

Asset Allocation

Stocks	65%
Bonds	10%
Cash	25%

LOOKING AHEAD

Stocks with higher Standard & Poor's quality rankings continue to underperform in 2004.

Through the market close on January 22, A+ stocks averaged a gain of slightly less than 1%, while C-ranked issues advanced 15.4%. In almost every case, lower-quality issues outpaced their betters. The one exception: B-ranked stocks did a bit better than B-. Such a situation is typical in the first year of a market advance. This bull, however, is now a year and a quarter old. That may indicate some frothiness in the current situation, another sign that a correction may be near. In any event, we believe that higher-quality stocks will begin to outperform in the not-too-distant future.

A Correction in the Cards?

The stock market is likely to continue its advance, but history suggests that a pullback is possible.

So far, 2004 has been good for the stock market. To some investors, conditions look right for a sustained advance. With the economy on the mend, that appears to be a logical conclusion.

The U.S. today has economic growth high enough to avoid recession, yet low enough to keep inflation in check. We estimate that real growth in gross domestic product should equal or surpass 4% in coming quarters (see chart). Though not as exciting as the 8.2% surge in GDP in the third quarter of 2003, it is, nonetheless, solid.

Corporate profits that now are being reported for the fourth quarter of 2003 appear likely to exceed analysts' expectations. Interest rates remain low, and given the recent weak payroll numbers and negligible inflation, Standard & Poor's economists do not expect a rate boost by the Fed until later this year. Consumers appear willing to spend, and expected larger tax refunds in 2004 should help keep the malls busy.

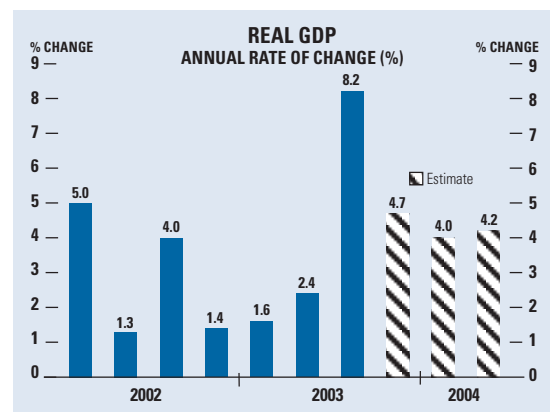
All of the data paint a picture that looks ideal for a continued market advance. But markets often upset the complacent. Mark Arbeter, S&P's chief technical analyst, notes that numerous short- and intermediate-term market tops have appeared in January. Seven of them have occurred since the beginning of 1990, including one each year

since 2000. Peaks took place in February in 1994 and 1997. Furthermore, says Arbeter, stocks entered a trading range early in the year on four other occasions since 1990. Taken all together, the early year peaks and trading ranges have occurred in 13 of the last 14 years.

As long-term market participants know, stocks seldom climb straight up without a pause. This year should be no exception. A 5% to 10% correction could occur at any time.

After that, however, we see the market continuing its advance. Overall, we now expect a full year gain of 11% in the S&P 500 and have raised our yearend target to 1230 from 1190. ♦

S&P's ECONOMIC PROJECTIONS



In the Limelight

BANK ONE posted a fourth-quarter profit of \$0.82 a share, before \$0.05 in one-time gains, vs. \$0.72 a year ago. For 2003, the profit was \$2.75 a share. The company, which has agreed to be acquired by **J.P. MORGAN CHASE**, pending approvals, showed continued strength in retail banking and credit card lending. We expect the deal, which would create the second-largest bank in the country, to close in the second quarter. We are maintaining our 2004 per-share earnings estimate of \$3.30. Because we think the shares (ONE, 51, NYSE ★★★★★; Quality ranking: A-) will move in tandem with J.P. Morgan Chase stock (JPM, 40, NYSE ★★★★★; Quality ranking: B), we advise accumulation.

JOHNSON & JOHNSON announced fourth-quarter operating earnings of \$0.57 a share, a 16.7% increase from the corresponding period of 2002. The diversified health care products company posted \$470 million in U.S. sales of its Cypher stent, beating our forecast by \$30 million. We believe the solid revenue increases reflect continuing market share gains that have allowed Johnson & Johnson to introduce more competitive pricing for its stent. The company's consumer business, which includes household brands like Tylenol and Band-Aid, also showed strong sales growth. For the full year, J&J had a profit of \$2.40 a share vs. \$2.16 for

2002. We are concerned that the Cypher stent will face increasing competition in 2004 as other medical device makers launch similar products. Our per-share earnings estimates are \$2.96 for 2004 and \$3.27 for 2005. The Master List shares (JNJ, 53, NYSE ★★★★★; Quality ranking: A+) trade below our 12-month target price of \$57 and are worth accumulating, in our opinion.

PROVIDIAN FINANCIAL posted fourth-quarter earnings of \$0.23 a share vs. \$0.04 a year earlier. The credit card company has been cleaning up its lending portfolio and working to control expenses. We believe both of those efforts helped to offset a narrowed net interest margin in the quarter. While we think Providian's turnaround strategy is working, the return to strong earnings growth may take longer than we previously expected. For 2004, we have reduced our per-share earnings estimate to \$0.90 from \$1.14. We see \$1.10 in 2005. Our 12-month target price is \$15, or 13.5 times our 2005 estimate. We view this as an appropriate discount because we think the company has weaker earnings potential than its peers. We continue to recommend accumulation of the somewhat volatile shares (PVN, 13, NYSE ★★★★★; Quality ranking: NR), based on our belief in Providian's turnaround potential. ♦

S&P Evaluation Symbols

STARS RANKINGS

Our evaluation of the short-term (six- to 12-month) appreciation potential of stocks discussed is indicated by STARS:

- ★★★★★ Buy—Expected to be among the best performers over the next 12 months.
- ★★★★ Accumulate—Expected to be an above-average performer.
- ★★★ Hold—Expected to be an average performer.
- ★★ Avoid—Likely to be a below-average performer.
- ★ Sell—Expected to be a well-below-average performer.
- NR Not ranked.

QUALITY RANKINGS

Our appraisals of the growth and stability of earnings and dividends over the past 10 years for STARS and other companies are indicated by quality rankings:

- A+ Highest B+ Average C Lowest
- A High B Below Avg. D In reorganization
- A- Above Avg. B- Low NR Not Ranked

Quality rankings are not intended to predict stock price movements.

