones declined, the Household Products industry has grown.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	9.50%	12.30%	9.80%	10.10%	20.00
Industry	13.10%	12.30%	11.30%	11.00%	20.10
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: SOAP&CLNG PREP

4.15.3 Evaluation

Proctor and Gamble has recently undertaken a massive restructuring program with a focus on the core brand and volume expansion. This back to basics philosophy is a conservative strategy in downward economic times and will poise P&G for sustained growth as the economy recovers. P&G is projected to have stable returns with low risk and should be a stable holding in the portfolio.

Recommendation: **Retain**
Valuation Range: $95 - $97
Standard Deviation: 19.97%
Expected Return: 8.0%

Proctor & Gamble (PG) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	4,712	**Risk free Rate (10-year)**	3.68%
Sales	41,268	**Equity Risk Premium**	6.55%
Common Stock Equity	12,626	**Beta**	0.60
Total Assets	41,850	**Expected Return (CAPM)**	**7.61%**
Net Income	4,712.0	**Annual Dividend**	$1.64
Common Equity	12,626.0	**Dividend Yield**	1.84%
Return on Equity	**37.32%**	**Dividend Growth Rate**	8.46%
(Net Income/Common Equity)			
		Cash From Operations	2,010.00
Return on Sales	**11.42%**	**Capital Expenditures**	(281.00)
(Net income/Sales)		**Free Cash Flow**	1,729.00
Total Asset Turnover	**0.99**	**Shares Outsanding**	1,299.30
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$1.33
Return on Assets (ROA)	**11.26%**	**FY 2003 Growth**	10.4%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	7.0%
Financial Leverage	**3.31**	**Long Term Growth**	7.6%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	66.81
		Valuations	
Return on Equity	**37.32%**	**Capital Asset Pricing Model**	**$95.67**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$98.59**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$101.62**
Current Price (Mar 21, 2003)	**$88.90**	**Average Valuation**	**$98.62**
		Standard Deviation	**2.98**
		Discount/(Premium)	**$9.72**

4.16 Sysco (SYY) –Growth

4.16.1 Company

SYSCO went from being a small fry to the largest food service distributor in North America. The company provides an inventory of some 275,000 products to more than 410,000 restaurants, schools, hotels, health care institutions, and other food service customers. Restaurants account for nearly two-thirds of sales; its SYGMA Network subsidiary focuses on serving chain restaurants such as Wendy's International. SYSCO distributes fresh and frozen meat, poultry, seafood, fruits and vegetables, canned and dry products, paper and disposable products, cleaning supplies, kitchen equipment, and medical supplies. The company has a network of nearly 150 facilities throughout the US and Canada.

4.16.2 Industry

Recent underperformance among food distributors has reflected declines in consumer confidence. The sector may also weaken as investors begin to chase early cyclical stocks.

In the 1990s producer prices fell as a result of maple supplies and weak demand resulting in consolidation in the wholesale food distribution industry. In the near future distributors will continue to seek new supply agreements and/or continue to consolidate. Food price inflation is expected to remain low and wholesalers will need to contain costs to remain profitable.

Sysco and other distributors that cater to restaurants and large institutions are expected to benefit from consolidation and continued strength in the "away from home" segment.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	18.70%	15.30%	14.90%	14.80%	20.80
Industry	19.50%	7.40%	11.30%	15.30%	11.60
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: FOOD ITEMS-WHL

4.16.3 Evaluation

People have to eat in all economies. With the ever increasing number of households (dual-income, single parent, single person, etc.) with no full-time homemaker, the number of those eating the majority of their meals outside the home continues to increase. As the leading supplier to the restaurant industry, Sysco stands to benefit not only from growth in the end market but from industry consolidation. Hold Sysco.

Recommendation: **Retain**
Valuation: $30 - $33
Standard Deviation: 23.29%
Expected Return: 14.3%

Sysco (SYY)			
In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	679.8	Risk free Rate (10-year)	3.68%
Sales	23,350.5	Equity Risk Premium	6.55%
Common Stock Equity	2,201.1	Beta	0.52
Total Assets	6,484.0	Expected Return (CAPM)	**7.09%**
Net Income	679.8	Annual Dividend	$0.44
Common Equity	2,201.1	Dividend Yield	1.60%
Return on Equity	**30.88%**	Dividend Growth Rate	13.29%
(Net Income/Common Equity)			
		Cash From Operations	1,085.00
Return on Sales	**2.91%**	Capital Expenditures	(416.40)
(Net income/Sales)		Free Cash Flow	668.60
Total Asset Turnover	**3.60**	Shares Outsanding	653.54
(Net Sales/Total Assets)		Free Cash Flow per Share	$1.02
Return on Assets (ROA)	**10.48%**	FY 2003 Growth	15.3%
*(Return on Sales * Total Asset Turnover)*		FY 2004 Growth	14.9%
Financial Leverage	**2.95**	Long Term Growth	7.0%
(Total Assets/Common Equity)		Price/Free Cash Flow	26.93
		Valuations	
Return on Equity	**30.88%**	Capital Asset Pricing Model	**$29.50**
*(Return on Sales * Total Asset*		Dividend Discount	**$39.63**
*Turnover * Financial Leverage)*		Discounted Cash Flow	**$37.88**
Current Price (Mar 21, 2003)	**$27.55**	Average Valuation	**$35.67**
		Standard Deviation	**5.41**
		Discount/(Premium)	**$8.12**

4.17 Travelers Property & Casualty Corp. (TAP) –Core

4.17.1 Company

Travelers Property Casualty is one big umbrella. As, one of the US's top property & casualty insurers, the company (the product of a deal that merged the property & casualty operations of Travelers and Aetna) has two lines: commercial and personal. Its commercial coverage includes multi-peril, workers' compensation, liability, and specialty property & casualty products (including specialized insurance for financial institutions, lawyers, architects, and engineers). Personal lines include auto and homeowners insurance sold through about 6,000 independent agents and brokers.

4.17.2 Industry

Concerns over the adequacy of reserves are putting some pressure on the Property & Casualty Industry. In early February a number of insurers acknowledged that reserves for asbestos and other long-term casualties were not adequate to cover escalating claims. As a result, many companies recorded significant reserve charges in 4Q02.

However, underlying fundamentals remain strong and since property-casualty insurance is generally a requirement, the sector is not heavily dependent on a stock market or economic recovery. In addition, the federal terrorism reinsurance plan has removed some uncertainty.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	NA	NA	13.70%	13.00%	10.90
Industry	5.00%	16.10%	15.90%	13.00%	14.20
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: INS-PROP&CASLT

4.17.3 Evaluation

Travelers Property & Casualty is a broad line insurer. This portfolio received shares in Travelers (TAP.A & TAP.B) as a result of the spin-off of Travelers from Citigroup. Given the distress in the Insurance Industry due to poorly performing investment portfolios and the relatively small positions held in this portfolio, we recommend selling TAP.A & TAP.B.

