

September 30, 2002

To our Clients and Friends,

The stock market does not like confusion, yet the US economy, of which the market is supposed to be a gauge, remains confusing indeed. Only three weeks ago, David Cote, the CEO of Honeywell, informed us in a press release, "It is clear that a broad economic recovery is not materializing." But at a chemical industry conference last week, Chad Holliday, the CEO of DuPont, stated, "Clearly we see an upturn in the economy." Different day, different sense of "clarity," and short-term traders took the conflicting messages as reason to sell first, debate later. Concerns about an impending showdown with Iraq, terrorism, employment and the pace of consumer spending also contributed to **stock market weakness** in the third quarter.

Bonds and higher-dividend stocks, which we are incorporating in portfolios, fared better than the broad equity market. We will continue to prudently and opportunistically shift portfolios toward a **yield orientation**, as we believe that yield, in the form of both stock dividends and bond interest, will be a key performance driver in the coming years. Also, like a certain famed investor from Nebraska, we are seeing interesting opportunities in the beaten-down energy and telecommunications segments, and may increase our equity holdings therein.

Despite the stock market's blues and zigzagging indicators, the evidence still points to a **slowly-but-unevenly improving economy**. Business and consumer confidence are both at relatively high levels, and earnings should continue the modest uptrend begun in the second quarter. Inflation is tame, though the red flags we mentioned in our last letter (rising input costs in some industries, deflationary trends in others) still wave. We are encouraged that Wall Street's forecasts now approach more rational levels, though we expect mixed economic messages and resultant volatility to continue for some time.

As our firm was **founded in September 1987**, we want to extend our sincere gratitude to those who have been our clients and our advocates for the past fifteen years, as well as to those who have come on board since. The present market is certainly among the toughest we have faced in that decade and a half, but like the October 1987 "crash" that met us at the outset, so too does the current environment create opportunities for future investment reward.

Sincerely yours,

Mitch Schlesinger  
Chief Investment Officer  
Fulton Breakefield Broenniman, LLC

P.S. Now you can learn more about our firm and access your Charles Schwab portfolio information at our updated web site, <http://fbb.wealthtrust.com>. We hope you find the site useful.