



### Market Review

The returns for the quarter ended June 2001 were a relief after the experience of the previous 12 months. Domestic equities, particularly small cap and particularly value, have begun to recover some of their lost luster. REIT funds continue to show positive results as do short and intermediate term bond funds. International equities have not yet returned to favor, nor have high-yield bond funds.

Having different asset classes which are behaving differently at any given point in time is at the very heart of the idea of diversification. It is the differences in the timing of performance that creates the moderation of risk we seek through diversification.

The table below shows the returns through June 30, 2001 for selected basic investment asset classes. In most cases, the results below are an appropriate benchmark for the related mutual funds in your investment portfolio.

### Asset Class Performance

	Last 3 Months	Last 6 Months	Last 12 Months
U.S. 1 Yr Gvt TR	1.33	3.53	7.19
U.S. IT Gvt TR	-0.56	2.25	10.34
LB IT Gvt/Credit TR	0.67	4.09	11.04
LB 20 Yr Muni TR	0.59	2.52	11.42
Domestic Hi-Yld Corp TR	-2.28	3.93	-0.96
SB Non-U.S. 1+ Yr Gvt TR	-1.97	-6.78	-7.43
S&P 500 TR	5.85	-6.70	-14.83
S&P/BARRA 500 Growth TR	7.71	-11.04	-32.43
S&P/BARRA 500 Value TR	4.41	-2.41	7.93
U.S. Small Stk TR	21.83	22.73	6.87
Russell 2000 TR	14.38	6.94	0.65
BGI Small Cap Growth TR	16.12	-9.88	-23.53
BGI Small Cap Value TR	12.58	11.09	27.34
NAREIT-Equity TR	11.01	11.44	24.42
MSCI EAFE TR	-0.87	-14.40	-23.32
MSCI World ex U.S. TR	-0.61	-14.47	-23.56
S&P/IFCG Emerging TR	4.15	1.56	-22.38

### Tax Relief

The recently enacted Tax Relief Reconciliation Act of 2001 includes some favorable changes in the law, including income tax changes, education related tax breaks, retirement savings and pension reform, and estate tax relief.

Income tax rate cuts are to be phased in over a 5 year period, and heavily back-loaded to the last years

of the phase in. Once phased in, the top rate will be reduced from 39.6% to 35% and the 28% rate will be reduced to 25%. The "marriage penalty" relief provisions do not begin to go into effect until the year 2005, at which time the relief will consist of a larger standard deduction and an expansion of the 15% rate for those subject to the "penalty". Child-related tax relief includes increases in the Child Tax Credit, increases in the Adoption Credit, and increases in the Dependent Care Tax Credit and changes to the Credit for Employer-Provided Child Care Facilities.

Estate Tax relief includes eventual repeal (for one year - 2010) of the estate tax. Due to budget constraints in the legislation process, the repeal is scheduled to lapse in 2011, at which time the law is scheduled to return to its current state of exemptions, credits, deductions, etc. This constitutes estate tax complexity and uncertainty, rather than estate tax relief. Conjecture runs about equal on all sides of the question as to whether the repeal will be made permanent; or allowed to lapse; or somehow modified to land in between. Your guess is probably as good as mine.

Retirement Savings and Pension changes include significant increases to contribution limits for IRA's, Roth IRA's, defined benefit plans, defined contribution plans, SIMPLE plans, 403(b)'s and 401(k)'s. The increase limits start to ramp up in 2002 and escalate through 2006 to 2008, depending on the type of plan. Catch up IRA contributions are available for those who are age 50 and above and who otherwise meet the requirements for IRA contributions.

The education related tax changes include modifications to the college tuition deduction; increases in the contributions limits from (\$500 per year to \$2,000 per year) for education savings accounts; an enhanced student loan deduction; a permanent exclusion for employer-provided education assistance; and a change which allows all distributions from state-sponsored qualified tuition programs, and distributions from education IRA's for qualified higher education expenses to be made entirely free of taxes.

While virtually any relief from federal taxes is welcomed, the "back-end loading" of the rate cuts and the "sun-setting" of the estate tax repeal make these changes less exciting than they might otherwise be. Call your CPA or call us to discuss before taking any actions on the above tax change information.

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