July 1, 2003

To our Clients and Friends,

Job cuts… weak consumer spending… industries saddled with debt…
vacant office buildings… a growing fear of deflation…

A picture of the US economy circa mid-2003? Not exactly, at least not with respect to the consumer.

Indeed, the **economic woes of the US** are a faint shadow of those faced by Germany, where all of the above combine with artificial budget constraints to produce an increasingly bleak economic portrait. And as Germany accounts for one-third of output from the twelve nations that have adopted the **euro** as currency, it becomes easy to understand why economic activity in the European Union remains punk.

It's no wonder, then, that the **US dollar has been falling** against the euro. Global bond and currency speculators are placing bets that interest rates in Europe have more room to fall than they do in the US, and are shifting capital to where they will get the most bang for their "buck." (Such investments are profitable in times of economic weakness because bond prices rise as interest rates fall.) Implicitly, they are also betting that growth in the US will not be robust even though **US interest rates may eventually head higher and inflation might accelerate** – a string of conditions that could warrant a further markdown of the dollar. Ultimately, a moderately weaker dollar is good for the economy, as it makes US exports more attractive to overseas purchasers.

Our concern is that the dollar could slide too far too quickly, causing capital to flee the US. However, at some point the weak dollar will become politically unpalatable to the Europeans, who want their own exports to appear more attractive. The European Union countries will ultimately be forced to sell euros and support the dollar, thereby preventing a rout. Already, a growing number of large **European firms are grumbling and groaning about the sliding dollar's impact** on sales, with some lobbying the EU to take protective measures. (Note that nothing awakens a sense of nationalism like declining revenue!) We therefore take issue with those who argue the weak greenback is a vote of "no confidence" in the US government and economy, and an indicator of Japan-like depression to come. To the contrary, the strong euro is, to us, an indicator of economic weakness and declining interest rates across the Atlantic, but perhaps only **lukewarm economic growth** (as we have been saying) here at home.

Despite the **stock market's recent rally led by technology shares**, we continue to believe that a diversified, defensively positioned portfolio will benefit investors over time. We favor companies with the ability to grow their earnings and cash flow, and prefer an average dividend at least in line with that of the overall market, if not substantially higher. Over the next few weeks we expect the perennial "summer doldrums" to take hold of the market, as investors move to digest recent gains and Wall Streeters begin their vacations. We will be using this opportunity to make a handful of changes to our holdings, in anticipation of **continued modest growth** through the remainder of the year.

Sincerely yours,

Mitch Schlesinger
Chief Investment Officer

P.S. FBB made the press this past quarter! We were quoted in the June 30th edition of ***Business Week*** regarding the outlook for the energy industry. Our take: right now, oil and gas companies offer a compelling investment trifecta – rising cash flow estimates, reasonable valuations and above-market dividend yields. And the newly passed tax break on dividends is icing on the cake, adding a real boost to taxable investors' returns. As we have already established appropriate portfolio weightings in this sector we will probably not make many related changes in client accounts, but are certainly on the lookout for similar opportunities.