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DHJ&A
DAVIS HAMILTON JACKSON & ASSOCIATES

An Inflection Point?

Trying to write something about the markets and the world as bombs are about to be dropped is obviously difficult and confusing. It is difficult because of the uncertainty surrounding the war. How long? How many killed? What will be the market's reaction if there are attacks on American or British soil? All these issues are being weighed in the market, which is reflected in the tremendous short term volatility that we have been seeing.

It is confusing because the short term psychology of the market may be masking an underlying change in trend. The stock market has found support and bounced dramatically three times in the last twelve months at a level of 800 or so on the S&P 500. At the same time, the ten year Treasury bond has failed to break to new yields lower than about 3.55% at the critical times last July and October, and early March of this year. If the shorter term uncertainties surrounding the war were not all too real, I would feel comfortable saying that the stock market is in the process of bottoming and Treasury bonds topping.

The question is particularly relevant for our balanced accounts. We have been running our equity exposure at the low end of ranges while allowing bond allocations to build beyond their long term targets. With the Presidential elections next year, both monetary and fiscal stimulus can be expected to support acceleration in the domestic economy. At the same time earnings expectations have been revised downward to more reasonable levels. This combination would ordinarily result in better than expected earnings for stocks next year. Such an outcome would suggest an increase in our current equity weighting in balanced accounts and a reduction in bonds.

We are possibly at such an inflection point, however, we feel that balanced accounts are inherently conservative by their very nature. Therefore, the short term headline risk is great enough that we are going to stay where we are for now.

Our next move will be to reduce bonds and increase equities in balanced accounts. The trigger will be valuation or sentiment. If stocks retreat back to 800 or below on the S&P 500, we will begin the process. Or, if Investors Intelligence shows more Bears than Bulls on stocks for a while, we will begin the reallocation process.

On a far more serious subject, I would love to write about my opinion as to why we are in this mess in the Middle East. I would especially like to express my opinion about our energy policies; however, this letter is not a forum for my opinion on such things. I do urge everyone to read the front page of The Wall Street Journal for March 18, 2003 regarding our dependence on imported oil. The truth is there.

God bless America and protect our young men and women in this struggle!

-Robert C. Davis, CFA
March 19, 2003

A copy of our Form ADV, Part II is available upon request.
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