Standard & Poor's The Outlook

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The McGraw-Hill Companies

MARKET MEASURES

S&P Indexes	LAST WEEK'S CLOSE	LAST WEEK	% CHANGE YEAR TO DATE	PAST 52 WEEKS	2003-04 RANGE		— OPERATING EARNINGS† —			— P/E RATIO† —			INDIC. ANNUAL DIV.	% YIELD
					HIGH	LOW	LATEST 12 MONTHS	EST. 2003	EST. 2004	CUR- RENT	2003-04 RANGE* HIGH	LOW		
500 Composite	1141.55	0.2	2.7	32.5	1147.62	800.73	54.43	54.43	61.85	18.46	18.55	12.95	18.35	1.61
MidCap 400	598.85	0.9	4.0	43.2	600.62	385.18	26.39	26.39	31.99	18.72	18.78	12.04	6.26	1.05
SmallCap 600	●285.09	1.8	5.4	49.2	285.09	173.60	11.58	11.58	14.46	19.72	19.72	12.01	2.17	0.76
SuperComposite 1500	254.43	0.3	2.9	33.9	255.65	176.40	11.98	11.98	13.74	18.52	18.61	12.84	3.89	1.53
Dow Jones Industrials	10568.29	-0.3	1.1	30.0	10623.62	7524.06	521.94	521.94	602.58	17.54	17.63	12.49	212.74	2.01
Nasdaq Composite	2123.87	-0.8	6.0	58.2	2147.98	1271.47	...	...	...	...	...	...	...	...
S&P Global 1200	1179.32	0.8	3.3	36.8	1185.03	785.79	...	...	...	...	...	...	...	...
BBB Indus. Bond Yield (10-yr.)	5.64	-0.40 [◇]	-0.56 [◇]	-1.18 [◇]	7.86	5.64	...	...	...	...	...	...	...	...

*Based on daily closing indexes. †Based on estimated 2004 earnings. ‡Before special factors. ◇Actual change in yield (not percentage change). ●New high.

STARS Status

Changes in S&P analysts' STARS rankings for January 19 through January 23.

The prices that follow the ticker symbols are as of Friday, January 23.

RISING STARS

NEW RANKING

OLD RANKING

★★★★★

★★★★★

AirTran Holdings/AAI, 14—This discount airline's shares dropped more than 30% after reaching a 52-week high in October and now trade at a discount to peers. We advise purchase.

Xilinx Inc./XLNX, 42—This maker of programmable logic devices sees strong demand in all of its markets, and we raised our earnings estimates for fiscal 2004, 2005 and 2006 (ending March).

★★★★★

★★★

***Ameritrade Holding/AMTD**, 16—This online broker's December-quarter earnings beat our estimate, and we expect the continued strength in the stock market and the company's rising market share to lead to a higher stock price.

★★★★★

★★★

Apogent Technologies/AOT, 26—In our view, per-share earnings will improve for this maker of research laboratory supplies as it continues to buy back shares and restructure its debt.

Burlington Resources/BR, 60—We expect oil and gas prices to remain high through 2004, which should benefit this energy company as its production increases, in our view.

Carpenter Technology/CRS, 30—This maker of specialty metals reported solid results for the December quarter, and we have raised our earnings estimate and expect a substantial increase in free cash flow.

eBay Inc./EBAY, 68—This e-commerce company's revenues were up sharply in the fourth quarter, and its earnings beat our forecast. We have raised our earnings estimate and target price and now expect the shares to outperform.

Forest Laboratories/FRX, 75—December-quarter earnings beat our forecast for this drug maker, and it is our belief that new products will help the company increase sales.

Harris Corp./HRS, 49—We believe sales will continue to improve for this maker of radio and microwave communications equipment, and we have raised our earnings estimate to \$2 from \$1.70.

Health Management Associates/HMA, 25—Revenue growth and cost controls should, in our view, help this hospital company continue to increase its earnings.

Hudson United Bancorp/HU, 35—In our opinion, this banking company's focus on its commercial customers will help it boost earnings.

KLATencor/KLAC, 61—This semiconductor equipment supplier's results for the December quarter beat our forecasts, and we have raised our target price for the stock to \$72 from \$60.

(continued on page 4)

FIVE-STARS STOCKS IN THE NEWS

AFFILIATED COMPUTER SERVICES, an outsourcing and data processing company, posted December-quarter earnings of \$0.64 a share, before one-time items, vs. \$0.53 a year earlier. In November, the company sold most of its federal business to Lockheed Martin and acquired Lockheed's commercial information technology business. Revenues for Affiliated rose 10%, or 26% excluding the divested federal government business. New business contracts increased 11% from the previous quarter, and the new business pipeline remains in excess of \$1 billion in annualized revenue. We have raised our earnings estimate to \$2.66 from \$2.63 a share for fiscal 2004 (ending June), and we see \$3.16 for fiscal 2005. In 2003, the company posted earnings of \$2.20 a share. The stock trades at a discount to the S&P MidCap 400 on a P/E-to-growth basis. Since the Master List shares (ACS, 55, NYSE) trade well below our 12-month target price of \$67, based on discounted cash flow and relative P/E-to-growth analyses, we recommend purchase.

CITIGROUP reported that its fourth-quarter profit nearly doubled, to \$0.91 a share from \$0.47 a year earlier. The financial services giant reported \$351 million in losses related to Parmalat, the bankrupt Italian dairy company that has been accused of fraud. But those losses were partially offset by \$200 million from its reserves and by overall revenue growth of 13%, mostly in the credit card, investment management and capital markets units. For 2003, Citi had earnings of \$3.42 a share. Our 2004 per-share earnings estimate remains at \$3.87, and we see \$4.41 for 2005. The company also announced it would boost its quarterly dividend by 14% to \$0.40 a share. We recommend buying the shares (C, 51, NYSE) and have raised our 12-month target price to \$60 from \$57, calculated by applying the historical average P/E of 13.5 to our 2005 estimate.

(continued on page 4)

All of the views expressed in this research report accurately reflect the research analysts' personal views regarding any and all of the subject securities or issuers. No part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

STARS Status *(continued from page 3)*

RISING STARS *(CONT'D)*

NEW RANKING	OLD RANKING
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★★★★	★★★
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PacifiCare Health Systems/PHS, 34—We believe this managed care provider will benefit from new Medicare HMO reimbursement rates.

Respironics Inc./RESP, 48—In our view, the shares of this medical device maker should outperform, given its December-quarter revenue and gross margin gains that exceeded our forecasts.

Tidewater Inc./TDW, 33—We expect lower costs and increased day rates and utilization to boost earnings for this supplier of services to the offshore drilling industry.

★★★	★★
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Boston Private Financial Holdings/BPFH, 25—In our view, this bank holding company's asset management operations are improving, but the shares appear fairly valued.

Independence Community Bank/ICBC, 35; Staten Island Bancorp/SIB, 23—We raised our earnings outlook for ICBC, which had already announced its plans to acquire SIB, following ICBC's solid fourth quarter. The shares of both companies now appear fairly valued to us.

MDU Resources Group/MDU, 24—This utility company has raised its earnings guidance, and we now expect the shares to perform in line with peers.

