



1st QUARTER 2001 MARKET COMMENTARY

We are extremely pleased to report that Mission's equities have had an explosively strong performance of 25.9% in the twelve months ending March 31, 2001. It is all the more remarkable that this took place in the weakest market environment in more than a quarter of a century. The S&P 500 declined in the past year by 21.7%, while the NASDAQ Composite collapsed by a disastrous 59.5%. We have been less than enthusiastic about the prospects for stocks for quite some time, but even our most risk-averse portfolios with some equity exposure earned double-digit returns over the past twelve months.

What we have talked about for several years began to unfold about twelve months ago. The financial press and investors now accept that we have seen a bubble burst. Almost universally, however, they limit the application of that analogy to the dot com mania or, at most, to the speculative high tech arena. What most people fail to realize is that all the major stock market indexes went through an unprecedented speculative frenzy. All similar speculative episodes, all smaller in degree than this one, have ended badly. In fact, in this country, only two prior buying binges even remotely approach the degree of speculation we experienced in the decade of the 1990's.

The decade of the 1920's and the decade of the 1960's were both characterized by dramatic surges in technological innovation and corporate productivity. Investors in each prior age bought into the "new era" concept as justification for why it was "different this time." In each instance it led to a suspension of belief in the time-tested measures of value that had traditionally guided investor practice. In each era IPO's flourished, aggressive growth managers were seen as the keepers of the keys to the kingdom, and value managers lost clients who left for the pastures of gold promised by those who understood the "new economy."

How did it all turn out? Unfortunately, not well for those who lost sight of real value. The bear market that bottomed in 1932 took stock prices back to the levels of 1914, eliminating entirely all the gains of the decade of the 1920's. Four decades later, the bear market that ended in December, 1974 followed the same pattern and took stock prices down to their 1958 levels, eliminating all the paper profits of the 1960's. Two speculative frenzies were followed by devastating bear markets that eliminated over a decade and a half of price progress in each instance and wiped out the gains of the 1920's and 1960's, two of the most financially productive decades in U.S. history.

More recently, the super-speculative Japanese stock market peaked at the end of 1989. The second half of the 1980's produced even greater speculative excesses there than we had ever lived through in this country. In the late-1980's the Japanese were the dominant world forces in the automotive and electronics industries. They were the acknowledged masters of the "new industrial paradigm." Who would even dare to apply tired old valuation measures to the "new era" Nikkei? Despite almost universal and overwhelming investor confidence in Japan, the promise of uninterrupted stock price growth was dashed, just as it has been in every major world stock market throughout history when investors have pushed prices to levels that bore no reasonable relationship to traditional underlying values. Japanese stock prices today are at their 1986 levels, eliminating a decade and a half of progress.

Despite the pain that most investors have felt for the past year, our U.S. equity markets are still monumentally overvalued. On April 27, the price-to-earnings ratio of the S&P 500 was 25.1. While that is much more reasonable than last year's high of 34, it is still above the highest readings ever reached through the speculative decades of the 1920's or the 1960's. We are today above the peaks from which those prior speculative frenzies collapsed. To get back to the long-term norm for the price-to-earnings ratio, prices would have to decline another 40%. That assumes that earnings remain constant. In fact, there is an almost unanimous expectation that earnings will decline this year, which would make the decline to the long-term norm even more severe.

Unfortunately, after our country's two prior speculative frenzies, investors didn't stop the price declines near the historic price-to-earnings norm. Fear so took over their psyches that prices didn't bottom until PE's reached the seven range. If that occurred again in the years ahead, even if earnings did not decline, the S&P 500 would have to decline by an additional 70% from its current level.

