Sather Financial Group, Inc.
Registered Investment Advisor

**Second Quarter 2003 Commentary**

I suppose we can all collectively hold our breath for another six months. But***, at the mid-point of the year we actually have positive numbers out of the broad stock market indices***. What a surprise. For some odd reason the investing world has awoken to the possibility that every company in the US is not going bankrupt after all. Furthermore, maybe these "left for dead" companies might still be capable of providing a good or service, selling it to customers and actually making a profit. ***Amazingly, the concept of capitalism is not dead after all***.

Fortunately, a long overdue return to positive figures has occurred for the stock market. In fact, ***it was the best quarter in 4 ½ years***. Unfortunately though, I am not sure ***there is much gas left in the tank to power stocks much higher from here***. Sadly, many investors have decided now is the time to get back into the market. In reality, the time to make the easy money was by investing six to nine months ago. And, as if we have a bad case of déjà vu, there appears to be more than a fair amount of hype and vapors pushing technology and biotech companies to levels, which are not substantiated by earnings. ***The last time I checked earnings still mattered***.

While the stock market has found some stable footing the economy is still desperately searching for consistency. ***Unemployment, which we anticipated would level off at about 6%, is now 6.2%***. Not a huge difference, and not a massive unemployment number, but not the improvement we need. If the labor market continues to weaken, consumer spending could deteriorate. As discussed previously, 2/3rds of Gross Domestic Product is comprised of consumer spending. Additionally, we continue to have high energy prices and tremendous weakness in the auto, steel and commodity chemical industries. Conversely, manufacturing continues to expand. Additionally, we have a new tax relief package and the Federal Reserve has acted once again to breathe some stimulus into the economy. Given this, ***while there are many signs and opportunities for economic recovery as capital spending increases, the rebound may not be as strong as hoped for***.

If expectations come to fruition, ***we can expect a 2.5% increase in GDP in 2003*** (mainly weighted in the second half of the year) and unemployment dropping, and stabilizing, around 6%. Also, ***while it has yet to be determined how many jobs and how much growth the new tax package will produce, the tax relief is real*** and should put a few extra dollars in everyone's pockets. This may not lead to stellar growth, but, it beats the lethargic economy we have been experiencing.

The last full week of June the Fed lowered interest rates for the thirteenth straight time. Maybe thirteen will be a lucky number. Regardless, ***short term interest rates now stand at a mere 1%--their lowest level since 1958***. Longer term, however, interest rates are starting to paint a slightly different picture. The ten year US Treasury yield fell as low as 3.09%. As expected though, rates have started to inch back up--despite the Fed's activity. ***The yield on the ten year US Treasury is now 3.52%***.

While this modest rate increase is helpful no one should look for rates to jump much any time soon. As such, we continue to find ourselves with a ***great time to borrow money, but a very dangerous time to be a fixed income investor***. After factoring in taxes and cost of living adjustments, ***virtually every fixed income investor is getting negative real rates of return***. Additionally, investors should not expect the Fed to begin increasing rates soon either. We will need to see quite a bit of improvement economically before the Alan Greenspan led Federal Reserve changes course.

More importantly, many traditionally conservative (bond and money market) investors are finally giving up. Money market returns of less than 1% have been quite painful. ***The five year US Treasury yields a slim 2.4%***. With rates this low a growing number of these traditionally conservative investors are surprisingly looking to the stock market to improve cash flow. This is actually not too hard to accomplish. ***Many dividend yields top the rate on the five year US Treasury***. Making this transition more attractive is the fact that ***fixed income investments continue to be taxed at an investors marginal tax bracket while dividends now pay a maximum 15% tax on dividends*** allowing investors to keep more of what they make. Additionally, it should also be noted that a large number of stable companies pride themselves on increasing their dividend each and every year making the common stock proposition even more attractive. I can promise you that in comparison the US Treasury, or any other issuer of fixed income securities, will never call you up and tell you that they have decided to increase the interest they are paying before a bond or C/D matures.

As always, the best manner with which to deal with times such as these is to have a well thought out, cohesive investment plan that steers you in the appropriate direction given your specific circumstances. Call or stop by with questions.

Sincerely,

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

108 S. Main, Victoria, Texas 77901 ; (361) 570-1800