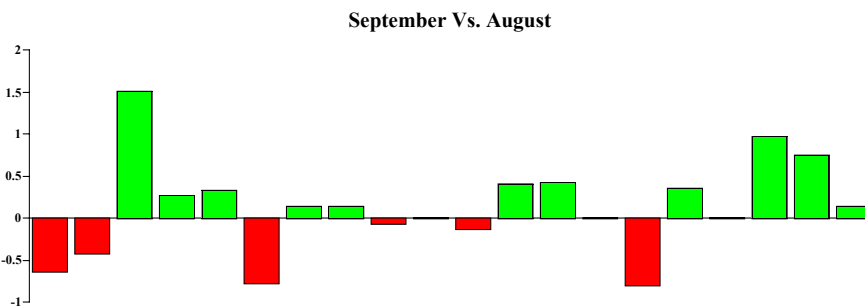
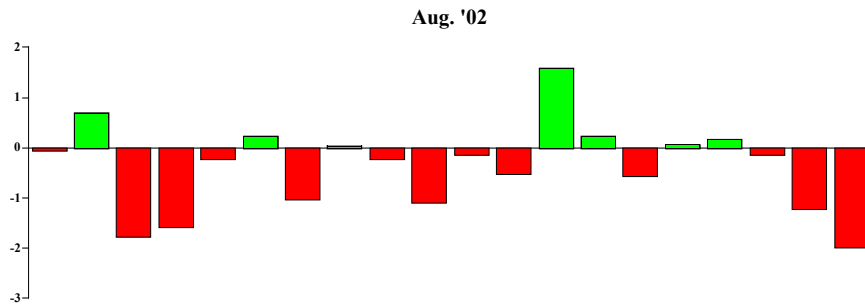
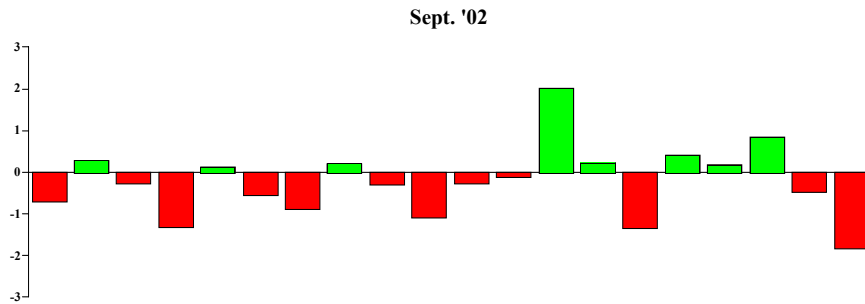


The following charts show fact based trends in ASC Economic factors as of September 2002 as compared to August 2002 and changes expressed in standard deviations around the norm, hereinafter referred to as “units”.



* = inverted

[-----Domestic-----][-----International-----]

ASC Factor indicators of future activity show that the economy is beginning to surprise even the double dippers. Following are significant changes in trends last month expressed in standard deviations around the norm or "units." Claims rose by .63 units. Inventories rose by .41 units. Real Income rose by 1.51 units, which has to be considered a significant positive development. Consumption rose by .33. Housing fell by .76 units. The CRB Index rose by .43 units. G8 Inflation rose by .79 units. G8 General Economic Climate rose by .36 units. G8 Exports rose by .97 units. G8 Consumption rose by .75 units. The current ASC factor sum is 95.3, as compared to 92.6 last month. Real Income has now returned to normal after being depressed by the recession. Most of the improvement last month was shown in G8 factors, the recovery in the US is beginning to be felt abroad by our trading partners. With the recent strength in consumption, third quarter GDP growth is likely to exceed 3.5 %.

The 8.7% increase in durable goods orders and very strong auto sales have moved those in the "double dip" camp back toward growth. Many economists have shifted from a 1% growth estimate in the third quarter to 4% currently. It still appears that we have a "muddle through" type recovery in which growth will average out in the 2.5 to 3% range until capital spending recovers.