Recommendation: **Sell**

Travelers Group (TAP) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	1,062.0	**Risk free Rate (10-year)**	3.68%
Sales	12,231.0	**Equity Risk Premium**	6.55%
Common Stock Equity	5,591.0	**Beta**	0.88
Total Assets	57,778.0	**Expected Return (CAPM)**	**9.44%**
Net Income	1,062.0	**Annual Dividend**	$0.24
Common Equity	5,591.0	**Dividend Yield**	1.60%
Return on Equity	**18.99%**	**Dividend Growth Rate**	15.93%
(Net Income/Common Equity)			
		Cash From Operations	1,219.00
Return on Sales	**8.68%**	**Capital Expenditures**	(335.00)
(Net income/Sales)		**Free Cash Flow**	884.00
Total Asset Turnover	**0.21**	**Shares Outsanding**	1,000.00
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$0.88
Return on Assets (ROA)	**1.84%**	**FY 2003 Growth**	10.0%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	13.7%
Financial Leverage	**10.33**	**Long Term Growth**	9.2%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	16.99
		Valuations	
Return on Equity	**18.99%**	**Capital Asset Pricing Model**	**$16.44**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$15.10**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$18.54**
Current Price (Mar 21, 2003)	**$15.02**	**Average Valuation**	**$16.69**
		Standard Deviation	**1.73**
		Discount/(Premium)	**$1.67**

4.18 United Parcel Service (UPS) –Growth

4.18.1 Company

The world's largest package-delivery company, UPS transports more than 13 million packages and documents per business day throughout the US and to more than 200 countries and territories. It uses a fleet of about 88,000 motor vehicles and more than 575 jet aircraft to serve about 1.8 million shipping customers per business day. The company also offers supply chain management services. Managers, employees, retirees, and the founders' families own 90% of UPS and control 99% of the voting power:

4.18.2 Industry

Shipping volumes have not yet recovered from their sharp drop following September 11th; however, they have begun to recover from their lows in April 2002. As volumes increase, the larger, more diversified companies should benefit from strong demand for ground and international shipping.

The companies catering to the price sensitive segments have been particularly hard hit by fuel cost increases which they have been unable to pass along to customers. The largest players continue to benefit from consolidation and expanding services.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	NA	9.90%	13.70%	12.90%	26.00
Industry	-11.50%	30.00%	24.30%	12.40%	28.10
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: TRANS-AIR FRGH

4.18.3 Evaluation

UPS is the "big dog" in the transportation field. Not only is it a core position for economic recovery as the low cost provider in surface transportation; it is well positioned to take share from smaller players in the current environment of raising costs. While UPS may have some difficulties in the near-term due to rising fuel prices and weak shipment volumes, UPS has been a solid early cycle performer and rates a hold.

Recommendation: **Retain**
Valuation: $65 - 69
Standard Deviation: 16.14%
Expected Return: 12.9%

United Parcel Service (UPS) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	2,312.0	**Risk free Rate (10-year)**	3.68%
Sales	31,016.0	**Equity Risk Premium**	6.55%
Common Stock Equity	10,957.0	**Beta**	0.40
Total Assets	25,950.0	**Expected Return (CAPM)**	**6.30%**
Net Income	2,312.0	**Annual Dividend**	$0.84
Common Equity	10,957.0	**Dividend Yield**	1.40%
Return on Equity	**21.10%**	**Dividend Growth Rate**	10.00%
(Net Income/Common Equity)			
		Cash From Operations	5,059.60
Return on Sales	**7.45%**	**Capital Expenditures**	1,619.80
(Net income/Sales)		**Free Cash Flow**	6,679.40
Total Asset Turnover	**1.20**	**Shares Outsanding**	1,116.00
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$5.99
Return on Assets (ROA)	**8.91%**	**FY 2003 Growth**	9.9%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	13.7%
Financial Leverage	**2.37**	**Long Term Growth**	5.4%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	10.00
		Valuations	
Return on Equity	**21.10%**	**Capital Asset Pricing Model**	**$63.62**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$70.05**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$74.19**
Current Price (Mar 21, 2003)	**$59.85**	**Average Valuation**	**$69.29**
		Standard Deviation	**5.33**
		Discount/(Premium)	**$9.44**

4.19 Wal-Mart (WMT) –Growth

4.19.1 Company

Wal-Mart Stores is an irresistible (or at least unavoidable) retail force that has yet to meet any immovable objects. Bigger than Carrefour, Royal Ahold, and Kroger combined, it is the world's #1 retailer, with about 4,600 stores, including discount stores (Wal-Mart), combination discount and grocery stores (Wal-Mart Supercenters and ASDA in the UK), and membership-only warehouse stores (Sam's Club). Most of its stores are in the US, but Wal-Mart is expanding internationally; it is the #1 retailer in Canada and Mexico. Wal-Mart also has operations in South America, Asia, and Europe. Subsidiary McLane Company is the #1 convenience store distributor in the US. Founder Sam Walton's heirs own about 38% of Wal-Mart.

4.19.2 Industry

The customer confidence index declined over the past nine months from 97.8 to 79. The index reflects the pessimism associated with military action in Iraq and reluctance in spending disposable income. It is this reliance on the disposable income generally associated with a growing economy that drives growth in the Retail Store Industry. That notwithstanding the industry has grown at a healthy rate and expected to do as such in the years to come. The major competitors in the industry are Wal-Mart, Target, and formerly Kmart. Both Target and Wal-Mart have gone with the super center idea, an all encompassing shopping experience type store.

Earnings Growth Rates	Last 5 yrs.	FY 2004	FY 2005	Next 5 yrs.	04 P/E
Company	17.20%	12.40%	13.30%	14.20%	26.80
Industry	9.70%	16.30%	14.10%	16.10%	17.40
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: RETAIL-DISCOUN

4.19.3 Evaluation

Wal-Mart has under performed the industry over the past 12 months and is lagging in most indicators. Wal-Mart's earnings growth and profits have come from new store openings and expansion of the business not from individual store growth (which is minimal). As the market place reaches saturation and growth is reliant upon individual store growth, Wal-Mart's outlook is not as bright as previously envisioned. With low dividends compared to the industry and a Price to Earnings Ratio that is almost twice of Wal-Mart's nearest competitor, Target, there is limited support for continued holding of the stock in the portfolio.

Recommendation: **Sell**

Wal-Mart Stores, Inc. (WMT) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	7,699	**Risk free Rate (10-year)**	3.68%
Sales	237,662	**Equity Risk Premium**	6.55%
Common Stock Equity	38,044	**Beta**	0.90
Total Assets	95,660	**Expected Return (CAPM)**	**9.58%**
Net Income	7,699.0	**Annual Dividend**	$0.36
Common Equity	38,044.0	**Dividend Yield**	0.66%
Return on Equity	**20.24%**	**Dividend Growth Rate**	17.59%
(Net Income/Common Equity)			
		Cash From Operations	12,500.00
Return on Sales	**3.24%**	**Capital Expenditures**	(9,683.00)
(Net income/Sales)		**Free Cash Flow**	2,817.00
Total Asset Turnover	**2.48**	**Shares Outsanding**	4,412.00
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$0.64
Return on Assets (ROA)	**8.05%**	**FY 2003 Growth**	13.8%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	14.3%
Financial Leverage	**2.51**	**Long Term Growth**	9.6%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	85.62
		Valuations	
Return on Equity	**20.24%**	**Capital Asset Pricing Model**	**$59.90**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$28.08**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$62.15**
Current Price (Mar 21, 2003)	**$54.67**	**Average Valuation**	**$61.03**
		Standard Deviation	**1.59**
		Discount/(Premium)	**$6.36**

5 Proposed stocks

We began our search for possible additions by running the large cap universe against our screens. We then looked at the 83 value and 36 growth candidates identified by our screens in more detail. The same risk free rates and equity risk premiums were used when evaluating proposed stocks as existing stocks. The following represents the in-depth analysis and supporting details for those stocks that we propose to add to the portfolio.