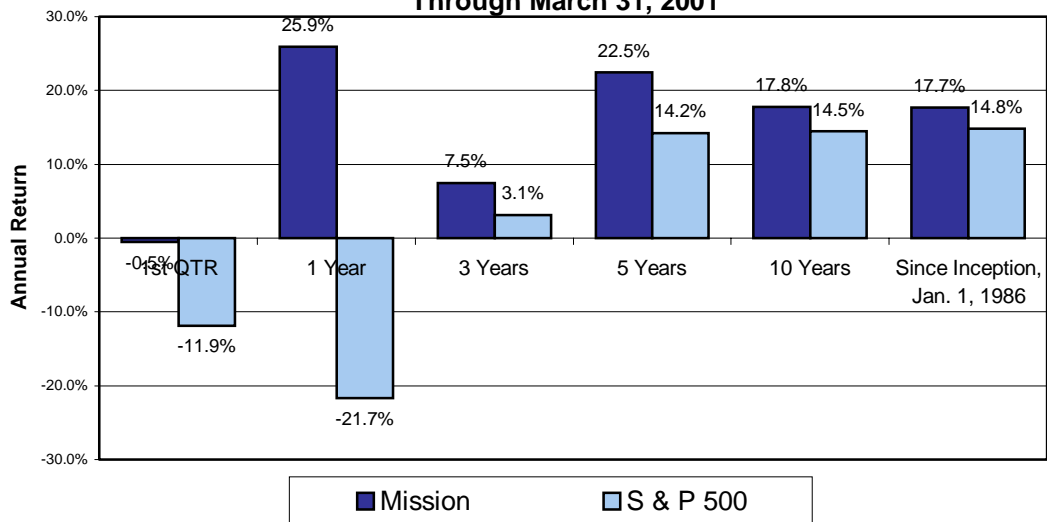
How will this bear market unfold? There is no way to know, but it is critical to remember the lessons of history. So far there is remarkable complacency among investors, despite over \$4 trillion in stock values having been erased in the past year. That is more than the combined GDP's of England, France and Italy. Despite the short-term pain, few investors, consultants or market commentators expect this to be anything more than an interruption to our inexorable move to higher stock prices over the coming decade. Ironically, that is not comforting. That is exactly what the majority of investors believed after the initial declines from the prior speculative peaks. In each earlier episode a multi-month rally rekindled investor enthusiasm and led to the belief that the bull market was back. In each instance here and in Japan, the largest percentage declines of the respective bear markets occurred after the multi-month rally. It was the second or subsequent declines that eventually wiped out investor enthusiasm and turned eager stockholders into sellers. Prudently set asset allocation guidelines were widely abandoned once fear, dire headlines and gloomy forecasts from the "experts" convinced fiduciaries and individual investors that they should no longer bear the risk of substantial equity holdings. Having borne the brunt of the down market, investors as a group were selling when they should have been buying.

Based on past precedent, we are not yet in the "give-up" period. We are still in a period of investor confidence, despite the market's levels of extreme overvaluation. Because consultants, business school professors and text book authors have inevitably been conditioned by the bull market that prevailed for a quarter of a century, they have convinced today's investors, very few of whom have experienced a bear market before this one, that long-term success lies in setting a prudent asset allocation and sticking with it. I expect that that unfortunate guidance could cost investors more trillions of dollars before this bear market ends. This well-intentioned and traditionally prudent guidance unfortunately fails to recognize what people do in real life when they reach their thresholds of pain. Academic counsel goes out the window, and individual and institutional investors sell when they become sufficiently afraid. Historically large numbers of investors and boards have remained true to preset allocation levels through the early and middle stages of extended bear markets, only to sell in the later stages. I expect that Mission's flexible asset allocation policy will continue to counter that tendency as this bear market evolves.

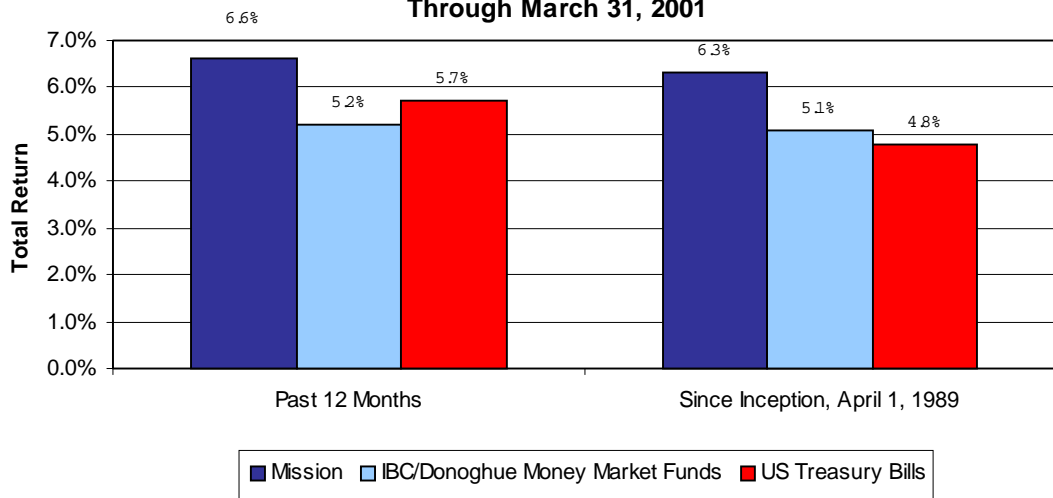
Despite the substantial market declines to date, we are finding relatively few stocks meeting our historically based valuation criteria. An increasing number of companies are experiencing earnings declines, which takes them off our buy lists until earnings begin again to rise. While prices have declined, the markets are still at extreme levels of overvaluation, which limits the number of buyable stocks. Those declining prices are, however, bringing us closer to some companies whose earnings are still strong. We will add individual positions that meet our criteria, and we look forward to the opportunity down the road when we can find a long list of attractive candidates. It will come, but patience may be an important requirement before we get there. We are very pleased that the companies that we have owned have produced strong results. We are in a phase in which consistent, growing earnings are being rewarded, and attractive stories are no longer enough to lift prices. Welcome to the real world.

Thomas J. Feeney
Managing Director and Chief Investment Officer

**Mission Equity Process
Performance Results
Through March 31, 2001**



**Mission Cash Management Process
Performance Results
Through March 31, 2001**



Past Performance May Not Be Predictive Of Future Performance