Safian Investment Research

Research-Based Investing

ASSET MANAGEMENT

AND

INSTITUTIONAL

RESEARCH SERVICES

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OVERVIEW

Safian Investment Research (SIR) manages and advises both taxable and non-taxable accounts on a fee basis. Our investment philosophy emphasizes preservation of capital; our money management style is sector rotation. In our view, lost capital is more regrettable and more difficult to replace than a missed market opportunity. Our approach is a disciplined one, and our investment policy is based on our institutional research effort.

Our research concentrates on sectors of the securities markets and the economy. A unique aspect of our firm, and an underlying thesis of our analysis, is that the stock market is not homogeneous but, rather, is comprised of major sectors whose movements reflect the divergent trends present in the economy, society, government, and in investor psychology.

Therefore, at one time our investment emphasis may be on growth stocks, at another it may be on shares categorized as "value" and, at a third time, it may be on bonds and cash equivalents. Such an eclectic style is called "sector rotation."

THE FIRM

Safian Investment Research (SIR) has long been recognized as one of the first research organizations to use "investment strategy" as a means of assessing risk and improving overall investment returns. Rather than just concentrate on individual companies, we analyze a diverse combination of factors in order to determine the characteristics of the economy, the stock market, and individual sectors and industries within that market.

Our analyses are primarily for institutional and sophisticated investors and date back to the late 1950s with the ***Dual Market Principle***, which we developed and introduced to the investment community. This investment theory is an innovative investment approach that divides the stock market into growth and cyclical sectors and demonstrates how these sectors frequently produce significantly different and sometimes contradictory rates of return. Augmented over the years by analyses of additional market and industry sectors and by valuation and other studies, this sector rotation approach has become a valued tool in the investment management and institutional research community.

Kenneth Safian and the staff of SIR continue to produce original ideas and concepts that help thoughtful professionals and knowledgeable investors to recognize and benefit from changing economic and stock market trends. Mr. Safian has been in the investment business since 1958, was president of Safian Investment Research, Inc. and its predecessor Smilen & Safian Inc., and was a founder and major stockholder of Regent Investors, which managed about $3 billion before being sold to Alliance Capital.

SIR is a division of both Burnham Securities Inc. (a registered broker dealer that clears its transactions through Bear Stearns Securities Corp.) and Burnham Asset Management Corp. (a registered investment advisor). These firms are headed by Jon Burnham, a well-known and well-respected figure in the securities industry.

Investment Approach

Our approach is different from that of most money managers. We first attempt to determine the general conditions of the stock market and economy, the existing phase of the cycle of those two entities, and the critical factors that will influence them. This is done in a common sense and practical manner and is based upon current and historic stock market and economic data. Our research efforts attempt to forecast and explain domestic and worldwide investment trends through the use of clear written and graphic presentations. Our conclusions are presented in the research studies that are described here and applied to our managed portfolios. When viewed in this way, the term “market” as usually understood becomes less meaningful and the general terms “bull market” or “bear market” become misleading. Major stock groups may be in either a bull or bear trend while another group is acting very differently. We look forward to having the opportunity to explain our philosophy to you and to show you some of its results.

Examples of Sector Rotation

Most investors believe the stock market is a single unit with one major trend. Our basic research in the early 1960s proved that to be a misconception. Our firm has developed four major sector stock market averages and about 75 individual groups for which we maintain a vast amount of data. The tables below illustrate the annual rates of change for important segments of the stock market during four time periods, and how an investor could possibly have profited from an awareness of these diverse trends on an investment basis.

1998-2001*

Year	Traditional Growth Average	Technology Average
2001	-8.57%	-35.73%
2000	-2.51%	-38.64%
1999	8.83%	140.37%
1998	24.73%	70.70%

Technology stocks were outstanding in 1998 and 1999, but they became exploited and lost value due to excessive speculation. Investors then bought more conservative stocks and did not lose as much. Some individual group averages rose in 2000 and 2001.

1957-1961*

Year	Cyclical Average	Traditional Growth Average
1961	18.20%	24.30%
1960	-18.50%	25.80%
1959	16.80%	44.00%
1958	37.60%	65.50%
1957	-20.20%	14.70%

1989-1991*

Year	Cyclical Average	Traditional Growth Average
1991	23.86%	32.25%
1990	-20.13%	2.48%
1989	13.96 %	42.36%

Traditional growth stocks, including quality growth companies in industries like foods and healthcare, are recession-resistant. During a period that included two recessions, 1958 and 1960, they performed much better than cyclical companies. Cyclical companies are more sensitive to swings in the economy. A similar situation occurred in the 1989 to 1991 period.