The outlook for cost of energy is healthy even without a war with Iraq. Most seem to believe that the only reason crude oil is near \$29 a barrel is because of a war premium. Oil prices appear to be firm because of supply-demand. OPEC has cut back on production and has kept its members from cheating as much as in the past. In addition, we are due for a cold winter

since the last six have been warmer than normal. The timing of the war with Iraq and seasonal factors both point toward higher energy prices over the next six months.

We seem to have a Rodney Dangerfield recovery, as it is getting no respect. There is a discontinuity between economic reality and perception. Perception lagged when the economy was going into a recession as investors were in denial that we actually had a recession; currently perception is lagging the recovery. When growth is strong the view is 'yes it is strong now but it cannot last'. When current activity is weak then the fear is that we are going into a double dip. It seems no matter how the economy performs it is not good enough. It is similar to the Patriots. After they beat the Raiders and Steelers in play-offs in 2001 and the Rams in the Super bowl, one might think that they would be favored once in a while. They were underdogs against the Steelers this season and beat them. They were even underdogs against the Jets and ended up beating them, 44-7. Sometimes, perception takes a long time to catch up with reality. As for when the consensus begins to reflect economic reality, that is a question in investor psychology. It is difficult to say when but as long as the economy continues to perform and surprise the nay sayers, it would appear that time is on our side. The ASC model has had groups ranked that are appropriate for an economic recovery. The economic recovery has occurred but some of the groups still have not done that well. We have done fairly well with under weights in health care and financials and over weights in Basics and energy, but not so well with the recent over weight in technology. Groups that typically do poorly in a recovery such as consumer non-discretionary have continued to perform well, as if we were still in a recession.

President George W. Bush seems to be doing the right thing in getting a consensus before acting. After the German elections are over next Sunday, Germany is likely to go along with the rest of our allies if a UN resolution is adopted. If a UN resolution is not adopted to enforce the prior resolutions, it showcases the ineffectiveness of that organization. For the survival of the UN as a meaningful organization, it needs to act. Otherwise it risks being a sort of shadow committee without any teeth, issuing resolutions in an advisory capacity only. The latest offer by Iraq to allow inspectors without conditions is probably a delaying tactic. Discussions on how unconditional inspections will be conducted are likely to reveal that there are conditions, after all. Saddam is trying to buy time on the basis that a delay will weaken the US's resolve. It may bog down the UN's role but is unlikely to deter the US from moving ahead against Iraq.

As for ASC group ranks, energy held its number 1 ranking. Papers and chemicals held up well. Technology and electronics slipped slightly, from 16 and 6, respectively, to 18 and 23. The commercial banks moved up, from 33 to 24 last month. The S&L's moved from 31 to 11. Normally, the tech groups would have already had a move based on the progress shown on the recovery. Now that the banks have been punished owing to loan losses and other improprieties, most of the negatives, if not all, appear to have been discounted. With the increases in rank and continued strength in the economy, loan loss concerns should diminish.

Investment Strategy

Equities:

Groups that are well positioned cur-

rently are energy, natural gas, paper and forest products, autos, telecom, chemicals, metals and mining, technology and electronics. Over weights in S&P groups are advised in Basic Industries, Capital Goods, Capital Goods Technology, Telecom, Communications Technology and Energy. Under weights are advised in Consumer Staples, Consumer Cyclical, and Health Care. With a dampening of the overweight in economic sensitive groups, we have moved from an underweight in financials to a market weight.

Fixed Income:

With an improved outlook for equities, our posture on bonds remains less positive. Over the intermediate term, the yield on the long bond is likely to begin inching higher. Regarding the issue of duration, on a scale of 1 to 10, with 10 representing a maximum position in shorter term debt and 1 representing a maximum position in Long Treasuries, we would rate the current environment as a 9, suggesting an average maturity of 4-5 years.

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Analytic Systems Corp. 740 Broad Cove Rd. Hopkinton, NH 03229 603-746 6443