Sather Financial Group, Inc.
Registered Investment Advisor

Second Quarter 2002 Commentary

Patience—it is an easy word to say, but a difficult concept for most to embrace and follow through upon. This is certainly true when discussing Wall Street. I have to admit, however, that the markets are not making things easy upon investors—especially those with a short time frame or a nervous stomach.

For an economy in need of recovery and stability, our financial markets gave us little to be confident of in the second quarter. US stocks had their biggest first half loss since the 1970's amid continued weakness in corporate earnings and a growing mistrust of corporate leadership. Given this, at the half way point of the year the S&P 500 is down 13.8%, the NASDAQ is off 24.9% and the Dow Jones Industrial Average has declined 7.8%. Again, not the type of numbers that one would expect out of a recovering economy.

Much of the investor sentiment is due to the betrayal of a few companies—first Enron, and now Imclone, Worldcom and Tyco. However, it is extremely important to realize that while these companies have grabbed very big headlines, they represent an extremely small portion of corporate America. Please ***do not let the media fool you into thinking that these companies represent the ethical standards in place at most companies***. However, I do think that some good will come out of these situations. ***Companies will now have to be more conservative in their accounting and provide better disclosure*** into what is occurring within a company.

More importantly, investors need to maintain their focus on the underpinnings of the economy. As discussed in previous commentaries the economy continues to stabilize and recover. ***Gross Domestic Product figures for the first quarter were revised upward and initial unemployment numbers continue to improve***. Another positive is that ***consumer income levels increased*** again in May. While consumer spending did drop just slightly in May, it still managed to beat economists expectations. (Consumer spending is closely watched because it accounts for two-thirds of the economy.) Another positive factor was the ***surprise increase in June's consumer confidence readings***. Also, the ***purchasing managers index showed a 58.2 reading for June—any figure above 50 indicates expansion***.

After reviewing the key factors in the economy it is also worth looking at profitability. Corporate America, after experiencing five straight quarters of declining profits, was expected to ***return to positive earnings growth in the second quarter***.

Interest rates remain at the lowest levels in four decades. Currently, the yield on the ten year US Treasury was a meager 4.8%. As stated in the past, rates of this nature make for very attractive borrowing, but very difficult opportunities for the fixed income investor. Many analysts had predicted that the Federal Reserve would increase interest rates by June at the latest. Our contention is that the Fed is going to sit tight until the economy, and the stock market, show considerably more strength. As such, ***look for interest rates to stay low throughout the remainder of the year.***

So in conclusion, I will revisit my opening comment. ***The markets require patience, a certain level of intellect and common sense***. Patience is not something that is popular and it certainly is not the type of concept which the news media discusses or promotes. However, whether you view it as patience, calmness, composure, inner strength or fortitude, the fact of the matter remains that when making decisions regarding your investments you need to stick to your long term game plan. Furthermore, deviating from that logical game plan is almost always a recipe for disastrous results. Given this understanding, keep current events in context and realize that truly long term patience is required when navigating the financial markets.

Call with questions.

Sincerely yours,

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Certified Financial Planner™

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