1971-1973*

Year	Capital Goods Average	Consumer-Related Average
1973	22.01%	-38.59%
1972	20.71%	11.24%
1971	11.15%	25.67%

In the 1971 to 1973 period, wage and price controls existed, which helped consumer product sales since prices of these items were cheap. Once these controls were taken off, both commodity and capital goods prices rose and capital goods companies such as papers, chemicals, and machinery organizations were able to increase prices and boost their earnings.

all these returns exclude dividends

PROPRIETARY RESEARCH PRODUCTS

Our research analysts follow more than 2,500 economic and investment series. Each analyst is responsible for a set of indicators, and we continually look for new data that represent the changing nature of domestic and world business conditions. Due to changes in technology and government legislation, some investment indicators become outdated and must be replaced by new series, many of which we have developed. These efforts have resulted in original and proprietary approaches to studying the stock market over the years, including the ***Dual Market Principle*** and sector analysis developed by Kenneth Safian and his staff in the early 1960s; our ***Composite Forecasting Index***, developed in 1984; and the ***Safian Market Benchmark***, introduced in 2000, among others. The following is a list of our research products.

SIR Composite Forecasting Index (CFI)

Developed in 1984, this leading economic forecasting index contains five major component groups made up of 28 individual leading business series. The ***CFI*** correctly signaled the 1990-1991 recession in 1989 and the 2001 recession in August 2000. It has also predicted stronger and weaker segments of the business environment. The ***CFI*** is issued monthly and followed by government officials.

Safian Market Benchmark

This stock market index was first introduced to the investment community in 2000 at a presentation to the New York Society of Security Analysts. Various articles in the press have noted the misleading characteristics of the popular stock market averages. The ***SIR Market Benchmark*** is weighted, as best as possible, to the U.S. Gross Domestic Product (GDP) data. In this way, the Index represents general business conditions. This Index is rebalanced once a year based upon changes in GDP and comprises 18 major groups and about 300 companies. The results for the ***SIR Market Benchmark*** have differed widely from the popular averages and were extremely helpful to investors during the 2000 and 2001 stock market climate. A detailed report for the Benchmark is issued quarterly.

Valuation and Corporate Profits

Also issued quarterly, this report has proven to contain meaningful investment insights for astute investors. Our proprietary earnings indices and valuation measures clearly illustrate the different trends within the stock market. These trends have become more pronounced over the years. Major insights from this study show that the price to earnings ratio for our Traditional Growth Average in 2000 never reached the peaks achieved in 1961, 1968, or 1972, and that the earnings index of our Capital Goods Average reached its high in 1995. This report also contains a discussion of economic profits which are computed by the U.S. Bureau of Economic Analysis.

Quantitative Summary with Selected Investment Series

This weekly report updates various stock market series such as the ***SIR Market Benchmark*** and our industry groups, and includes graphic presentations of recently released investment series with commentary.

Investment Strategy Report for Institutional Investors

This flagship report has been published regularly for 40 years. It recommends stock market sectors to pursue and avoid, and suggests the appropriate degree of equity exposure for large institutional portfolios. Its extensive graphic section shows pertinent economic, monetary, industry, interest rate, and stock market series. Each report contains different sets of indices that we believe will be the crucial variables for the securities markets as well as updated figures for our proprietary stock averages. Professional investors receive a thorough and perceptive examination of the economy, capital markets, politics, investor psychology, and technical and quantitative conditions.

Suggested Equity Portfolio for Large Institutional Accounts

This recommended equity portfolio has been sent to our institutional clients since 1972. It lists individual stocks by industry groups with the percentage weighting of each stock and group. Periodic changes are made in the portfolio and sent to our clients as well as performance results which are issued quarterly.

Washington Perspective

Kenneth Safian has consulted with government officials in Washington for more than 30 years and from time to time offers insights, through ***Political Notes***, on matters that have investment significance.

Special Reports

When investment conditions are unusual or controversial, SIR may send a timely report to clients that explores a political development, a specific economic or stock market indicator, an item of recent investor interest, or contains some other special insight that will set matters in clear perspective.

Investment management clients are welcome to receive our published studies to provide them with a continuing update of our investment policy.

CLIENT SERVICES

Safian Investment Research professionals constantly strive for excellence in dealing with our investment management and institutional research clients. Whether directly with a client or indirectly through a financial consultant, we believe it is important to have close contact in order to understand a client's investment needs and goals. Initial meetings and telephone contacts are encouraged to review our portfolio strategy, explain its implementation, and ensure that the client's investment objectives are mutually understood. Our portfolio management and our operations staff members are always available to assist and answer any questions that might arise. Again, we hold preservation of our clients' capital as our number one priority. Our portfolios contain high quality stocks, U.S. government and high quality corporate bonds, and conservative cash equivalents. We also offer a lower cost management service limited to the purchase of no-load mutual funds, high grade fixed income securities, and cash equivalents. We do not deal in derivatives, nor do we use margin or speculative investment vehicles.

We encourage you to call us if you would like to learn more about SIR and continue to visit our website at www.safian.com.

BURNHAM FINANCIAL GROUP

Burnham Asset Management Corporation (a Registered Investment Advisor) and Burnham Securities Inc. (a Registered Broker-Dealer) are wholly-owned subsidiaries of Burnham Financial Group. The organization maintains offices in New York City, Houston, Los Angeles and White Plains, NY and manages a substantial amount of assets.

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