

MARATHON

QUARTERLY REVIEW

January, 1991

Dear Plan Sponsors, Consultants & Friends:

1990 opened a new decade and marked the completion of Marathon's first half decade as a firm. We celebrate both.

We are very pleased to report that our clients' portfolios performed admirably in the difficult environment of the past year. Our composite of short-term cash management portfolios grew by 9.0%, far in excess of all comparable indexes. We are especially pleased with that return, because we continue to employ only government or agency guaranteed securities and A-1/P-1 commercial paper. Our composite of all-equity portfolios declined a slight 1.3%, compared to the S&P 500's loss of 3.1% and double digit declines in the unweighted indexes. Our five year annualized return of 13.2% exceeds that of the S&P 500, all broader indexes and the vast majority of investment managers. Our equity-oriented, "risk-averse" portfolios, for which we had asset allocation responsibility, all posted solid gains in a year in which most equity-oriented portfolios lost money. These portfolios, with a wide divergence of social and risk restrictions, ranged in performance from 4.1% to 9.5% with a composite return of 6.6%.

Our quantitative, value-based investment process continues to find few companies that meet all of our equity selection criteria. As a result, where we have asset allocation responsibility, we continue to hold large amounts of highly secure, short-term fixed income securities. These will continue to provide a safe, generous yield until we can once again find substantial numbers of undervalued equities.

Our current view is entirely consistent with last January's client letter in which we said, "This may well be the beginning of a two to three year period that demonstrates the folly of chasing a runaway equity market." With serious and growing problems in both the banking and commercial real estate arenas and with debt loads at all time highs at consumer, corporate and government levels, the danger exists of markets collapsing to well below normal value levels. Such severe cathartic action is not necessary to extricate ourselves from the current condition, but it is certainly possible, and that possibility will be ignored only at potentially severe peril to asset values.

Today's portfolio managers, portfolio administrators and advisory committee members have lived in an environment in which market action has ultimately corrected all mistakes (except for junk bond purchases). Today's practitioners have never experienced a market that did not fully recover on their watch. We must remember that such a recovery is not a given. The stock market decline that began in 1929 was not fully recouped for a quarter of a century, until 1954. And that was not the longest recovery from a market decline. In the nineteenth century, it took 28 years for the market to get back to its pre-Civil War peak. We do not suggest that the markets are heading for such a decline. It is foolhardy, however, in light of our well chronicled problems, to dismiss the possibility of a market decline that will not immediately be forgiven by rapidly rising prices.

=====

While no market is destined to follow a pre-ordained pattern, this market's path of least resistance would be to fall to its ultimate bottom this year or in 1992. As this is being written, war news is having a more pronounced effect on prices than anything else. Emotional reactions can certainly distort patterns that would otherwise prevail. Ultimately, however, market prices will be set by investors' perceptions of the economic reality. Under the present circumstances, we don't find that comforting.

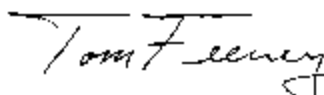
While we afford the greatest probability to a substantial stock market decline accompanying a serious and lengthy recession, the script need not unfold that way. The Federal Reserve has recently exercised all of its offensive capabilities. It has lowered the discount rate; it has promoted conditions that have allowed the Federal funds rate to drop several times; and, for the first time since 1983, it has reduced reserve requirements. Normally (although not in the 1930's) such actions reliquify and restimulate the economy, and that eventually leads to higher stock prices.

So far, however, because the damaged banking system is either unwilling or unable to make more loans, we have seen no evidence of economic restimulation. The Fed remembers well the lesson of the 1930's -- that a contracting money supply can decimate an already weak economy. They will not likely repeat that error of their forebears. With unprecedented levels of debt throughout the economy and a banking system on the edge of serious trouble, the Fed may have to expand the money supply dramatically to prevent a very severe recession, whatever the cost. That creates the danger of runaway inflation, which could do serious damage to bond prices and could dramatically reduce the purchasing power of virtually all short-term cash equivalents. In such an environment, equities, almost by default, become the hedge of necessity in the securities markets. We are not experiencing normal economic and market conditions, and we could see extreme market reactions in either the equity or fixed income areas.

We look forward to writing a more upbeat economic letter and to having an environment in which we can find large numbers of undervalued securities. Perhaps next year! In the meantime, we fully recognize the risks on several sides in the current situation and believe, as was the case in 1990, that Marathon's responsive, risk-averse approach will again prove of great value in steering clients' portfolios through the shoals.

Please contact us if we can provide any additional information about our outlook or our services.

Sincerely,



Thomas J. Feeney
President