

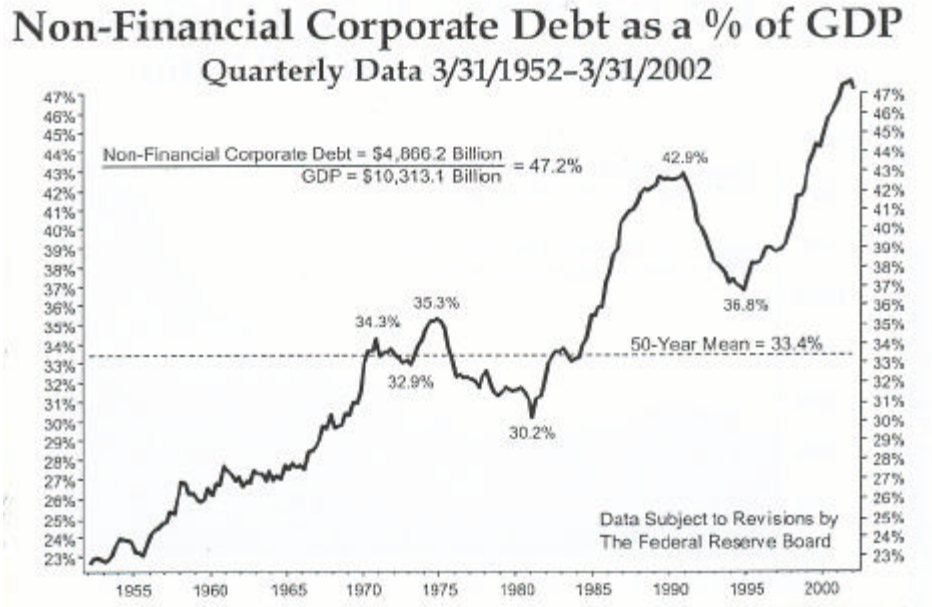
**Foundation Resource Management  
Quarterly Commentary  
4th Quarter 2002**

Many significant events that will shape the future economic and investment landscape took place during the fourth quarter of 2002. We will discuss these events as well as review 2002 in the remarks that follow, but first you should know that we do not view the past year any differently than you do. Down years make it more difficult to compound long-term returns at high rates. Even though most investors had rough going last year and our results were good on a relative basis, we are still dissatisfied with the numbers we posted in 2002.

Perhaps the most notable event in the closing months of 2002 was the unexpected Republican sweep of Congress. While we do not pretend to understand what this portends for future political trends, it is clear that certain fiscal policy changes are likely to be forthcoming. We are especially enthusiastic about the potential for the elimination of the double taxation on corporate profits. Removing the taxation on dividends at the investor level would go a long way toward strengthening the investor's hand in disciplining management's penchant for reckless reinvesting of profits/cash flow. It would also alter the investor's view of the source of expected returns on common stocks, raising the importance of dividends relative to capital appreciation. After all, approximately 40% of long-term common stock returns have come from dividends. We feel this emphasis on dividends would have played a major role in preventing the stock market bubble of the late '90s. Going forward, our stock portfolios should be enhanced by such a change, as we have always emphasized the importance of dividends, reflected by the fact that our portfolios yield considerably higher than does the S&P 500 Index. The amount of corporate earnings not paid out in dividends would serve to increase the investor's tax basis, thus reducing capital gains taxes upon the sale of the stock. The combination of these two features should increase the overall attractiveness of common stock investments.

President Bush is also seeking Congressional approval of an acceleration of the scheduled tax cuts for the remainder of this decade. We believe that in the long-term this is a pro-growth measure, and we are encouraged that there is talk of doing something for the economy beyond monetary stimulus. The tax cut strategy has been successfully employed by Democrats (Kennedy) and Republicans (Reagan) to foster economic growth. The short-term risk is that federal budget deficits will swell before the resulting increased government revenues result from the expansion in the economy. President Bush signaled that he was dissatisfied with the pace of economic growth when during the fourth quarter he replaced the Secretary of the Treasury as well as the White House Coordinator of Economic Policy. The President's plan for more rapid allowable depreciation charges for businesses should assist a depressed capital

spending sector. While corporate capital spending may have bottomed out in 2002, a strong recovery will probably be pre-empted by corporations' desires to retire debt, which is currently at an all time high as a percentage of GDP (see chart below).