5.1 Affiliated Computer Services, Inc. (ACS) –Growth

5.1.1 Company

Affiliated Computer Services (ACS) makes money out of the mundane. The company is a provider of business and technology outsourcing services for commercial clients and government agencies. ACS's business process outsourcing service offerings include processing, scanning, and analyzing company documents such as health care claims and financial transactions. ACS also provides systems integration and technology outsourcing services, including infrastructure and applications outsourcing, network management, e-business, information security, and technical support and training services. ACS is a major provider of computers and systems integration to the federal government. Approximately 90% of revenues in Fiscal Year 2002 (June) were recurring (Valueline Report).

5.1.2 Industry

The Information Technology Consulting and Services Industry has been negatively impacted by the continuing slowdown of Information Technology spending. The slowdown is balanced by the fact that the services offered by this industry are sought out because they significantly increase productivity and can help cut costs. The industry should continue to benefit from globalization, deregulation, an Information Technology labor shortage, and e-business opportunities. Areas for future growth include business process outsourcing, in which companies perform various data processing and back-office functions for their customers.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	26.90%	24.20%	17.60%	22.00%	20.00
Industry	6.60%	14.30%	18.40%	18.90%	20.00
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: COMP-SERVICES

5.1.3 Evaluation

Future revenues are expected to escalate due to increasing acquisition activity. Internal growth should accelerate in the company's business process outsourcing (fast growing market) and state health care divisions. ACS's business mix has enabled the company to post solid revenue and EPS gains while many of its industry competitors have struggled. In addition, ACS has not yet issued any dividends because it intends to use its retained earnings to grow the business.

Valuation Range: $51 - $52
Standard Deviation: 36.78%
Expected Return: 8.3%

Affiliated Computer Services, Inc. (ACS) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	69.5	**Risk free Rate (10-year)**	3.68%
Sales	897.9	**Equity Risk Premium**	6.55%
Common Stock Equity	541.3	**Beta**	0.80
Total Assets	861.2	**Expected Return (CAPM)**	**8.92%**
Net Income	69.5	**Annual Dividend**	$0.00
Common Equity	541.3	**Dividend Yield**	0.00%
Return on Equity	**12.84%**	**Dividend Growth Rate**	0.00%
(Net Income/Common Equity)			
		Cash From Operations	347.60
Return on Sales	**7.74%**	**Capital Expenditures**	(198.80)
(Net income/Sales)		**Free Cash Flow**	148.80
Total Asset Turnover	**1.04**	**Shares Outsanding**	125.50
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$1.19
Return on Assets (ROA)	**8.07%**	**FY 2003 Growth**	24.2%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	17.5%
Financial Leverage	**1.59**	**Long Term Growth**	8.9%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	40.50
		Valuations	
Return on Equity	**12.84%**	**Capital Asset Pricing Model**	**$52.30**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$0.00**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$51.48**
Current Price (Mar 21, 2003)	**$48.02**	**Average Valuation**	**$51.89**
		Standard Deviation	**0.58**
		Discount/(Premium)	**$3.87**

5.2 Equity Office Properties (EOP) –Value

5.2.1 Company

Equity Office Properties Trust is the nation's largest REIT. As of 4/02, the company owns and manages about 127 million square feet of office space in over 765 buildings, located in 35 major metropolitan areas throughout the United States. Portfolio composition is balanced between central business (42%) and suburban (58%) locations. Equity Office's acquisition of Spieker Properties in 2001 greatly increased its exposure in the western US, bringing more than 12 million sq. ft. of industrial space to Equity Office's portfolio. The REIT is headed by Sam "Grave Dancer" Zell, the billionaire Chicagoan whose nickname springs from his habit of purchasing distressed properties and transforming them into profitable investments.

5.2.2 Industry

REITs have outperformed the broader market for three consecutive years. Because REITS are economic laggards, same-property revenue is likely to be flat in 2003. However, many have raised but not deployed equity capital that is available for revenue enhancing acquisitions.

The primary factors in selecting a REIT are current dividend yield, long term growth and management reliability.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	NA	71.40%	0.00%	6.60%	7.50
Industry	1.00%	47.70%	4.20%	6.20%	9.20
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: REIT-EQTY TRUS

5.2.3 Evaluation

As a broadly diversified REIT with a dividend yield in excess of 7.5%, EOP is an excellent addition for the Crummer/Sun Trust Portfolio. EOP has a broadly diversified portfolio of office space with an opportunity for significant margin expansion as the economy improves and the demand for prime office space expands. In the meantime, a quality management team and a solid dividend will cushion any downside. EOP is aggressively buying back its own stock and has acquired prime facilities at fire sale prices.

Valuation: $29 - $30
Standard Deviation: 23.61%
Expected Return: 12.7%

Equity Office Properties (EOP) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	828.4	**Risk free Rate (10-year)**	3.68%
Sales	3,506.1	**Equity Risk Premium**	6.55%
Common Stock Equity	11,085.5	**Beta**	0.30
Total Assets	25,246.0	**Expected Return (CAPM)**	**5.65%**
Net Income	828.4	**Annual Dividend**	$2.00
Common Equity	11,085.5	**Dividend Yield**	7.64%
Return on Equity	**7.47%**	**Dividend Growth Rate**	11.00%
(Net Income/Common Equity)			
		Cash From Operations	1,390.90
Return on Sales	**23.63%**	**Capital Expenditures**	-
(Net income/Sales)		**Free Cash Flow**	1,390.90
Total Asset Turnover	**0.14**	**Shares Outsanding**	411.20
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$3.38
Return on Assets (ROA)	**3.28%**	**FY 2003 Growth**	20.0%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	4.0%
Financial Leverage	**2.28**	**Long Term Growth**	4.0%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	7.74
		Valuations	
Return on Equity	**7.47%**	**Capital Asset Pricing Model**	**$27.66**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$35.43**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$30.22**
Current Price (Mar 21, 2003)	**$26.18**	**Average Valuation**	**$31.10**
		Standard Deviation	**3.96**
		Discount/(Premium)	**$4.92**

5.3 General Dynamics (GD) –Value

5.3.1 Company

Defense contractor General Dynamics brings it on by land, air, and sea. It operates in four areas: marine (warships and nuclear submarines), aerospace (business jets), information systems and technology (command and control systems), and combat systems (tanks, amphibious assault vehicles, and munitions). General Dynamics' Electric Boat subsidiary builds nuclear submarines (Seawolf, Ohio, Los Angeles classes); Bath Iron Works builds DDG 51 destroyers and LPD 17 landing craft; Land Systems builds the M1 tank and Abrams combat vehicle; and Gulfstream Aerospace makes business jets. General Dynamics derives about 60% of its revenue from the US government..