Northern Trust Corp./NTRS, 50—The strong stock market has helped this trust company increase its fee income, but its shares trade close to our 12-month target price.

People's Energy/PGL, 43—This diversified energy company's unregulated operations performed better than we had expected during the December quarter, but we do not foresee the shares outperforming.

Snap-on Inc./SNA, 31—Although this tool maker warned that its fourth-quarter earnings would fall short of forecasts, we expect improving demand for its products to help results in 2004. The stock trades in line with its historical P/E range.

Union Planters/UPC, 31—We think the current stock price fully reflects Regions Financial's proposed deal to acquire the company.

★★	★
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Starbucks Corp./SBUX, 36—We raised our target price to \$30 from \$26 for the shares of this chain of coffee shops, following the company's solid December-quarter results. But the shares still trade at a premium to the S&P 500 that we do not believe is warranted.

FALLING STARS

★★★★	★★★★★
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Compass Bancshares/CBSS, 39—We believe this bank's net interest margin will likely narrow, possibly hindering revenue growth in the first half of 2004. Still, the shares offer above-average appreciation potential, in our opinion.

FIVE-STARS STOCKS IN THE NEWS *(CONT'D)*

LAM RESEARCH announced December-quarter earnings of \$0.07 a share, excluding \$0.03 in one-time charges, vs. \$0.02 a year earlier. The semiconductor equipment company posted a 4% sales decline in the quarter, though orders rose 28% from the previous quarter. The company expects a further 25% rise in orders in the March quarter. Based on the strength in orders, we have raised our earnings estimate by \$0.08 to \$0.45 a share for fiscal 2004 (ending June) and by \$0.25 to \$1.15 a share for fiscal 2005. In fiscal 2003, Lam reported a loss of \$0.06 a share. Chip equipment makers are cyclical stocks, and we are expecting the cycle to peak in late 2005 or early 2006. In the last cycle peak, LAM earned \$1.88 a share. While we do not expect revenues to be as high during the next boom cycle, we believe LAM could achieve per-share earnings of \$1.80. We recommend buying the shares (LRCX, 31, Nasdaq) and have raised our target price to \$40 from \$32, representing 22 times our cycle-peak estimate vs. historical industry cycle-peak multiples of 15 to 30.

FALLING STARS *(CONT'D)*

NEW RANKING	OLD RANKING
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★★★	★★★★★
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AT&T Wireless/AWE, 11—This wireless carrier lost \$0.03 per share in the fourth quarter, while we expected a profit of \$0.02 per share. We would still hold the shares, since we believe the company is a takeover candidate.

Aventis/AVE, 73—We think this drug maker may see increasing competition from generics. However, the company boasts a strong pipeline, and we would hold the shares.

Black Box Corp./BBOX, 53—Networking products company's shares are trading at a lofty P/E multiple vs. our growth outlook.

Cooper Industries/CBE, 58—This diversified manufacturer's shares have climbed roughly 75% in the past year, and in our view, are now appropriately valued.

Federal National Mortgage Association/FNM, 78—We believe this mortgage giant, known as Fannie Mae, is facing greater-than-usual interest rate and political risk. With the shares approaching our 12-month target price, we would not add to positions.

Keithley Instruments/KEI, 24—The shares of this supplier of electronic test and measurement equipment are up nearly 40% in the past month, and we would no longer add to holdings.

(continued on page 5)

STARS Status *(continued from page 4)*

FALLING STARS *(CONT'D)*

NEW RANKING

OLD RANKING

★★★

Noble Corp./NE, 37—We would not add to holdings of this offshore drilling contractor, given the weakening demand for its services in domestic markets.

Occidental Petroleum/OXY, 45—While this oil and gas producer's financials are improving steadily, in our view, its shares have gained more than 50% in the last 12 months and we see limited opportunity for capital gains.

Sara Lee/SLE, 20—We believe rising costs, weak demand in the food service market and competitive pressures will limit this consumer products company's earnings growth for the next two quarters.

Sovereign Bancorp/SOV, 24—This banking company's shares have risen close to our target price.

Surmodics Inc./SRDX, 21—Royalties were less than we had expected in the December quarter for this maker of coatings used in stents, and we have reduced our forecast for royalties in fiscal 2004 (ending September).

Union Pacific/UNP, 67—We expect higher fuel costs to limit this railroad's earnings growth, and we no longer expect the shares to outperform.

U.S. Physical Therapy/USPH, 14—We think this operator of physical therapy clinics may need to revamp its local marketing strategies to attract more patients to its clinics. The shares are fairly valued, in our opinion.

★★

Cabot Microelectronics/CCMP, 50—We see this semiconductor equipment supplier facing increased competition in some key markets.

El Paso Corp./EP, 9.84—After their recent rise, the shares of this diversified energy company are trading above our 12-month target price.

Metris Cos./MXT, 6.23—We believe the recent gains in this consumer lender's shares are unwarranted, given the continuing investigation into its accounting practices by the SEC.

★★★★

NEW STARS

★★★

Commercial Net Lease Realty Inc./NNN, 18—We expect this REIT to benefit from strong sales among its retail tenants, but its shares already trade near our target price.

Playtex Products Inc./PYX, 8.30—We expect a modest improvement in sales and earnings for this consumer goods company. But, we believe the gains are already reflected in the share price.

★★

Ferro Corp./FOE, 27—The shares of this maker of specialty coatings and chemicals trade at a premium to those of peers on a P/E basis.

DROPPED FROM STARS

Midway Games/MWY (last ranking: ★★★)—Dropped to make room for stocks of more interest to investors.

***NOTE: Ameritrade Holding** was upgraded from ★★★ to ★★★★ on January 20 and to ★★★★★ on January 23.

NAME/SYMBOL CHANGES

NEW

OLD

Aqua America Inc./WTR

Philadelphia Suburban Corp./PSC

PLATINUM PORTFOLIO CHANGES

Addition: Intel Corp. (INTC, 32.61, Nasdaq)—STARS: 5, Fair Value: 5 (Fair Value Price: \$35.30).

NOTE: The price listed in the Platinum Portfolio changes is the closing price from the day the stock was added to the portfolio.