Source: Ned Davis

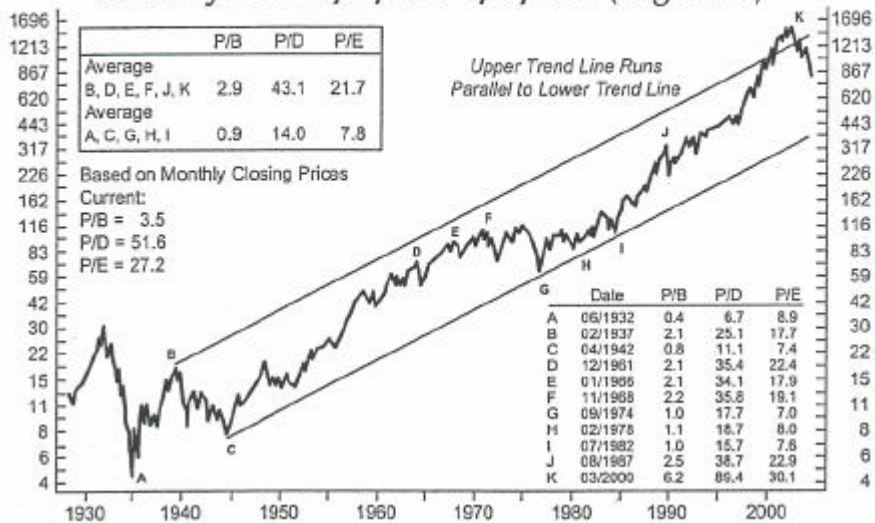
The fourth quarter saw several events related to the rapidly changing investing and financial reporting front. The SEC established a special accounting board to promulgate accounting rules for public companies. The embattled SEC Chairman, Harvey Pitt, named William Webster to head this effort. This selection immediately came under fire from various sources, as it seems Mr. Webster himself had chaired the audit committee of now defunct U.S. Technologies. Webster and then Pitt both exited the picture. On Wall Street, the Attorney General of the State of New York took it upon himself to ride to the rescue of individual investors. He expanded an earlier crusade against Merrill Lynch to several other large Wall Street investment firms, citing tainted research recommendations resulting from a conflict of interest favoring corporate underwriting clients. This was news to nobody. The settlement penalties that the firms have agreed to include the funding of various independent investment research groups. Details are sketchy, but apparently the plan is that in order for a Wall Street broker to make an investment recommendation touted by his firm, a research recommendation from the independent group will also have to be sent to the prospective investor. We are skeptical about the benefits of such a plan. Seventy years ago Congress passed the Glass-Steagall Act to curb the financing of speculation by separating the banking and brokerage businesses after the damage had been done. Similarly, numerous regulatory reform ideas are currently being floated now that the horse is out of the barn.

In November, the Federal Reserve Board reduced its targeted Fed Funds rate by 0.5%, bringing this rate to 1.25%. The size of this rate cut was generally unexpected, as was the Fed's jawboning in the days that followed to the effect that rates were not as low as they could go, and there were still other measures the Fed could take if Fed Funds were at 0%. This signal was sobering for even the most adamant proponents of monetary stimulus. As discussed in this space earlier, we feel that the rapid expansion of credit at current levels is having minimal positive influence and a large negative influence in the form of poor investment decisions from income-starved investors. We feel that the creation of money and credit by the Federal Reserve has been excessive and is inflationary. We are beginning to see signs of traditional inflation in the price of gold, oil, natural gas and some other commodities, though this has not been reflected in the stock prices of the producing companies. Residential real estate has risen significantly in most markets, aided by a financing and re-financing boom. When was the last time you remember hearing of someone being turned down for a home loan?

The saber rattling continued in the Middle East and tensions heightened on the Korean Peninsula when N. Korea admitted to being in violation of previous agreements to restrain nuclear development. At this juncture, lack of U.N. support is the only thing standing in the way of a U.S. led effort to oust Saddam Hussein in Iraq in order to halt his development of chemical, biological and nuclear weapons. It now appears that the situation may be escalating in a matter of a few weeks, as troop deployment has been stepped up.

A general rally in stocks in the fourth quarter was unable to halt the decline for the broad market in 2002, the third consecutive year for a decline in the S &P 500 Index. The total return for the S&P 500 was 8.4% for the quarter and -22.1% for the year. The following graph indicates that the stock market, as measured by the S&P 500 Index, re-entered a normal historical trading band during the past year, after going to an outlier point in the late 1990's. The points on the chart that are lettered represent times of peaks or troughs when fundamentals were very expensive or very cheap. These fundamentals are measured as price to book value (P/B), price to dividends (P/D) or price to earnings (P/E), and the values are listed in the table in the lower right corner for each inflection point. You can see that while the market has re-entered the long-term trading band, the index is still not cheap within the range (see chart on next page).

## Standard & Poor's 500 Stock Index – Trend Channel Monthly Data 12/31/1925–9/30/2002 (Log Scale)



Source: Fisher Capital Mgmt.

While our equity accounts outperformed the broader market and value stock benchmarks in 2002, there was little comfort given that the third quarter put us in a loss position for the year. We are not satisfied with our results of last year. We understand that our clients cannot live on relative performance. While we will not change our discipline, we will be reviewing how we might have done a better job in 2002, and hope to utilize the knowledge we gain going forward.

In our last quarterly comments, we mentioned that we were very pleased to have added Gail O'Donnell to our staff. What we didn't mention was the reason we were in desperate need of Gail's services. Abby McKelvy, our CFO, had earlier informed us of her intention of giving birth to a baby sometime around March 18, 2003. While she hasn't yet informed her husband, Damon, what the baby's name will be, we do know it is a little girl. We are very pleased that Abby is going to continue with us on a part time basis, and we have spent the last few months trying to adjust ourselves to a couple of months without her in the near future.

Operationally, Foundation Resource Management made great progress in the past year. We are utilizing technology more fully in the areas of trading, trade confirmation, account reconciliation, research, client reporting and performance measurement. We are always seeking improvement of our service to you and encourage you to contact us with your suggestions, as you have been the source of many of our improvements.

Finally, we would like to say to you, our valued clients and friends, how much we appreciate your support during the last year, a very challenging one for both of us. We sincerely wish for each and every one of you a healthy, happy and prosperous New Year.