STELLAR CAPITAL MANAGEMENT, LLC

Economic & Market Commentary

Numbers, Numbers, Numbers

The NASDAQ passed 4000, the DOW hit 11500, and the S&P passed 1400 all before the year 2000. Technology and Telecommunications stocks soared while the rest of the equity markets were mixed, and bond investors suffered through their worst year since 1973, as the long-term treasury hit 6.50%.

The year benefited investors that were heavy in the stocks of technology and telecommunication companies which sported enormous *potential* growth rates. Investors practicing prudent asset allocation and using rational investment selection techniques faired pretty much as expected. Using market index numbers, allocations to bonds went down in value between 4 and 15 percent (depending on maturity), allocations to money markets earned about 4.5%, and allocation to various economic sectors faired as follows:

Technology	*up 73%*	Capital Goods	*up 25%*
Basic Materials	*up 19%*	Consumer Cyclicals	*up 18%*
Communication Services	*up 16%*	Energy	*up 15%*
Financials	*even*	Healthcare	*down 6%*
Consumer Staples	*down 8%*	Transportation	*down 13%*
Utilities	*down 13%*		

As your investment counsel, we practice prudent allocation and use an investment selection technique grounded in earnings and sales growth analysis. In the face of a lopsided market favoring only a few industries, we will strive to participate, but in a manner that reduces portfolio volatility and allows our clients to earn a respectable rate of return on a long-term basis. During the year we avoided the Transportation sector, pared down Consumer Staples, and made decent returns in Utilities. We stuck with some good companies in the Financial and Healthcare sectors although the sectors did not perform well, and participated nicely in the Technology, Capital Goods, Basic Materials, and Consumer Cyclical sectors. The most recent Nelson's report which ranked our firm in the top 13 percent of domestic balanced managers for the last 3 years confirmed that we are succeeding in our quest…but like many people, we would secretly like to achieve the returns of the hot asset classes and sectors without incurring the risk.

Looking ahead, the signposts along the road have not changed much, every few miles we see a sign warning "inflation ahead," or "sharp curve ahead." We are driving against the wind as interest rates are rising, and the Fed is evaluating the need for further tightening. As mentioned in previous *Commentaries*, the biggest threat to our economy and markets would be anti-growth, monetary or fiscal policies. It seems that every time stocks get a whiff of anti-growth sentiment, they decline in a rapid fashion.

In general, look for us to work on the selection of securities within current stock allocations rather than adding money to stocks. Any increases to the cash component will likely come from stock rather than bond sales.

Steve Taddie
President