THE MARKET LAST WEEK

DAILY STOCK PRICE INDEXES

	JAN 23	JAN 22	JAN 21	JAN 20	JAN 19	JAN 16
500 COMPOSITE	H	1150.31	1150.51	1149.21	1142.93	1139.83
	L	1136.85	1143.01	1134.62	1135.40	H 1132.05
	C	1141.55	1143.94	1147.62	1138.77	O 1139.83
MIDCAP 400	H	602.72	603.43	601.72	598.70	I 594.05
	L	597.30	597.73	595.82	593.76	L 589.44
	C	598.85	598.21	●600.62	598.70	D 593.76
SMALLCAP 600	H	285.09	285.49	284.52	283.34	A 281.47
	L	281.89	282.31	281.58	280.15	D 279.40
	C	●285.09	282.42	284.18	283.34	Y 280.15
SUPERCOMPOSITE (1500)	H	256.26	256.32	256.00	254.52	A 253.79
	L	253.36	254.63	252.86	252.89	Y 252.04
	C	254.43	254.78	255.65	253.82	Y 253.74

WEEKLY BOND YIELDS AS OF JANUARY 20, 2004

MATURITY (YRS.)	TREA-SURIES	INDUSTRIALS					ELECTRIC		
		AAA	AA	A	BBB	BB+	BB/BB-	A	BBB
5	3.04	3.62	3.68	3.81	4.56	5.32	6.20	3.98	4.27
10	4.06	4.85	4.88	4.99	5.64	6.52	7.20	5.32	5.43
15	4.31	5.22	5.24	5.34	5.93	6.87	NA	5.77	5.77
20	4.56	5.56	5.57	5.66	6.21	NA	NA	6.15	NA
25	4.82	5.88	5.88	5.97	NA	NA	NA	NA	NA

Yields are compiled by Standard & Poor's Global Fixed Income Research. ●New high.

Media Stocks Look Good in Eventful Year

The year ahead brings a U.S. presidential election and the Olympics, two big sources of ad revenues for television and radio stations, as well as newspapers.

If history is any guide, 2004 could be good for media stocks. We believe advertising expenditures should be much higher this year, not only because of a generally improving world economy, but also because of the U.S. presidential election and the Summer Olympics. In short, the year should bring what media executives refer to as “the biennial boost” — the upswing in ad spending that occurs every other year to correspond with the elections and the Olympics.

The presidential election usually boosts ad spending even higher than in mid-term election years. The primary beneficiaries are television and radio stations, as well as newspapers and, to a lesser extent, magazines.

While worldwide ad spending rose only about 2.5% in 2002 and about 4% last year, we believe 2004 should see a big increase in spending. Universal McCann, one of the world’s largest ad agencies, expects a 6.9% increase in ad spending in 2004, bringing total worldwide ad spending to \$266.4 billion. If these projections prove correct, it would be a record year for advertising, beating out the \$250 billion spent in 2000, the last time both a presidential election and the Olympics took place. That includes spending for online advertising, which Pricewaterhouse-Coopers predicts will reach \$7 billion next year, up 6% from 2003.

Auto makers have been and should continue to be the biggest ad spenders, in our view. The major automobile manufacturers are planning to introduce several new models this year, which will support ad spending. The auto industry spent \$2.7 billion in advertising in the first nine months of 2003, according to Media Intel-

ligence, a research firm, and is likely to boost that spending by anywhere from 3% to 10% this year. Many auto manufacturers have already locked in ad time for the broadcasts of the Summer Olympics in Athens. NBC, the unit of General Electric that has the broadcast rights to the games, said it has already sold two-thirds of the available ad time.

We believe political advertising will be a strong category this year, especially because of the crowded field of presidential candidates. This year’s political races could generate \$1.6 billion of TV advertising for local TV stations nationwide. National TV, cable and newspapers should also see a significant pickup in political ad spending. The bulk of political ad spending — 60% to 70%, we estimate — goes to local TV, followed by national TV, direct mail, radio, newspaper and cable TV. The cable industry estimates that politicians allocated only 7% of their overall TV budgets to cable in 2002.

Because of a federal law imposing certain price breaks for political advertising just before an election, TV stations may not get the highest fees for campaign ads. The law says broadcasters must sell air time for political ads at their “lowest unit charge.” However, the law does not require that broadcasters sell the best times, for example, during news broadcasts or prime time shows, at these low prices. So, many candidates will pay up to get their ads on the air at times when more potential voters will see them. In addition, the strong demand from candidates and special interest groups for air time often allows TV stations to charge higher prices to other advertisers.

It’s simple supply and demand. And while candidates can get price breaks, special interest groups, like the National Rifle Association or National Organization for Women, do not get price breaks for their issue ads.

While the presidential election and the Olympics are two important catalysts for strong ad growth this year, they are not the only factors. We believe that the improving economy, combined with renewed consumer confidence and what we see as the winding down of the corporate scandals that have rocked Wall Street for the past few years, should also make businesses more confident about committing more dollars to advertising in 2004. In 2003, consumer spending rose faster than at any time since 1967. With the labor markets now apparently improving, we think consumer spending could move even higher in 2004.

The healthier labor market could help newspapers, which get a large portion of their ad dollars from classified ads, including help-wanted ads.

We expect a 5.1% rise in ad spending, to \$47.38 billion, in 2004. Classified ad spending in newspapers in 2004 should rise about 1%, to \$16.03 billion, in our view. We see spending by retailers, the largest group of ad buyers for newspapers, rising about 4.5%, to \$22.38 billion. We expect newspaper advertising by national marketers to advance 13%, to \$8.97 billion.

These forecasts should bode well for publicly traded newspaper publishers. This group was a laggard in 2003, as the S&P publishing & printing index rose 16.3% vs. a 26.4% rise for the S&P 500. But in recent months, publishers have been performing roughly in

