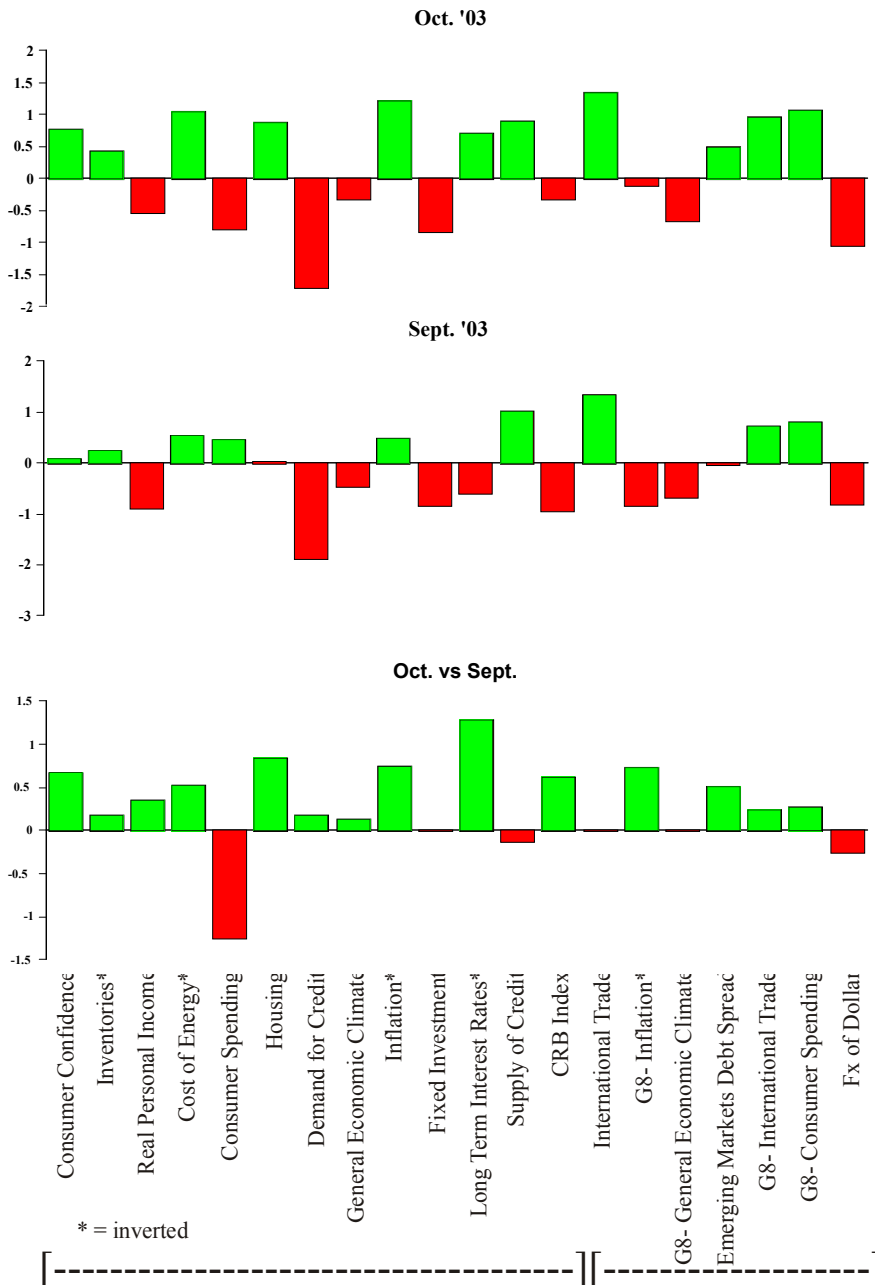


Some Defensive Moves Appear Appropriate October 21, 2003

The following charts show fact based trends in ASC Economic factors as of October 2003 as compared to September 2003 and changes expressed in standard deviations around the norm, hereinafter referred to as “units.”



