CYPRESS
Asset Management, Inc.

Market Commentary

September 2002

Since the attack on the World Trade Center just over a year ago, the U.S. economy witnessed a bottom in corporate profits in the fourth quarter of 2001 followed by a significant rebound in GDP in the first quarter 2002. Economic growth has moderated but remains positive and on track for a sustainable, durable recovery. Stock market returns, however, have become disconnected from the improved economic fundamentals. The S&P 500 has declined almost 30% year to date in the face of decent economic growth, albeit at the lower end of the range for past recoveries. Disappointment with the pace of earnings growth during the year created selling pressure in the market, and that downward pressure increased dramatically when coupled with fears over corporate governance arising from malfeasance at a few companies. In addition to the highly publicized issue of corporate trust, the market appears to be reacting to the moderating pace of growth (clearly the economy is currently in a "soft spot"), the prospect for war in Iraq, and the associated "war premium" in the price of oil.

The result of this uncertain picture has been the worst bear market in 70 years, with equities declining roughly 50% from the March 2000 level. Stocks are as out of favor today as they were in favor in the late 1990's. However, we believe they may represent almost as compelling a return from current levels as, in hindsight, they did a risk to the downside in early 2000. Over the next six months we should know a lot more about the shape of things to come, but potential catalysts for a market rally include some combination of:

- Measurable improvement in the pace of economic growth
- Some resolution of the Iraq situation, through either war or diplomacy
- Oil below twenty-five dollars
- Tax cuts aimed at investors, particularly the elimination of the double taxation of dividends
- Low interest rates, low inflation, and potential further Fed easing
- Better than expected earnings growth in 2003

With the 10 year U.S. treasury bond yielding 3.7% and trading at 27 times its coupon rate, and the S&P trading at approximately 15 times 2003 consensus earnings, we believe that the stock market's valuation is both reasonable and relatively attractive when compared to bonds. Hopefully, the lessons and experiences of the last few years can be put to good use in a more prosperous future market environment. We will continue to work hard to grow your assets and to build and preserve your long term wealth.