FAVORED MEDIA STOCKS

	STARS RANK	QUALITY RANK	*S&P INDEX	-EARN. PER SH. (\$) E2003	-E2004	INDIC. DIVD.	PRICE RANGE 2003-2004 HIGH LOW	CUR-RENT PRICE	†P/E RATIO	YIELD %	COMMENTS
Belo Corp./BLC	4	B+	Mid	1.12	1.44	0.38	28.79 - 18.72	27	18.8	1.4	The publisher of the <i>Dallas Morning News</i> owns several other newspapers and television stations, all of which we expect to benefit from stepped-up ad spending in 2004. We see revenues increasing about 10% in 2004, while per-share earnings rise about 30%.
Comcast/CMCSA	5	C	500	d0.14	0.27	None	36.13 - 24.47	36	133.3	Nil	With the November 2002 acquisition of AT&T Broadband, Comcast became the largest cable TV system operator in the U.S. We think the company will benefit from economies of scale, which should boost free cash flow and per-share earnings.
Dow Jones/DJ	4	B	500	0.95	1.50	1.00	53.62 - 33.25	53	35.3	1.9	We forecast an increase of about 9.5% in advertising revenues in 2004 for the publisher of <i>The Wall Street Journal</i> , following a rise of about 2% in 2003. The company cut its staff last year, and we believe that move, combined with continuing cost controls, will contribute to better margins.
● Gannett Co./GCI	5	A	500	4.48	5.30	1.00	90.48 - 66.70	86	16.2	1.2	The diversified media company's television ad revenues fell in 2003 because of the absence of political advertising, a situation that we think should turn around in this election year. Since we are forecasting revenue and profit gains in 2004, we consider the shares attractive for purchase.
Meredith Corp./MDP	4	A-	500	¹ A1.78	¹ 2.10	0.38	50.46 - 47.09	50	23.8	0.8	The publisher of magazines like <i>Better Homes and Gardens</i> and <i>American Baby</i> should benefit from demographic trends like family formation and home-buying, in our view. We expect the company's per-share earnings growth to average in the mid- to high teens over the next five years, and advise accumulation.
News Corp./NWS	4	NR	...	¹ A0.92	¹ 1.17	0.07	38.50 - 22.41	38	32.5	0.2	This media conglomerate completed its acquisition of 34% of Hughes Electronics, operator of DirecTV, the largest U.S. satellite broadcaster, late last year. We think the purchase positions News Corp. for significant long-term growth because of its truly global distribution and content platform.
Time Warner/TWX	4	C	500	0.45	0.53	None	19.18 - 9.90	19	35.8	Nil	We expect this media conglomerate to gain from the increased use of cable modem and advanced digital video services, improving sales of DVDs, strong advertising and affiliate revenues and a rebound in the TV production business. We see the company's revenues rising in the low double digits, while its per-share earnings rise about 18% in 2004.
Tribune Co./TRB	4	A-	500	2.13	2.50	0.44	51.94 - 41.60	50	20.0	0.9	The only media company operating newspapers and television stations in the nation's three largest markets, Tribune is in an ideal position to attract advertising dollars in 2004, in our view. The company's media properties are in 18 of the country's 30 largest markets, and its television stations reach 80% of U.S. households with TVs. We think political candidates will tap these outlets to place their messages in 2004.
Viacom Inc./VIA.B	5	B-	500	1.42	1.66	0.24	49.75 - 33.11	43	25.9	0.6	The company behind CBS television, Infinity radio and Paramount studios is likely to benefit from the expected cyclical advertising upturn in 2004, and we think its earnings will increase by 17%. We have a 12-month target price of \$50, based on discounted cash flow analysis.
Washington Post/WPO	4	B+	Mid	20.12	33.20	7.00	866.98 - 650.03	839	25.3	0.8	We like this diversified publishing and education company for its attractive growth potential in a recovering economy. The company has a long history of strong earnings growth and rising asset values on its many properties.

● Master List issue. *500-In S&P 500 Index; Mid-In S&P MidCap 400 Index; E-Estimated. †Based on estimated 2004 earnings. ¹Year ending June.

line with the general markets as investors adjusted their portfolios for the expected advertising rebound in 2004. We are looking for steady improvements in revenue and earnings growth in the coming quarters, and we expect stock performance to follow suit.

While advertising is clearly a huge part of the picture, circulation gains are also playing a part in the newspaper group's recovery. We believe newspaper circulation revenues probably rose about 2% in 2003, after a 4% gain in 2002. We expect another 2% rise in 2004. Newspaper publishers are keeping a lid on costs by trimming staff wherever feasible, keeping pay increases low and seeking ways to

reduce or limit the cost of benefits. Paper prices have dropped significantly and should stay low, in our view, as consumption is likely to remain soft.

Our favorite newspaper publishers, for the most part, are diversified media companies, with television and cable stations as well as Internet properties. We believe new rules allowing one company to own broadcast and newspaper properties in a single market should bring a welcome boost to the industry. However, the regulatory environment remains clouded by uncertainties. While the Federal Communications Commission voted for less restrictive ownership rules, legislative and judicial pro-

ceedings against the FCC decision continue. Until the rules are clarified, we believe this stalemate on deregulation will dampen the climate for merger and acquisition activity, which has been a key factor in strong stock performance in recent years. While we cannot predict regulatory changes, we do believe that the most successful media players in the future will be those that build a broad platform for content and distribution.

The stocks of 10 media companies, ranked four or five STARS by our analysts for expected outperformance over the next 12 months, offer attractive investment opportunities, in our view. They are listed in the table above. ❖

Industries with Strong Charts

We identify two industries with technical indicators that suggest the potential for outperformance, and we look at a favored stock from each industry.

After the strong market showing in 2003, we believe there are still areas that offer particularly good prospects for continued capital gains. Our analysis of the recent market behavior of certain industries and stocks suggests some investment opportunities.

We found particularly positive trends in the charts for S&P's communications equipment and oil & gas: exploration & production indices. A favored stock from each of those industries is appraised below.

The charts for both industry groups show that they established bases for nearly three years following the bursting of the market bubble in early 2000.

The communications equipment index, which is made up of 14 companies, drifted sideways during most of the last three years. In technical terms, this was a massive basing process, and it set the stage for a trend reversal. While the index is still trading below the top of its base, which is 168, and has not yet broken

above the top of its base, it has put in a series of higher highs and higher lows since last May.

There have also been positive volume flows into the index, which suggests that institutional demand for this group is getting stronger.

The action of the 10- and 40-week exponential moving averages for the index both point to continued gains. In July 2003, the 10-week average broke above the 40-week average, a move that is known as a bullish crossover. Since May 2003, the index has traded above both moving averages.

According to Mark Arbeter,

chief technical analyst at S&P, the index's climb above these moving averages provides additional support for the bullish trend.

A similar trading pattern has also developed with S&P's oil & gas: exploration & production index, which recently broke out of a very large base established from mid-2001 to November 2003 and, in our view, appears headed for further gains. The index consists of 20 exploration and production companies, and its breakout was accompanied by heavy volume, which confirmed the price strength. In December 2002, there was a bullish crossover of the 10-week exponential moving average above the 40-week average.

In addition, we think the industry chart is a good omen for Evergreen Resources, the E&P company discussed below. The chart illustrates that institutions are bullish on the entire group, which we view as a powerful indicator of potential price gains in the index components.

"These are the best scenarios," Arbeter says. "You want a stock that is doing well in an industry that is performing well. This suggests that the mutual funds are bullish on the industry fundamentals. It's another arrow in your quiver in the stock selection process."

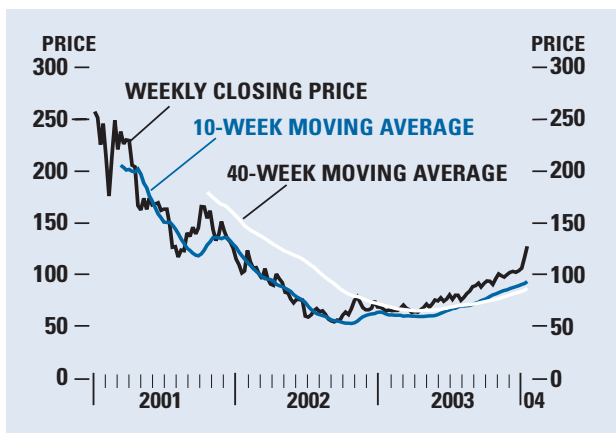
The stocks appraised here both carry S&P's highest ranking of five STARS for expected outperformance over the coming year.