5.3.2 Industry

Despite the specter of military action in the Middle East, overall long-term US Military procurement should grow at moderate rates. Although there is debate in defense circles whether traditional arsenals of traditional weapons systems are appropriate to deal with small scattered terrorist cells, procurement of those systems should continue to grow.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	15.00%	1.80%	7.30%	10.60%	10.70
Industry	6.90%	-16.30%	7.50%	11.10%	11.00
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: AEROSP/DEFENSE

5.3.3 Evaluation

As one of the largest defense contractors in the U.S., General Dynamics is well positioned to benefit from defense modernization and re-supply. With U.S. spending for defense systems at its lowest level as a percentage of GDP in many years, there is no place to go but up. GD provides an excellent defensive play for the Crummer/SunTrust portfolio.

Valuation: $64 - $68
Standard Deviation: 40.94%
Expected Return: 15.5%

General Dynamics (GD) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	1,072.0	**Risk free Rate (10-year)**	3.68%
Sales	13,156.0	**Equity Risk Premium**	6.55%
Common Stock Equity	5,121.0	**Beta**	0.40
Total Assets	12,090.0	**Expected Return (CAPM)**	**6.30%**
Net Income	1,072.0	**Annual Dividend**	$1.20
Common Equity	5,121.0	**Dividend Yield**	2.10%
Return on Equity	**20.93%**	**Dividend Growth Rate**	7.20%
(Net Income/Common Equity)			
		Cash From Operations	769.60
Return on Sales	**8.15%**	**Capital Expenditures**	189.80
(Net income/Sales)		**Free Cash Flow**	959.40
Total Asset Turnover	**1.09**	**Shares Outsanding**	200.93
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$4.77
Return on Assets (ROA)	**8.87%**	**FY 2003 Growth**	1.8%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	7.3%
Financial Leverage	**2.36**	**Long Term Growth**	5.8%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	11.96
		Valuations	
Return on Equity	**20.93%**	**Capital Asset Pricing Model**	**$60.72**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$70.96**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$77.57**
Current Price (Mar 21, 2003)	**$57.12**	**Average Valuation**	**$69.75**
		Standard Deviation	**8.49**
		Discount/(Premium)	**$12.63**

5.4 H.J. Heinz Corporation (HNZ) –Value

5.4.1 Company

BUSINESS: H.J. Heinz Co. produces soups, ketchup, pickles, baby food, baked beans, *Ore-Ida* frozen potatoes, and *Weight Watchers* frozen items. Heinz controls 60% of the US ketchup market. Customers include US and international food retailers, the food service industry, and the US military. Foreign sales were 49.4% of 2001 total sales.

5.4.2 Industry

The investment forecast for the Packaged Foods and Meats Industry is neutral. The S&P predicts that increased market prices for corn, soybeans, and wheat, combined with higher fuel and energy costs will exert pressure on most companies in the Packaged Foods and Meats industry. This will counterbalance the expected increase in industry profit margins due to cost savings from mergers and acquisitions and aggressive restructuring activities undertaken by most of the major companies in the industry in the last few years. A number of companies in this industry should also benefit from lower interest rates as a result of the series of rate reductions undertaken by the Federal Reserve over the past two years. Rising U.S and world standards of living, globalization, and the significant adoption of progressive economic policies throughout the world should provide U.S. packaged food companies with opportunities for long-term growth (Standard & Poors).

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	4.20%	-3.70%	0.50%	7.90%	13.20
Industry	0.80%	5.50%	5.50%	8.10%	12.30
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: FOOD-CANNED

5.4.3 Evaluation

Heinz is striving for a more focused business strategy, hence the recent spin-offs to Del Monte of the pet food, tuna, soup, and infant food businesses. HNZ expects to achieve higher profitability from a more favorable product mix, cost structure improvements, and investments in new products. Operating margins are projected to improve from an enhanced sales mix (Standard & Poors).

Valuation Range: $34 - $35
Standard Deviation: 23.87%
Expected Return: 14.5%

H.J. Heinz Company (HNZ) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	212.0	**Risk free Rate (10-year)**	3.68%
Sales	2,568.8	**Equity Risk Premium**	6.55%
Common Stock Equity	470.6	**Beta**	0.30
Total Assets	2,690.9	**Expected Return (CAPM)**	**5.65%**
Net Income	212.0	**Annual Dividend**	$1.62
Common Equity	470.6	**Dividend Yield**	5.37%
Return on Equity	**45.05%**	**Dividend Growth Rate**	3.70%
(Net Income/Common Equity)			
		Cash From Operations	1,104.20
Return on Sales	**8.25%**	**Capital Expenditures**	(182.80)
(Net income/Sales)		**Free Cash Flow**	921.40
Total Asset Turnover	**0.95**	**Shares Outsanding**	351.40
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$2.62
Return on Assets (ROA)	**7.88%**	**FY 2003 Growth**	-4.2%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	-0.6%
Financial Leverage	**5.72**	**Long Term Growth**	5.2%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	11.49
		Valuations	
Return on Equity	**45.05%**	**Capital Asset Pricing Model**	**$31.84**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$36.17**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$39.53**
Current Price (Mar 21, 2003)	**$30.14**	**Average Valuation**	**$35.85**
		Standard Deviation	**3.85**
		Discount/(Premium)	**$5.71**

5.5 Johnson & Johnson (JNJ) –Growth

5.5.1 Company

Johnson & Johnson manufactures and sells health care products. The company operates in three sectors. Its consumer products segment makes OTC drugs, and products for skin and hair care, baby care, oral care, first aid, and women's health and nutrition. The company's medical devices and diagnostics division includes such products as surgical equipment, medical monitoring devices, and disposable contact lenses. JNJ's largest segment, pharmaceuticals, makes drugs for a vast array of ailments, including cardiovascular disease, dermatology, gastrointestinal health, oncology, and pain management. JNJ's key products include: *Band-Aid*, *Monistat*, *Neutrogena*, *Reach*, *Stayfree*, and *Tylenol*. International sales were 39% of the 2001 total sales. Research and Development spending was 10.9% of sales in 2001 (Valueline Report).

5.5.2 Industry

The Pharmaceutical Industry has been negatively impacted by patent expirations, and cost containment pressures from private and government buyers. Drugs generating an estimated $35 billion in sales in 2002 have lost or will lose patent protection over the next four years. States have also become more aggressive in pushing for new legislation aimed at obtaining greater drug discounts for Medicaid and other state-run programs. However, despite the negative characteristics of the Pharmaceutical Industry, the industry is one of the healthiest and widest-margin industries in the U.S. The outlook of the industry is fortified by demographic growth in the elderly segment of the population, (the elderly segment of the population accounts for approximately one-third of the industry sales), and by new therapeutic products spawned by new discoveries and technologies. Merger cost economies should also enhance profits of the industry (Standard & Poors).

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	13.70%	15.50%	13.20%	14.10%	24.60
Industry	18.80%	11.50%	18.00%	22.50%	318.80
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: MED-DRUGS

5.5.3 Evaluation

Johnson & Johnson ranks as the world's largest and most diversified health care company. JNJ offers an impressive list of prescription drugs, medical instruments, and the broadest line of health-related consumer products. JNJ is also one of the most geographically diversified health care companies with foreign sales representing nearly half of the entire business. Proficient company management has led to outstanding growth through well-planned strategic acquisitions, commitment to R&D spending, and a decentralized management policy. Gains in sales are projected to be led by the new Cypher drug-coated coronary stent in JNJ's Cordis division.

