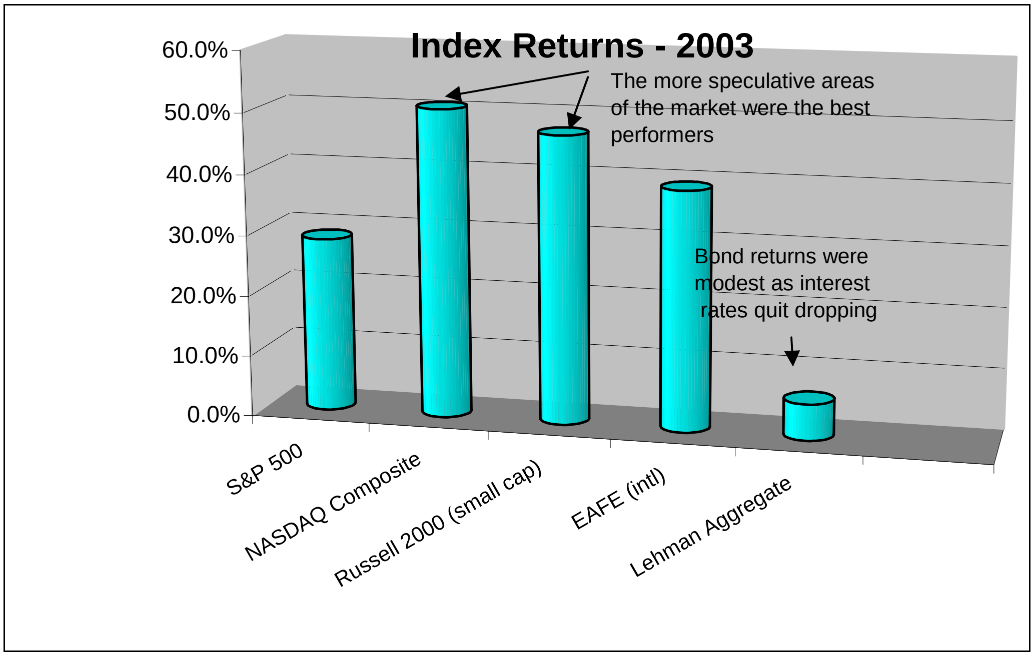
Market Summary and Outlook
Year End 2003

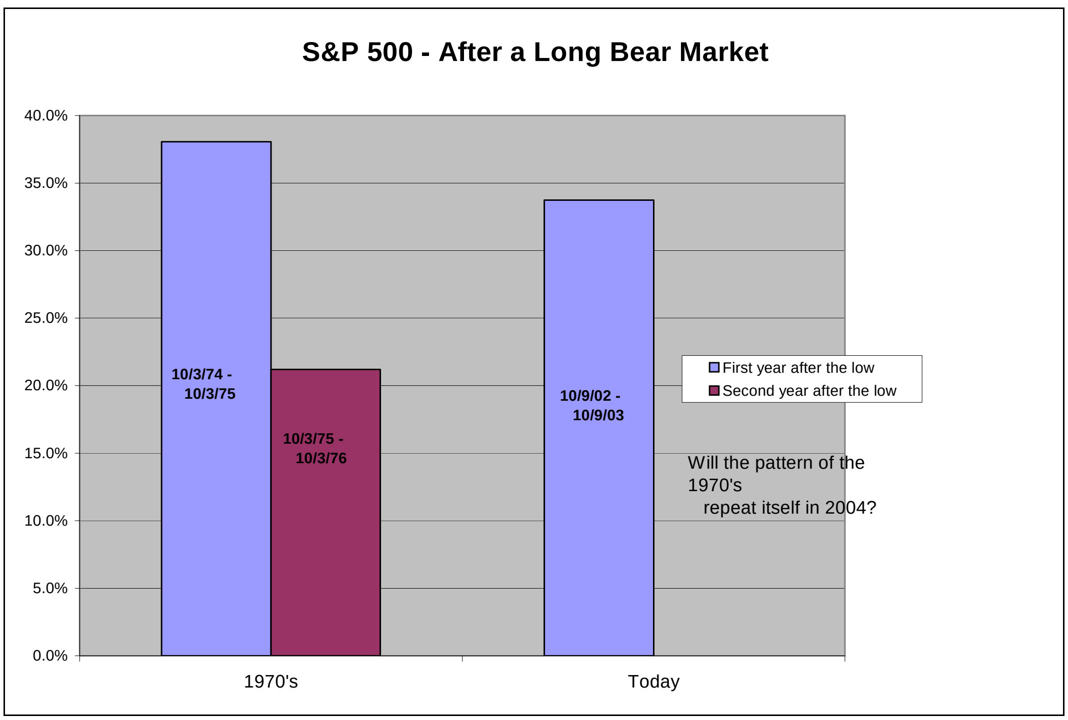
By almost every measure, 2003 was a very good year for the financial markets. This was particularly welcome following the three consecutive declining years of 2000, 2001 and 2002, the first time this had happened since 1940. For the year, the S&P 500 produced a return of 28.7% and the technology oriented NASDAQ an even stronger 50.1%. International markets have also been robust with the widely followed EAFE Index showing a return of 32.3%.