CISCO SYSTEMS INC.

CSCO, 28, Nasdaq ★★★★★; Quality ranking: B+

The shares of this supplier of networking equipment significantly

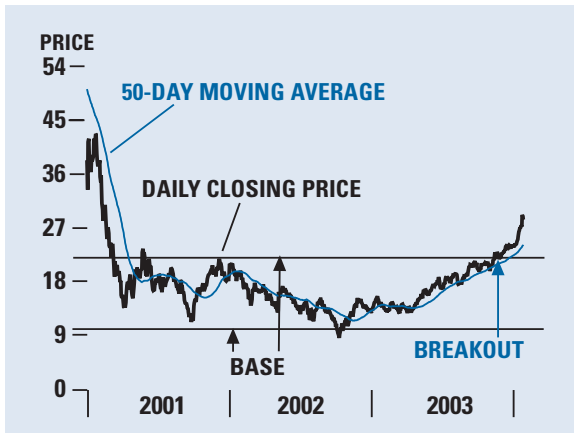
COMMUNICATIONS EQUIPMENT INDEX



OIL & GAS: EXPLORATION & PRODUCTION INDEX



CISCO SYSTEMS INC. (CSCO)



outperformed the market in 2003, surging 88% vs. a 26.4% rise in the S&P 500. Since Cisco's shares still trade below what we believe is their intrinsic value, based on discounted cash flow and price-to-sales analyses, we think they should continue to outperform. From a longer-term technical perspective, the stock recently broke out from a major basing pattern, where it traded between \$10 and \$22 for most of the last three years. In early December 2003, the stock broke above \$22, which was the top of the base. This reversed the stock's long-term trend to bullish from neutral. It also continued the upward move that began last April, with the stock trading in a well-defined, bullish channel. The shares have been supported by their 50-day exponential moving average during this entire move, which indicates institutional demand on each pullback. Trading volume has also increased on days when the shares have gained and declined on days when they have fallen. This, too, confirms the recent bullishness, in our view. We believe Cisco used the networking industry's long slump to strengthen its competitive position and gain market share in switches and routers. The company also amassed a cash and investments horde of about \$20 billion. Its

discipline in controlling inventory and collecting receivables has helped it generate free cash flow of \$300 million to \$500 million per month for the past two years. We project 12% revenue growth for fiscal 2004 (ending July), compared with relatively flat revenues in fiscal 2003. We are also encouraged by the recent signs of

continued growth throughout the networking equipment industry. In our opinion, Cisco's broad product portfolio and strong brand recognition have positioned it to continue to outperform its peers as the industry recovers. We expect Cisco to post fiscal 2004 per-share operating earnings of \$0.69, a gain of nearly 16% from fiscal 2003, and we advise purchase for potentially superior capital appreciation.

EVERGREEN RESOURCES INC.

EVG, 35, NYSE ★★★★★; Quality ranking: B-

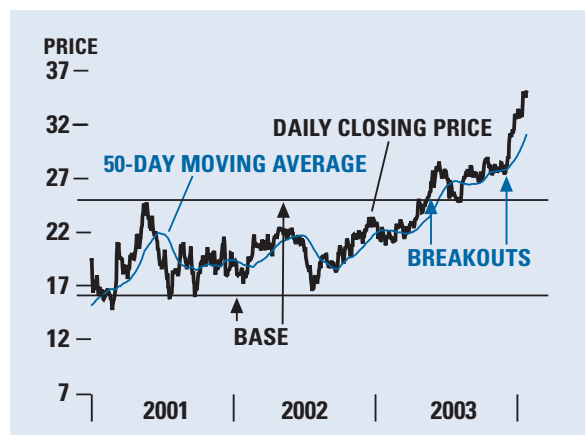
This natural gas exploration & production company drills for almost all of its gas in coal bed methane properties in Colorado. But Evergreen Resources is starting to drill at recently acquired properties in eastern Kansas, Utah and Canada. The shares put in a base between \$16 and \$25 during 2001, 2002 and part of 2003, and then bullishly broke out of this base in May 2003. After that, they formed another base between \$25 and \$29. In our view, the formation of a base on top of a base usually has bullish impli-

cations. The shares then broke sharply higher in early December 2003 and have been in an upward trend since then. The volume patterns have also been bullish, with large up days accompanied by higher-than-average volume.

Another positive indicator, in our view, is the high level of short interest held against the shares. As of January 15, the short interest ratio was a very high 10.1. This means that it would take more than 10 days for the short-sellers to cover their positions, assuming that trading volume stayed at the average daily level. This potential demand could add fuel to the current advance, in our opinion.

Looking at the fundamentals, we believe the stock's strength has been based on two factors. First, since the mid-1990s, natural gas extracted from coal bed methane has represented a relatively new domestic store as the demand for gas has increased. Second, Evergreen is a low-cost producer and is able to continue to profitably increase production even as gas prices decline. We forecast production growth of 45% for 2004, to 67.5 billion cubic feet. We estimate earnings of \$2.04 per share in 2004 vs. the \$1.85 per share we believe the company earned in 2003. Our 12-month target price is \$44, and we recommend purchase. ❖

EVERGREEN RESOURCES INC. (EVG)



Master List Stocks Update

Our three supervised Master List groups of stocks, recommended as core holdings for long-term investors, are regularly featured on these two pages. Group 2, highlighted this week, consists mainly of large-cap stocks with above-average yields.

AQUA AMERICA INC.

WTR, 22, NYSE ★★★★★; Quality ranking: A-

After rising 34.1% in 2003 vs. a 26.7% gain in the S&P MidCap 400, the shares of this water utility were flat this year through January 22 vs. a 3.9% gain in the index. The company, formerly known as Philadelphia Suburban, changed its name to Aqua America on January 16 to better reflect its geographic diversity. Aqua America provides water service to about 750,000 customers and continues to expand its customer base through acquisitions. We expect a revenue gain of about 7% in 2004, thanks to new customers and rate hikes. Because of an acquisition, Aqua America's ratio of operations & maintenance expense to revenues was 37% recently. The company plans to reduce the ratio by at least one percentage point a year, starting in 2005. In our view, Aqua America will continue to have good access to capital markets, given its low cost of debt (under 5% recently) and a targeted debt-to-capital ratio of about 50%. We estimate earnings per share of \$0.88 for 2004, adjusted for a five-for-four stock split in Decem-

ber 2003, vs. the \$0.78 we think the company earned in 2003, excluding a one-time gain of \$0.03 from asset sales. We expect the company to continue raising its dividend annually. Its shares currently yield 2.2%, twice the yield of the S&P MidCap 400. Our 12-month target price is \$25, based on a P/E of 28 times our 2004 estimate, a modest premium to the high end of the stock's historical average P/E. We advise accumulation for potentially above-average total return.