Valuation Range: $65 - $68
Standard Deviation: 22.82%
Expected Return: 13.3%

Johnson & Johnson (J&J) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	1,725.0	**Risk free Rate (10-year)**	3.68%
Sales	9,079.0	**Equity Risk Premium**	6.55%
Common Stock Equity	5,521.3	**Beta**	0.40
Total Assets	9,658.3	**Expected Return (CAPM)**	**6.30%**
Net Income	1,725.0	**Annual Dividend**	$0.82
Common Equity	5,521.3	**Dividend Yield**	1.40%
Return on Equity	**31.24%**	**Dividend Growth Rate**	13.60%
(Net Income/Common Equity)			
		Cash From Operations	8,065.33
Return on Sales	**19.00%**	**Capital Expenditures**	(2,353.33)
(Net income/Sales)		**Free Cash Flow**	5,712.00
Total Asset Turnover	**0.94**	**Shares Outsanding**	2,968.80
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$1.92
Return on Assets (ROA)	**17.86%**	**FY 2003 Growth**	15.5%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	13.2%
Financial Leverage	**1.75**	**Long Term Growth**	6.2%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	30.49
		Valuations	
Return on Equity	**31.24%**	**Capital Asset Pricing Model**	**$62.37**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$71.30**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$73.08**
Current Price (Mar 21, 2003)	**$58.67**	**Average Valuation**	**$68.92**
		Standard Deviation	**5.74**
		Discount/(Premium)	**$10.25**

5.6 Occidental Petroleum Corporation (OXY) –Value

5.6.1 Company

Occidental Petroleum engages in oil and gas exploration and production and makes basic chemicals, plastics, and petrochemicals. The oil giant has proved reserves of more than 2.3 billion barrels of oil equivalent in the US, the Middle East, and Latin America. It owns oil and gas producer Altura Energy, a former partnership of BP and Shell Oil, as well as 76% of OxyVinyls, the #1 producer of polyvinyl chloride (PVC) resin in North America. Subsidiary Occidental Chemical (OxyChem) produces acids and chlorine, and specialty products. Occidental Petroleum also has an energy trading and marketing operation, Occidental Energy Marketing.

5.6.2 Industry

The investment outlook for the Integrated Oil and Gas Industry is positive based on continued high oil and gas prices and expectations of improved demand as economies recover. While the geopolitical concerns remain a wild card in economic forecasts, the S&P believes that the U.S. economy will grow faster in 2003 than it did in 2002, which should improve demand for oil and refined products. Exploration and production will also be positively impacted by high oil and gas prices and improved demand in the upcoming year (Standard & Poors).

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	24.10%	6.20%	-16.10%	12.70%	11.50
Industry	5.20%	18.10%	-9.90%	8.70%	12.50
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: OIL-US INTEGRT

5.6.3 Evaluation

The outlook for the entire industry is positive based on continued high gas and oil prices and expectations of demand growth as economies recover. Gains are expected for OXY due to both an increase commodity prices and oil production. Oil production is expected to increase for OXY as the company shifts its focus to oil exploration and production. This shift in focus should reduce earnings volatility.

Valuation Range: $34 - $36
Standard Deviation: 19.96%
Expected Return: 18.0%

Occidental Petroleum Corporation (OXY) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	498.0	**Risk free Rate (10-year)**	3.68%
Sales	1,963.0	**Equity Risk Premium**	6.55%
Common Stock Equity	1,505.3	**Beta**	0.60
Total Assets	4,084.8	**Expected Return (CAPM)**	**7.61%**
Net Income	498.0	**Annual Dividend**	$1.04
Common Equity	1,505.3	**Dividend Yield**	3.51%
Return on Equity	**33.08%**	**Dividend Growth Rate**	4.00%
(Net Income/Common Equity)			
		Cash From Operations	2,040.00
Return on Sales	**25.37%**	**Capital Expenditures**	(1,250.67)
(Net income/Sales)		**Free Cash Flow**	789.33
Total Asset Turnover	**0.48**	**Shares Outsanding**	377.00
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$2.09
Return on Assets (ROA)	**12.19%**	**FY 2003 Growth**	3.8%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	-17.9%
Financial Leverage	**2.71**	**Long Term Growth**	7.4%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	14.17
		Valuations	
Return on Equity	**33.08%**	**Capital Asset Pricing Model**	**$31.93**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$37.85**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$41.97**
Current Price (Mar 21, 2003)	**$29.67**	**Average Valuation**	**$37.25**
		Standard Deviation	**5.05**
		Discount/(Premium)	**$7.58**

5.7 Paychex (PAYX) –Growth

5.7.1 Company

Paychex, Inc. processes the payrolls of more than 440,000 clients, making it the second-largest payroll accounting firm in the US after Automatic Data Processing. Paychex also provides automatic tax payment, direct deposit, and wage garnishment processing. Its Human Resource Services-Professional Employer Organization unit offers such services as 401(k) record-keeping, risk management, benefits administration, and group insurance management. Paychex focuses on small and midsized businesses (ones with fewer than 100 employees).

Paychex has recently announced the acquisition of FleetFirst's payroll/benefits processing organization.

5.7.2 Industry

Most data processors have significant recurring revenues, notable operational leverage and strong balance sheets. They also generate significant free cash flow and have good earnings visibility.

Data processors post healthy long-term growth, primarily because of two significant rends – outsourcing and e-commerce. Companies increasingly outsource tasks to reduce the costs in-house systems allowing it to focus on core competencies.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	27.60%	7.00%	17.50%	19.40%	37.80
Industry	7.90%	11.70%	19.80%	18.80%	21.40
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: COMP-SERVICES

5.7.3 Evaluation

Pachex stands to benefit from two powerful trends - outsourcing of payroll/benefits/human resource functions by small and mid-size businesses and an economic recovery. Its outsourcing service model provides some safety in a weak economy and allows significant leverage in an expanding economy. Over the past five years, Paychex has shown an average EPS growth in excess of 25%. It is up 7% year-over-year in spite of the recent economic softness. Paychex represents a solid long-term growth opportunity for the Crummer/Sun Trust Portfolio.

Valuation: $33 - $35
Standard Deviation: 38.58%
Expected Return: 15.6%

Paychex (PAYX) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	298.8	**Risk free Rate (10-year)**	3.68%
Sales	1,075.2	**Equity Risk Premium**	6.55%
Common Stock Equity	1,000.5	**Beta**	0.80
Total Assets	2,847.7	**Expected Return (CAPM)**	**8.92%**
Net Income	298.8	**Annual Dividend**	$0.44
Common Equity	1,000.5	**Dividend Yield**	1.50%
Return on Equity	**29.87%**	**Dividend Growth Rate**	37.40%
(Net Income/Common Equity)			
		Cash From Operations	349.40
Return on Sales	**27.79%**	**Capital Expenditures**	(74.80)
(Net income/Sales)		**Free Cash Flow**	274.60
Total Asset Turnover	**0.38**	**Shares Outsanding**	376.30
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$0.73
Return on Assets (ROA)	**10.49%**	**FY 2003 Growth**	7.1%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	17.2%
Financial Leverage	**2.85**	**Long Term Growth**	8.9%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	40.32
		Valuations	
Return on Equity	**29.87%**	**Capital Asset Pricing Model**	**$32.04**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$35.92**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$31.94**
Current Price (Mar 21, 2003)	**$29.42**	**Average Valuation**	**$33.30**
		Standard Deviation	**2.27**
		Discount/(Premium)	**$3.88**

5.8 Six Continents PLC (SXC) – Value

5.8.1 Company

Six Continents owns about 2,100 pubs and restaurants (in the UK and Germany). This is its most profitable business, after selling off some 1,000 pubs to Nomura Securities. Subsidiary Six Continents Hotels operates and franchises more than 3,300 Holiday Inn, Crowne Plaza, and Inter-Continental hotels in about 100 countries. The company plans to de-merge the two operations.

