

*This letter is dated September 2001*

***Things in life will not always run smoothly. Sometimes we will be rising toward the heights—then all will seem to reverse itself and start downward. The great fact to remember is that the trend of civilization itself is forever upward; that a line drawn through the middle of the peaks and valleys of the centuries always has an upward trend.***

Rev. Endicot Peabody  
Quoted by his former student, Franklin D. Roosevelt<sup>1</sup>

The tragedy striking the United States Tuesday affected global market activity, closed US markets, and left many investors worrying about the future. Our heart-felt condolences go to all those who have experienced a personal loss.

We do believe economic fundamentals and global markets will weather this storm in the long term. During times of crisis like this, it is understandably difficult to maintain a positive faith in the future. The equity markets have already suffered their worst decline in over 25 years and the tragic events of September 11 may exacerbate investor fears. In times of great stress and worry it is helpful to maintain a proper perspective.

History has shown turbulent events are often followed by a strong resurgence in the equity markets. For example, during the Gulf War crisis, the Dow Jones Industrial Average fell 4.3% between the end of December and the middle of January 1991 but proceeded to rise almost 20% in the following two months. I have enclosed market performance data relating to many major crises. History may provide some guidance and comfort.

For perspective, it is important to note that less than 2 years ago the popular view was that the United States economy was at the beginning of a technology driven boom. Technology stock prices rose rapidly as more and more people bought them in hopes that they would make big money fast. After all, stocks were going up and the press was reporting that the future looked bright. Visions of quick profits and new possibilities filled the minds of most investors and crowded out concerns about valuation and profitability. For a while popular opinion appeared to be right as the market continued to

hit new highs and shareholders of start-up technology companies enjoyed a phenomenal increase in share value. Investors that did not join the dot com frenzy were widely viewed as out of touch with progress. As technology stocks rolled up many careful investors naturally worried that their conservative strategy was indeed antiquated by the “new economy”. The great temptation was to buy the newest hot tech stock.

My how things have changed. Irrational exuberance has quickly, in many ways, turned to irrational fear. Now, the popular view is that the United States economy is at the precipice of a severe recession. Equity values have declined sharply and prices on most technology stocks have collapsed. Fear of loss has now crowded out the optimistic visions of recent past. After all, stocks are dropping and the popular press is reporting that the future looks dim. For now, popular opinion again appears to be correct as many stocks hit new lows. Investors that do not share the gloomy forecast are widely viewed as naïve. The great temptation is to sell.

Today’s predictions of doom and gloom should be viewed with skepticism just as yesterday’s prognostications of exploding growth in internet stock profits should have been. Popular opinion may be right in the short run but it is usually wrong in the long run. It takes courage to act independently of the crowd and, in investing, that courage is often rewarded with better returns over time.

We believe FDR’s boyhood teacher was right: There is a permanent long-term upward trend. Take a moment to consider the economic progress that has taken place since 1945 when FDR shared the lesson he learned in childhood. This advance occurred despite the Korean War, the Cuban Missile Crisis, John F. Kennedy’s assassination, the Vietnam War and many other frightening crises. We believe that investors who maintain a positive long-term outlook can put the peaks and valleys to productive use. No one knows when the great upward trend will resume but there are many reasons to believe that it will. Interest rates have been cut, income tax rates have been reduced, inflation is not a problem and cash balances are at an all-time high.

We perceive the key short-term economic risk of this tragedy could be a decrease in consumer confidence and a consequent decline in consumer spending. The effect on the market in the near term could be negative, but the problems we face are not permanent and may serve to create the best investment opportunity since Iraq’s invasion of Kuwait in 1990.

Thank you for the trust and confidence you have placed in us. We are working hard to ensure that your portfolios are well positioned in this most difficult time. Please call if you would like to discuss your holdings and the current investment environment.

Phil McCauley III  
September 2001

<sup>1</sup> Rev. Endicot Peabody, headmaster of Groton, quoted by his former student, Franklin D. Roosevelt, in FDR's last inaugural address, January 20, 1945.

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The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. An investment cannot be made directly in a market index.

Morgan Stanley Smith Barney LLC. Member SIPC.

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*Crisis Events, DJIA Declines and Subsequent Performance*

Event	Reaction Date Range	Date Range %Gain / (Loss)	DJIA Percentage Gain		
			Market Days After Reaction Dates		
			22	63	126
Fall-of-France	05/09/1940 - 06/22/1940	(17.1)	(0.5)	8.4	7.0
Pearl-Harbor	12/06/1941 - 12/10/1941	(6.5)	3.8	(2.9)	(9.6)
Truman-Upset-Victory	11/02/1948 - 11/10/1948	(4.9)	1.6	3.5	1.9
Korean-War	06/23/1950 - 07/13/1950	(12.0)	9.1	15.3	19.2
Eisenhower-Heart-Attack	09/23/1955 - 09/26/1955	(6.5)	0.0	6.6	11.7
Sputnik	10/03/1957 - 10/22/1957	(9.9)	5.5	6.7	7.2
Cuban-Missile-Crisis	08/23/1962 - 10/23/1962	(9.4)	15.1	21.3	28.7
JFK-Assassination	11/21/1963 - 11/22/1963	(2.9)	7.2	12.4	15.1
U.S.-Bombs-Cambodia	04/29/1970 - 05/26/1970	(14.4)	9.9	20.3	20.7
Kent-State-Shootings	05/04/1970 - 05/14/1970	(4.2)	0.4	3.8	13.5
Arab-Oil-Embargo	10/18/1973 - 12/05/1973	(17.9)	9.3	10.2	7.2
Nixon-Resigns	08/09/1974 - 08/29/1974	(15.5)	(7.9)	(5.7)	12.5
U.S.S.R.-in-Afghanistan	12/24/1979 - 01/03/1980	(2.2)	6.7	(4.0)	6.8
Hunt-Silver-Crisis	02/13/1980 - 03/27/1980	(15.9)	6.7	16.2	25.8
Falkland-Islands-War	04/01/1982 - 05/07/1982	4.3	(8.5)	(9.8)	20.8
U.S.-Invades-Grenada	10/24/1983 - 11/07/1983	(2.7)	3.9	(2.0)	(3.2)
U.S.-Bombs-Libya	04/15/1986 - 04/21/1986	2.6	(4.3)	(4.1)	(1.0)
Financial-Panic-'87	10/02/1987 - 10/19/1987	(34.2)	11.5	11.4	15.0
Invasion-of-Panama	12/15/1989 - 12/20/1989	(1.9)	(2.7)	0.3	8.0
Gulf-War-Ultimatum	12/24/1990 - 01/16/1991	(4.3)	17.0	19.8	18.7
Gorbachev-Coup	08/16/1991 - 08/19/1991	(2.4)	4.4	1.6	11.3
ERM-U.K.-Currency-Crisis	09/14/1992 - 10/16/1992	(6.0)	0.6	3.2	9.2
World-Trade-Center-Bombing	02/26/1993 - 02/27/1993	(0.5)	2.4	5.1	8.5
Russia-Mexico-Orange-County	10/11/1994 - 12/20/1994	(2.8)	2.7	8.4	20.7
Asian-Stock-Market-Crisis	10/07/1997 - 10/27/1997	(12.4)	8.8	10.5	25.0
Russian-LTCM-Crisis	08/18/1998 - 10/08/1998	(11.3)	15.1	24.7	33.7
		<b>Mean</b>	<b>(8.1)</b>	<b>6.9</b>	<b>12.9</b>
		<b>Median</b>	<b>4.2</b>	<b>6.7</b>	<b>12.1</b>