ASC Factor indicators of future activity show that the US economy accelerated last month. Following are significant changes in trends last month expressed in standard deviations around the average rate of change or "units." Initial Unemployment Claims fell by .67 units. Real Income rose by .35 units. Cost of Energy fell by .53 units. Consumption fell by 1.24 units. Housing rose by .84 units. Inflation fell by .75 units. Long Term Rates fell by 1.29 units. The CRB Index rose by .63 units. G8 Inflation fell by .73 units. Productivity rose by .51 units. Almost all areas showed acceleration last month, the only exception was in consumption. Prior period strength made the comparison look weak. The next several quarters are likely to show some heady growth. What happens after that is still unclear. Summing up the ASC factors in October resulted in a score of 103.6 as compared to 97.8 in September. A score of 103.6 is consistent with GDP growth of around 7%.

Since the ASC factors are unitized (expressed in Z Scores that are normalized transforms resulting from subtracting each factor's average and dividing by its standard deviation), one can sum up to get a total factor score to compare with other historical periods. This month's score of 103.6 is close to the fourth quarter of 1999 in which real GDP growth was 7.1%.

As the Fed continues to ease to prevent deflation and the US dollar weakens, the risk of inflation returning to a 3% level is probably on the increase. The PPI over the last four months has shown increases of .3, .3, .4 and .4. Increases in the CPI have been .3, .3, .2, and .3. The year over year increase in the CPI stands at 2.2%. If this economy strengthens as it now appears and the Fed stays with its easy monetary policy, it runs the risk of getting behind the curve. With the election coming up in November '04, the window for tightening is getting

smaller and smaller. After what Chairman Greenspan did to George Bush senior in 1992, it is unlikely he will want to have a repeat performance in 2004. In the spring of '04, fears of Fed tightening are likely to surface.

Since the markets have discounted likely recovery progress over the next six to nine months, it appears appropriate to take a little off the table in technology. The two new groups that appear to be well positioned are energy and regional bell operating companies now referred to as Telecom Services. Energy is favored because of what is seen as a temporary weakness in energy prices because of higher inventory levels and comparatively low expectations for the group. The energy group moved up significantly from 13 to 8. Phones moved from 16 to 4. In a move to try to get more defensive in case the Fed gets behind the curve and the US dollar continues to weaken, we have moved from an overweight to a market weight in Capital Goods Technology and Consumer Discretionary and to an overweight in Energy and Telecom Services.

The lesson one should have learned over the last four year or so is to be anticipatory and not wait until a consensus is fully formed before acting. From that lesson it appears appropriate to gradually lock in some of the gains over the past year because the next few quarters are unlikely to continue to surprise on the upside. Consider the following: (1) We have an economy growing by over 7%; (2) The Fed is still in an easing mode with announced intentions to stay that course until well after economic growth has been shown; (3) The US dollar is threatening to break down again; (4) Interest rates are likely to continue rising and (5) The US election is coming up in Nov. '04. With the Fed's options narrowing, the likelihood of having perfect timing in dealing with inflation, the economy and the US

dollar is diminishing. In addition, the current mix of factors resembles the fourth quarter of 1999, and we all know what happened in 2000. One should also consider the benchmark weightings. There are certain levels that should remind us of past excesses. For example, when technology exceeded 45% in March of 2000, a warning bell should have gone off. Currently, energy at less than 6% of the index, a bell with a bearish tone for financials and a bullish tone for energy appears to be ringing. While the S&P 500 is not overly expensive at 20 times estimated 2004 earnings with 10 year bonds at 4.35%, it is not the level of interest rates that matters. It is the expected direction. Rising interest rates generally have a dampening effect on valuations except in unusual such as conditions that existed in early 2000.

We are not making a call for a long term bear market, but simply highlighting potential risks ahead that should be considered in particular after having participated in a huge run since Mar. '03. In locking in ones gains, one is taking less risk, yet remains prepared for opportunities as they arise. Hopefully, this phase will not last too long. We'll try to be early in our assessment when the coast is clear.

Investment Strategy

Equities:

Groups that are well positioned are weak dollar cyclicals such as papers, chemicals, regional phones and energy. Over weights in S&P groups are advised in Materials, Industrials, Telecom Services and Energy. Market weights are advised in Capital Goods Technology, Consumer Discretionary, Health Care and Utilities. Underweighted are Financials and Consumer Staples.

Fixed Income:

With a strengthening economy, a weaker US dollar, and somewhat higher inflation, one should still be cautious on bonds. Over the intermediate to longer term, the yield on the long bond is likely to be heading 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, the same as last month, suggesting an average maturity of 2-3 years.

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