5.8.2 Industry

The investment outlook for the Hotels, Resorts, and Cruises Industry is borderline negative. In 2003, assuming that there are no additional terrorist attacks or war or rumors of war, demand for U.S. hotel rooms is expected to improve modestly. It is also expected that room supply growth will slow, due to increase caution on the part of lenders. However, even under the most positive assumptions, full-year profit for some of the major companies in 2003 in this industry is still expected to be less than what was achieved in 2000.

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	NA	NA	NA	NA	NA
Industry	3.90%	1.00%	13.60%	11.40%	13.30
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: DIVERSIFIED OP

5.8.3 Evaluation

Through Six Continents Hotels, the Company owns, manages, leases or franchises a number of hotel brands, including Intercontinental, Crowne Plaza, Holiday Inn, Staybridge Suites and Holiday Inn Express (or Express by Holiday Inn outside of the Americas), which, as of September 30, 2002, comprised 3,325 hotels with approximately 515,525 guest rooms in nearly 100 countries and territories. The company also has interests in soft drink manufacturing. The Crummer Portfolio currently does not have any exposure in the Hotel industry. This company stands out because of its solid financial performance, excellent P/B Ratio, and high dividend growth rate. Recent chatter on the street indicates that SXC might be a takeover candidate. This can only help the company's stock performance (Standard & Poor's).

Valuation Range: $11 - $12
Standard Deviation: 18.37%
Expected Return: 14.1%

Six Continents PLC (SXC) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	758.0	**Risk free Rate (10-year)**	3.68%
Sales	5,688.4	**Equity Risk Premium**	6.55%
Common Stock Equity	8,411.0	**Beta**	0.80
Total Assets	14,231.0	**Expected Return (CAPM)**	**8.92%**
Net Income	758.0	**Annual Dividend**	$0.60
Common Equity	8,411.0	**Dividend Yield**	5.95%
Return on Equity	**9.01%**	**Dividend Growth Rate**	9.00%
(Net Income/Common Equity)			
		Cash From Operations	821.00
Return on Sales	**13.33%**	**Capital Expenditures**	(1,019.70)
(Net income/Sales)		**Free Cash Flow**	(198.70)
Total Asset Turnover	**0.40**	**Shares Outsanding**	867.00
(Net Sales/Total Assets)		**Free Cash Flow per Share**	-$0.23
Return on Assets (ROA)	**5.33%**	**FY 2003 Growth**	1.0%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	13.6%
Financial Leverage	**1.69**	**Long Term Growth**	8.9%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	(43.98)
		Valuations	
Return on Equity	**9.01%**	**Capital Asset Pricing Model**	**$10.98**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$13.48**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$10.08**
Current Price (Mar 21, 2003)	**$10.08**	**Average Valuation**	**$11.51**
		Standard Deviation	**1.76**
		Discount/(Premium)	**$1.43**

5.9 Target Corporation (TGT) –Growth

5.9.1 Company

Target stores are at the center of Target Corporation's retail empire. Formerly Dayton Hudson, Target Corporation operates more than 1,475 stores in three formats: Target, a discount chain with more than 1,100 stores; Mervyn's midrange department stores, found mainly in the Midwest and West; and Marshall Field's upscale department stores in the Midwest. Target and its cousins, including SuperTarget and Target Greatland, account for about 80% of Target Corporation's sales and have carved out a niche by offering more upscale, fashion-forward merchandise than rivals Wal-Mart and struggling Kmart. Target Corporation also owns catalog retailer Rivertown Trading and apparel supplier Associated Merchandising. TGT sales in 2001 amounted to $260 per square foot. TGT's Credit operations accounted for 19% of 2001 pre-tax profits. TGT employs about 280,000 people (Valueline).

5.9.2 Industry

The investment outlook for the General Merchandise Retailer Industry is favorable. This industry continues to take market share from mid-priced department stores and specialty stores by capitalizing on the industry's value proposition and broad array of affordable apparel, general merchandise, and food. S&P expects no reason for this trend to change in the near term.

Furthermore, due to the highly competitive nature of retailing today, retailers are being forced to make cost cutting a top priority. Modest sales growth expectations have put pressure on retailers to trim inventories and invest in cost-cutting technology to boost productivity. Investments in technology have helped the industry obtain better information about sales trends. Inventory information enables the stores to keep less merchandise in stock, and inventory costs have been reduced. The trend in the industry of merging general merchandise and food under one roof, such as Wal-Mart Supercenters, brings in higher traffic and despite the lower margins of the food products, the higher volume has boosted overall profitability (Standard & Poor's).

Earnings Growth Rates	Last 5 yrs.	FY 2004	FY 2005	Next 5 yrs.	04 P/E
Company	17.10%	13.30%	12.60%	14.60%	14.80
Industry	9.70%	16.30%	14.10%	16.10%	17.40
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: RETAIL-DISCOUNT

5.9.3 Evaluation

Target Corporation's future outlook mirrors the positive outlook of the general merchandise retailer industry. The company derives most of its operating income from its more than 1,475 Target discount stores. It also operates 264 Mervyn's and 64 department stores. TGT's sales and earnings should increase based on the company's focus on low inventory levels, increase in outsourcing, and new product initiatives

Valuation Range: $34 - $36
Standard Deviation: 32.64
Expected Return: 13.9%

Target Corporation (TGT) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	1,654.0	**Risk free Rate (10-year)**	3.68%
Sales	43,917.0	**Equity Risk Premium**	6.55%
Common Stock Equity	9,443.0	**Beta**	1.20
Total Assets	28,603.0	**Expected Return (CAPM)**	**11.54%**
Net Income	1,654.0	**Annual Dividend**	$0.24
Common Equity	9,443.0	**Dividend Yield**	0.78%
Return on Equity	**17.52%**	**Dividend Growth Rate**	9.34%
(Net Income/Common Equity)			
		Cash From Operations	1,590.00
Return on Sales	**3.77%**	**Capital Expenditures**	(3,189.00)
(Net income/Sales)		**Free Cash Flow**	(1,599.00)
Total Asset Turnover	**1.54**	**Shares Outsanding**	909.80
(Net Sales/Total Assets)		**Free Cash Flow per Share**	-$1.76
Return on Assets (ROA)	**5.78%**	**FY 2003 Growth**	12.9%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	12.9%
Financial Leverage	**3.03**	**Long Term Growth**	11.3%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	(17.48)
		Valuations	
Return on Equity	**17.52%**	**Capital Asset Pricing Model**	**$34.28**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$7.04**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$43.04**
Current Price (Mar 21, 2003)	**$30.73**	**Average Valuation**	**$38.66**
		Standard Deviation	**6.19**
		Discount/(Premium)	**$7.93**

5.10 United Technologies Corporation (UTX) –Growth

5.10.1 Company

United Technologies Corp. (UTC) makes building systems and aerospace products through such well-known names as Carrier, Otis, Pratt & Whitney, and Sikorsky. Carrier is the world's largest maker of heating and air-conditioning systems, making and servicing heating, ventilating, and refrigeration equipment. Otis is the world's number one elevator manufacturer; Hamilton Sundstrand produces engine controls, environmental systems, propellers, and other flight systems; Pratt & Whitney makes engines for both commercial and military aircraft; and Sikorsky makes helicopters. UTC Fuel Cells makes fuel cells for use in commercial, transportation, residential, and space applications.