BANK OF AMERICA CORP.

BAC, 82, NYSE ★★★★★; Quality ranking: A-

This diversified bank's stock gained 1.6% this year through January 22 vs. a rise of 2.9% in the S&P 500. The shares were up 15.6% in 2003 vs. a gain of 26.4% for the "500." The company's planned acquisition of FleetBoston is expected to close in the second quarter, pending regulatory approval. The deal should increase Bank of America's assets by 27% and would give the bank a presence in New England. However, we believe Bank of America is paying a rich premium for FleetBoston. In our view, the acquisition is likely to dilute earnings per share in 2004

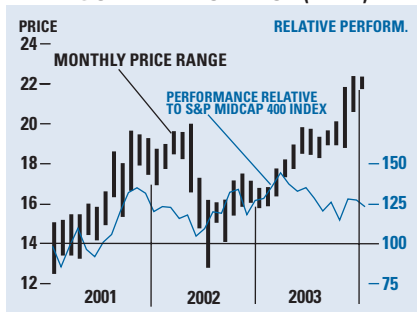
Group 2 underperformed the S&P 500 from the close on May 23, 2003, when the Master List was reconfigured, through January 22 of this year. In that period, Group 2 posted a total return of 16% vs. 24% for the "500."

On an appreciation-only basis, five of the stocks in the group outperformed the index, which advanced 22.6% from May 23 through January 22. The best gains during the period came from Wilmington Trust (+34.7%), Hospitality Properties Trust (+34.1%) and Banknorth (+30.2%).

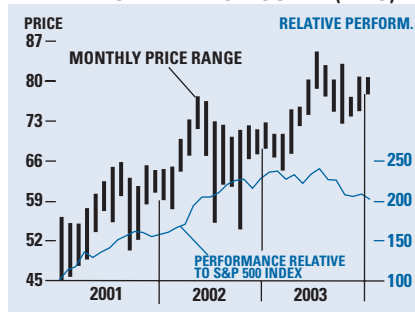
The worst performers in Group 2 for the period were General Mills (-2.3%), Dominion Resources (-1.4%) and FPL Group (+2.2%).

This group of stocks, each of which has a yield higher than that of the S&P 500, is intended as a low-turnover list for long-term investors. At times it may lag behind the total return of its benchmark, the S&P 500 index, but we believe that it will provide solid returns over time.

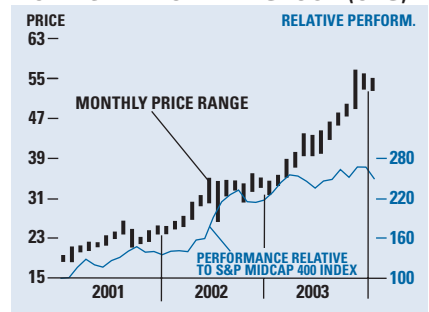
AQUA AMERICA INC. (WTR)



BANK OF AMERICA CORP. (BAC)



CHELSEA PROPERTY GROUP (CPG)



GROUP 2: STOCKS FOR SUPERIOR LONG-TERM TOTAL RETURN

Earnings per Share (\$)											Dividend History					
Est. 2003	Est. 2004	Indicated Div. \$	2003-2004 Price Range	Recent Price	P/E Ratio	Yield %	STARS	Quality Rank	Name/Year-Ends	5-Year Growth Rate (%)	No. of Ann. Incr. 1997-03	5-Year Avg. Payout (%)	Latest Increase (Effective Date)	Inflation Hedge Ratio††	Most Recent Write-up	
3.20	3.38	1.48	56.22 - 40.68	50	14.8	3.0	5	A-	Altel Corp.	4	5	43	1-3-04	1.44	1/14/04	
A1.77	1.92	0.96	24.89 - 19.05	25	13.0	3.8	4	A-	AmSouth Bancorp.	12	5	70	1-2-04	1.04	12/24	
0.78	0.88	0.48	22.39 - 15.76	22	25.0	2.2	4	A-	Aqua America	5	5	62	12-1-03	1.73	1/28/04	
A7.13	7.00	3.20	84.90 - 64.26	82	11.7	3.9	3	A-	Bank of America	13	5	45	9-26-03	1.19	1/28/04	
A2.15	2.35	0.76	33.57 - 20.60	32	13.6	2.4	3	A-	Banknorth Group	10	5	34	5-13-02	0.99	12/24	
2.15	2.64	2.14	56.69 - 31.76	55	20.8	3.9	5	A-	Chelsea Property Group	8	5	158	4-14-03	1.98	1/28/04	
4.95	5.85	1.44	71.94 - 41.78	70	12.0	2.1	4	B+	Chubb Corp.	5	5	68	4-11-03	1.36	10/15	
4.65	5.05	2.58	65.95 - 51.74	62	12.3	4.2	4	B+	Dominion Resources	0	0	100	9-20-95	1.91	12/24	
2.42	2.24	1.00	41.62 - 31.58	41	18.3	2.4	5	A-	ExxonMobil	3	4	52	6-10-03	1.17	11/19	
4.90	5.10	2.40	68.07 - 53.55	66	12.9	3.6	3	A-	FPL Group	4	5	52	3-17-03	1.32	9/17	
A2.65	2.90	1.10	49.66 - 41.43	46	15.9	2.4	4	B+	General Mills (May)	1	2	66	8-1-00	1.33	11/19	
1.81	1.90	2.88	42.39 - 26.50	41	21.6	7.0	5	NR	Hospitality Properties	4	5	127	8-22-02	1.40	11/19	
A1.50	1.57	0.75	23.13 - 16.25	20	12.7	3.8	3	A-	Sara Lee (June)	6	5	40	1-2-04	0.82	11/19	
A2.02	↑2.24	1.08	38.80 - 26.00	38	17.0	2.8	3	A+	Wilmington Trust	7	5	50	5-15-03	1.24	10/15	

§If not noted, year ends December. ↑Upward change in earnings estimate or dividend rate since last publication of the Master List; ↓downward change. E-Estimated. A-Actual. d-Deficit. N.A.-Not available. *Of following year. Price/earnings ratios are based on latest shown estimated earnings. ††This figure shows the degree to which the stock's dividend and price change offset the increase in the consumer price index in the five years through 2002. A figure of 1.0 would indicate that the impact of inflation was completely offset.

and possibly 2005. We expect loan growth of 7% in 2004, primarily helped by continued strength in Bank of America's consumer businesses. We see net interest margins widening moderately in 2004, though we believe the company has taken steps to lessen the effect of interest rate increases on earnings. We see an improving economy boosting Bank of America's credit quality and earnings in 2004 because the company can lower its loan-loss provision and reduce nonperforming assets. We see earnings per share of \$7 in 2004 vs. the \$7.13 reported for 2003. Although we are concerned about potential earnings dilution and the risks associated with integrating Fleet, we believe BAC's current dividend should provide some support for the stock. We recommend holding the shares.