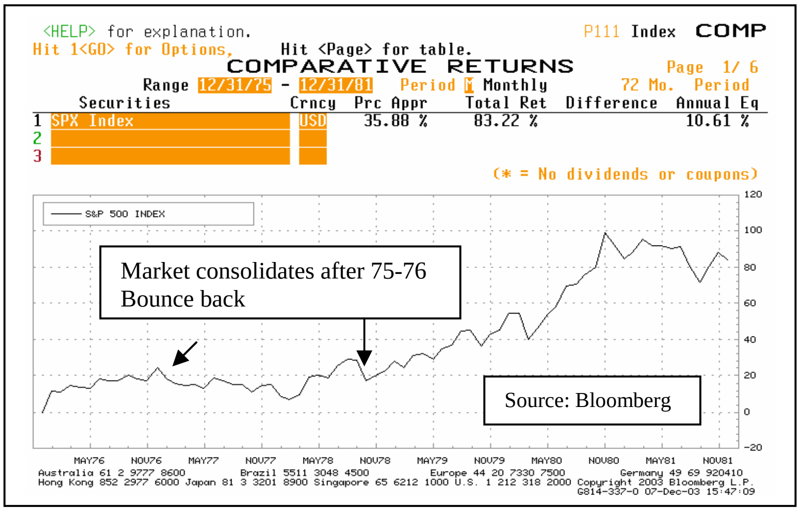
We had anticipated that 2003 would be a positive year, but were surprised by the extent of the gains. The favorable factors of a strengthening economy, continued low interest rates and the absence of any major terrorist events all combined with a predictable bounce back after three down years to propel the market upward. In fact, investors seemed eager to try to recoup some of their recent losses and favored the more speculative areas of the market over the more conservative sectors. By almost any metric, i.e., small cap vs. large cap, non-dividend paying vs. dividend paying, money losing vs. profitable, etc., the more speculative groups did better during 2003.

At this time there is a tremendous divergence of opinion as to what is in store for 2004. It is possible during the course of a day on CNBC (the cable TV business channel) to hear one expert contend that the market is still significantly undervalued followed by another prognosticator who believes that the market is grossly overvalued, and finally a third who believes 2004 will be an average (10%) year. Optimists cite the strengthening economy, low inflation and interest rates, and the tremendous surge in productivity that we have been experiencing. Pessimists emphasize the huge deficits we are running, the lack of new jobs created so far in the recovery, the likelihood that interest rates will rise and the fact that by historical standards the market is above average valuation levels. Both sides have valid points, which makes for a very confused picture.

While history never repeats itself exactly, we think it is interesting to look back at the 1970's, the last time the market was rebounding from an extended decline.



The above graph shows that in the 1970's, even though the market recorded a strong gain in the twelve months following the bear market low, it was able to extend these gains further over the next twelve months. This certainly does not ensure that the upcoming months will be positive, but does give credence to the idea that the recovery from a lengthy bear market can itself continue well beyond a year.



Looking at the remainder of the 1970's, once the initial rebound was completed the market essentially moved sideways for several years before resuming its advance. While reemphasizing the point that the past is no guarantee of future performance, we think that the market behavior during the 1970's is in keeping with our outlook towards the market today. As stated earlier, we think that the strong performance during 2003 has been fueled by a combination of investors returning to the equity markets and better than anticipated corporate earnings. How much further this will propel the market is very difficult to predict, but it would not be unprecedented to see continued strength in 2004. However, trading at a multiple of between fifteen and twenty times forecast 2004 earnings (depending on the forecaster); it is difficult to argue that the market is extremely cheap. We think it likely that the advance that started in October of 2002 will, sometime in 2004, come to a halt and that the market will move generally sideways for an extended period of time.

If this occurs it is unlikely that returns will be as strong as in 2003, but we believe it will still be possible to generate good returns for investors. First, companies who are increasing their earnings in a sustainable manner should see the price of their shares rise. Second, even though the volatility of the overall market has declined from the peaks reached during the bubble, there is still enough volatility in individual stocks to create attractive buying and selling situations. On almost any day one can find large companies whose stocks move up or down five to ten percent on the basis of some news development. On a slightly longer-term basis, whole industries, e.g., pharmaceuticals, go in and out of favor with investors. For those who can separate the really significant news and trends from the "noise", we think there will continue to be opportunities to create value. Finally, we expect that dividends (as they have historically) can provide a significant role in generating returns.

Putting all of this together, in spite of all the uncertainties, we would recommend investors keep their allocation in equities at the upper end of the range with which they are comfortable. At current interest rate levels we would keep fixed income investments either in securities of relatively short duration or in vehicles that have the possibility of increasing their payouts over time. In equities, we think that stock selection will be critical and that a valuation discipline in making purchases and sales will be the key to generating acceptable returns. Above all, we think it will be a time for investors to concentrate on what they anticipate will be successful in the future and be cautious about assuming that what has done well in the past will continue to do so.

Mike Bliss
Portfolio Manager

315 Post Road West • P.O. Box 3089 • Westport, CT 06880 • (203) 226-0222 • Fax: (203) 454-4706
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