5.10.2 Industry

The following analysis of the outlook of the Aerospace and Defense Industry contains two parts; the Defense Sub-Industry, and the Airline Sub-Industry.

In spite of military action in the Middle East, it is forecasted that long-term U.S. military procurement spending will grow at average annual rates of only 2-3% per year. This moderate long-term growth rate is due to the fact that many of America's main adversaries are using terrorist cells as the primary means of warfare. This means that the push for the U.S. and its allies to maintain or increase huge arsenals of traditional weapons systems such as fighter planes, tanks, and ships is limited.

The airline industry is reeling from a significant decrease in air travel caused by weak global economies and fears of further terrorist attacks. This decrease in air travel is causing the U.S. airline industry to cut capacity. As a result, it is expected that commercial jet orders, sales and earnings to plummet over the next few years (Standard & Poor's).

Earnings Growth Rates	Last 5 yrs.	FY 2003	FY 2004	Next 5 yrs.	03 P/E
Company	16.60%	6.30%	7.90%	11.90%	13.00
Industry	3.90%	1.00%	13.60%	11.40%	13.30
S&P 500	-1.10%	22.70%	9.90%	8.00%	17.40

Zacks Industry: DIVERSIFIED OP

5.10.3 Evaluation

Due to ongoing cost cutting initiatives, United Technologies is expected to increase its operating profit margins despite the projected near term volume declines spurred from a declining airline industry. UTX has a large overseas presence in which international sales are greater than 50% for the company's Carrier air conditioning, Pratt & Whitney jet engine, Otis elevator, and Flight Systems aircraft components sectors.

Valuation Range: $70 - $72
Standard Deviation: 22.09%
Expected Return: 11.0%

United Technologies Corporation (UTX) In Millions of U.S. Dollars (except per share values)			
DuPont Analysis		**Model Parameters**	
Net Income	651	**Risk free Rate (10-year)**	3.68%
Sales	7,250	**Equity Risk Premium**	6.55%
Common Stock Equity	2,419	**Beta**	1.20
Total Assets	7,123	**Expected Return (CAPM)**	**11.54%**
Net Income	651.0	**Annual Dividend**	$1.19
Common Equity	2,419.0	**Dividend Yield**	1.86%
Return on Equity	**26.91%**	**Dividend Growth Rate**	11.20%
(Net Income/Common Equity)			
		Cash From Operations	3,000.00
Return on Sales	**8.98%**	**Capital Expenditures**	(540.00)
(Net income/Sales)		**Free Cash Flow**	2,460.00
Total Asset Turnover	**1.02**	**Shares Outsanding**	471.10
(Net Sales/Total Assets)		**Free Cash Flow per Share**	$5.22
Return on Assets (ROA)	**9.14%**	**FY 2003 Growth**	6.3%
*(Return on Sales * Total Asset Turnover)*		**FY 2004 Growth**	7.9%
Financial Leverage	**2.94**	**Long Term Growth**	11.0%
(Total Assets/Common Equity)		**Price/Free Cash Flow**	12.25
		Valuations	
Return on Equity	**26.91%**	**Capital Asset Pricing Model**	**$71.36**
*(Return on Sales * Total Asset*		**Dividend Discount**	**$67.45**
*Turnover * Financial Leverage)*		**Discounted Cash Flow**	**$67.10**
Current Price (Mar 21, 2003)	**$63.98**	**Average Valuation**	**$68.64**
		Standard Deviation	**2.37**
		Discount/(Premium)	**$4.66**

6 Conclusion

In a stagnant economy with a high degree of event risk, it is important for a portfolio manager to "play defense" with a portfolio such as the Crummer-Sun Trust Investment Portfolio. As such, many of our recommendations represent positions that are expected to fare well in a weak to slowly growing economy and have the assets to survive in the long term.

The combination of low price to book ratio, low leverage and history of profitability gives us the confidence that these companies are conservatively managed and will be able to withstand a potentially protracted period of uncertain economic conditions. Further, companies with high (relative) dividend yields and reasonable dividend growth rates should provide some stability of returns in the present economic conditions.

The large-cap evaluation group recommends retaining the following current holdings in the value portfolio: Citigroup (C), Caterpillar (CAT), General Electric (GE), Masco (MAS), MBNA Corporation (KRB), and Proctor & Gamble (PG); retaining the following current holdings in the growth portfolio: Anheuser Busch (BUD), Cardinal Health (CAH), Danaher (DHR), Dow Chemical (DOW), Healthcare Corporation of America (HCA), Pfizer (PFE), Sysco Corporation (SYY), and United Parcel Service (UPS). Based upon the investment strategy, the following additions can be made to the value portfolio: Equity Office Products (EOP), General Dynamics (GD), HJ Heinz (HNZ), Six Continents (SXC), and Occidental Petroleum (OXY) and growth portfolio: Affiliated Computer Services (ACS), Johnson & Johnson (JNJ), Paychex (PAYX), Target (TGT), and United Technologies (UTX).

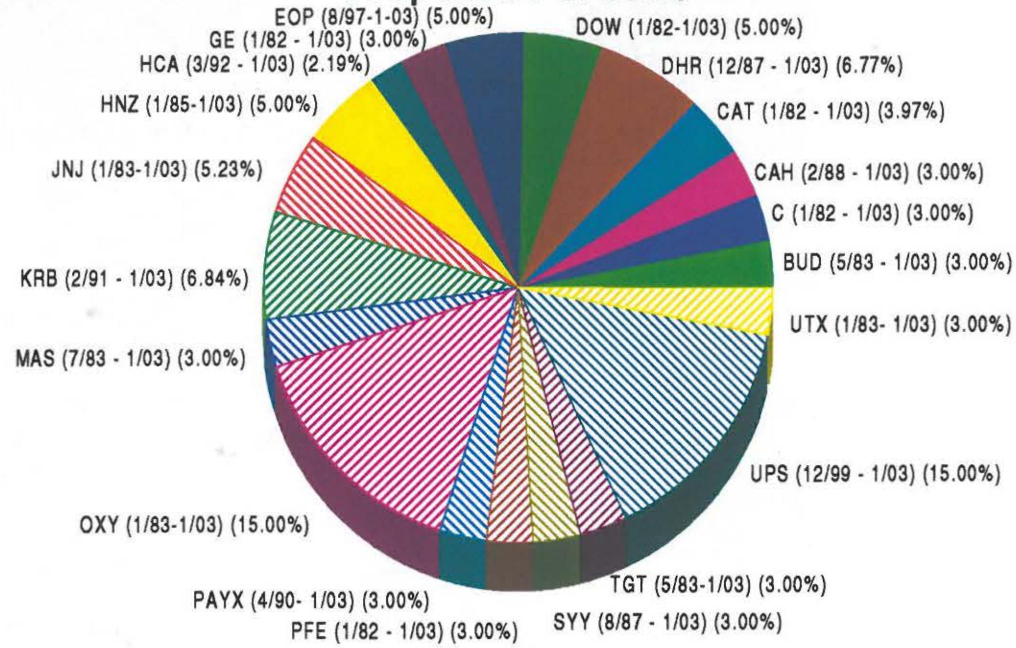
Because we neither know the value of the Crummer/Sun Trust portfolio at the time of reinvestment/rebalancing nor do we know the co-portfolio managers' final asset allocation, we can only provide specific equity allocations as a percentage of the amount allocated to large-cap equities. In order to determine those percentages, we will treat our portfolio recommendations as a single large-cap blend holding.