CHELSEA PROPERTY GROUP

CPG, 55, NYSE ★★★★★; Quality ranking: A-

The shares of this retail outlet center REIT were flat this year through January 22, after a 64.5% rise in 2003. We believe the company will continue to benefit from its strategy of operating large, high-end outlet centers that serve major metropolitan markets. In our opinion, Chelsea Property's revenues will increase in 2004 from the development of new outlet centers and the expansion of existing facilities in the U.S. and abroad. We also believe the company's tenants will enjoy rising sales. This benefits Chelsea because it collects a portion of their sales as rent. We think strong demand for space will allow the company to

command double-digit rent increases when expired leases are renewed. We see earnings per share (from continuing operations and after preferred dividends) climbing to \$2.64 in 2004 from the \$2.15 we estimate the company earned in 2003. At 20 times our 2004 earnings projection, the shares trade at a premium to the P/E of the S&P Mid-Cap 400. Still, we believe the stock, which has appreciated significantly recently, will advance further over the next 12 months. In addition, we expect the dividend to continue to rise along with the company's growth, in order to meet the 90% payout ratio required of REITs. We would buy the shares, for which we have a 12-month target price of \$60. ❖

Neural Fair Value 20 Portfolio

This portfolio of 20 undervalued stocks has beaten the S&P 500 index by a wide margin since its inception in 2000.

An S&P quantitative model calculates each stock's weekly fair value, or the price at which it should be trading at current market levels. Stocks in the fair value model are arranged in five tiers, with those in the fifth tier regarded as most undervalued, implying the greatest appreciation potential, while the current prices of the stocks in Tier 1 substantially exceed their fair value.

Two other components of fair value are an earnings surprise indicator, with stocks divided into five tiers, designated by the letters A

through E, based on their ability to beat earnings estimates, and the timing index, which seeks to reduce turnover by telling investors whether or not a stock meets certain underlying trend requirements proven favorable to long-term capital appreciation. The timing index is identified by a "+" or a "-" next to a stock's fair value ranking.

Stocks will be sold from the portfolio when the neural rank, based on factors relating to performance in the most recent six months, falls under 3 and either the

earnings surprise rank falls under B or the timing index turns negative.

The NFV20 Portfolio consists of only those 20 stocks identified as having the greatest potential for short-term price appreciation.

From the end of September 2000, when the Neural Fair Value 20 was launched, through December 2003, the portfolio rose an average of 15.6% per year, compared with a loss of 7.4% for the S&P 500. In 2003, the portfolio rose 39.6% vs. a 26.4% gain for the index. ♦

NEURAL FAIR VALUE PORTFOLIO

	RANKINGS							EARNINGS PER SHARE (\$)		2003-2004 PRICE RANGE	MARKET PRICE	1P/E RATIO
	NEURAL	FAIR VALUE	TIMING	EARNINGS SURPRISE	STARS	QUALITY RANK	*S&P INDEX	EST. 2003	EST. 2004			
Activision Inc./ATVI	5	4	+	B	3	NR	Mid	² A0.64	² 0.48	19.30 - 8.68	19	39.6
AutoNation/AN	5	5	+	C	3	B-	500	1.33	1.42	19.19 - 11.61	18	12.7
BMC Software/BMC	5	2	+	A	3	B-	500	² A0.20	² 0.50	21.21 - 13.18	21	42.0
Borders Group/BGP	3	5	+	B	3	NR	Mid	¹ 1.55	¹ 1.64	23.05 - 13.30	21	12.8
Coinstar Inc./CSTR	3	5	+	A	2	B-	Small	0.87	0.76	25.79 - 11.65	18	23.7
Concord EFS/CE	5	5	+	C	4	B+	500	0.74	0.88	16.66 - 7.80	14	15.9
Convergys Corp./CVG	5	5	+	B	3	NR	500	A1.15	0.92	20.80 - 11.30	19	20.7
Coventry Health Care/CVH	1	5	N	A	5	B-	Mid	4.12	4.85	66.61 - 24.30	66	13.6
Cytec Industries/CYT	1	4	N	A	3	B	Mid	2.30	2.50	38.95 - 25.97	37	14.8
ESS Technology/ESST	5	3	+	A	NR	B-	Small	N.E.	N.E.	19.38 - 5.15	17	...
Harley-Davidson/HDI	1	2	N	B	3	A+	500	A2.50	2.80	52.51 - 35.01	46	16.4
Keane Inc./KEA	5	4	+	D	NR	B-	Mid	N.E.	N.E.	18.14 - 6.90	18	...
Knight Trading Group/NITE	5	3	+	B	NR	NR	...	N.E.	N.E.	16.96 - 3.88	15	...
Longs Drug Stores/LDG	1	4	+	B	2	B+	Mid	¹ 1.01	¹ 1.10	25.60 - 13.05	23	20.9
PSS World Medical/PSSI	5	2	+	A	NR	NR	...	² Ad0.71	² N.E.	12.86 - 5.16	12	...
Sapient Corp./SAPE	5	1	+	A	NR	C	...	N.E.	N.E.	7.04 - 1.52	7	...
Talx Corp./TALX	2	4	N	B	NR	NR	Small	² A0.90	² N.E.	31.75 - 11.65	22	...
TeleTech Holdings/TTEC	2	1	+	A	NR	NR	...	N.E.	N.E.	12.27 - 3.31	12	...
• UnitedHealth Group/UNH	1	4	+	A	4	A	500	A2.96	3.61	59.32 - 39.20	59	16.3
VF Corp./VFC	1	4	N	A	3	B+	500	3.55	3.90	44.08 - 32.62	43	11.0

• Master List issue. *500-In S&P 500 Index; Mid-In S&P MidCap 400 Index; Small-In S&P SmallCap 600 Index. E-Estimated. d-Deficit. N-Neutral. N.E.-No Estimate. NR-Not Ranked. †Based on estimated 2004 earnings. ¹Year ending January of following year. ²Year ending March.

Performance calculations do not take into account reinvestment of dividends, capital gains taxes or brokerage commissions and fees. If the foregoing had been factored into the portfolio's investment performance, it would have been lower. This performance calculation also does not take into account timing differences between the portfolio selections and purchases made based on those selection by actual investors. Over certain periods, the portfolio incurred losses and over time the portfolio is expected to continue to pose a risk of negative investment returns. Because the portfolio has a high turnover rate, it is best suited for tax-deferred accounts such as IRAs and is less suited for other accounts. Investors should seek financial advice before investing based on the portfolio. This portfolio does not address the specific investment objectives, financial situation, and particular needs of any person. Stocks in the portfolio will not be suitable for all investors.

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