When allocating among the 24 candidates (retained and new), the predicted returns will be dependent on the level of portfolio concentration. We engaged in a series of portfolio optimizations using Ibbotson's EnCorr Optimizer at various levels of constraints, both maximum and minimum, in an effort to create an asset mix that provided a reasonable balance among, growth/value, risk/return, diversification and yield.

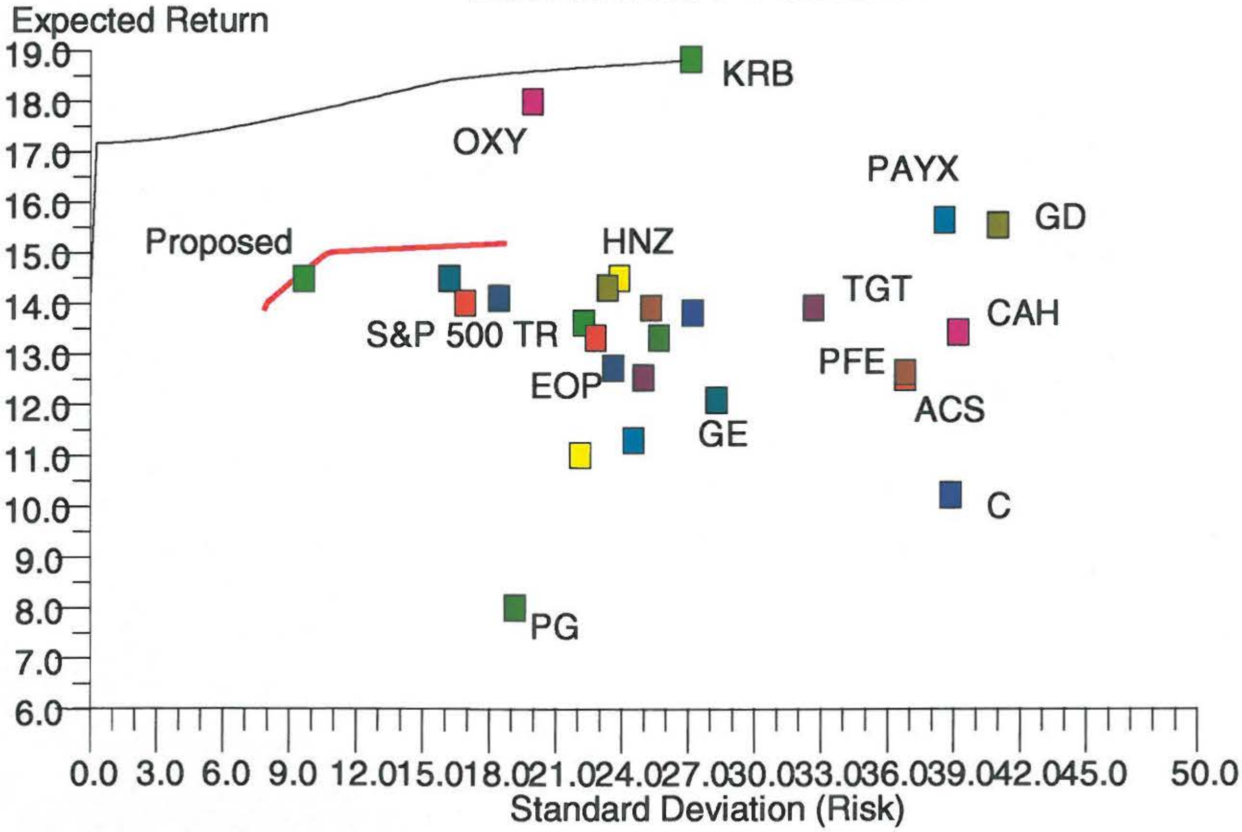
A maximum position size of 15% of the large-cap assets coupled with minimum position sizes in the three to five percent range for selected stocks resulted in a recommended allocation with provides an expected return of 14.5%, standard deviation of 9.6%, and yield of 2.5%. The portfolio has a weighted P/E of 19.6, weighted average market capitalization of $47.76 Billion and a weighted average beta of .68. A full listing of our recommended stocks, their weights and key metrics is shown below.

Symbol	Company/Security	Weight	Cap	P/E	Yield	Beta
ACS	Affiliated Computer Services	0%	6.03	23.3	0.0%	0.90
BUD	Anheuser Busch	3%	40.95	22.5	1.6%	0.10
CAH	Cardinal Health	3%	25.11	20.6	0.2%	0.30
DHR	Danaher Corp.	6%	10.45	21.5	0.2%	0.90
HCA	Healthcare Corp of Am.	3%	21.30	22.1	0.2%	0.40
JNJ	Johnson & Johnson	5%	157.62	26.8	1.6%	0.40
PAYX	Paychex, Inc.	3%	9.70	34.6	1.7%	0.70
PFE	Pfeizer	3%	187.00	19.6	2.0%	0.60
SYY	Sysco Corp	3%	18.26	25.7	1.6%	0.50
TGT	Target Corporation	3%	25.46	14.9	0.9%	1.20
UPS	United Parcel Service	15%	67.55	21.7	1.2%	0.40
UTX	United Technologies Corp	3%	29.11	14.1	1.6%	1.20
	Growth:	**50%**				
C	Citigroup	3%	176.30	11.0	2.3%	1.50
CAT	Caterpillar	4%	14.80	23.1	3.2%	0.90
DOW	Dow Chemical	5%	26.03	72.5	4.6%	0.80
EOP	Equity Office Properties Trust	5%	9.90	14.1	8.3%	0.30
GD	General Dynamics Corp	0%	13.16	14.4	1.8%	0.40
GE	General Electric	3%	25.70	14.5	3.3%	1.10
HNZ	H.J. Heinz Company	5%	11.12	13.8	5.1%	0.30
KRB	MBNA Corp	7%	21.99	12.9	1.9%	1.40
MAS	Masco	3%	9.01	14.7	3.0%	0.80
OXY	Occidental Petroleum Corp	15%	10.95	10.2	3.6%	0.60
PG	Proctor & Gamble	0%	109.70	25.4	1.9%	0.02
SXC	Six Continents PLC	0%	8.41	10.9	6.6%	0.70
	Value:	**50%**				
	Portfolio Average:	**100%**	**47.76**	**19.57**	**2.49%**	**0.68**

Proposed Portfolio



Efficient Frontier



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