JOLLEY ASSET MANAGEMENT, LLC

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We extend our sincere and deepest sympathy to all of those whose lives have been tragically changed by the events of September 11, 2001. Our prayers and thoughts are with those who have lost loved ones. We salute those whose courage, resolve and hard work have enabled our great country's recovery to begin.

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While we would be the first to acknowledge that there are more important events going on in the world than the financial markets, we felt obligated nonetheless to update you on our perspectives of the current investment landscape.

The best thing about the third quarter of 2001 is that it's over. Stocks and stock funds were pummeled by the combination of a weak economy, falling corporate earnings and the confidence sapping effects of the September 11th terrorist attacks. The S&P 500 index fell by 14.7% (total return) and the average stock mutual fund fell by an average 19.7% for the quarter; the biggest drop since the fourth quarter of 1987 (20.9% decline). The damage was broad and there was no place to hide; according to Lipper Analytical, 99% of stock funds lost money for the quarter. The third quarter made an already difficult year even worse; for the nine months ended 9/30/01 the S&P 500 index was down 20.4%, the Nasdaq Composite down 39.3% and the average equity mutual fund down 25.3%. The last time stock funds ended a year with losses anywhere near as large was in 1974, when the average stock fund lost 24.6%. The chart below shows just how tough the quarter ended and year have been.

Index	3rdQtr 2001	YTD 2001
DJIA	-15.2%	-16.8%
S&P 500	-14.7%	-20.4%
S&P Mid Cap	-16.6%	-15.7%
S&P Barra/Growth	-13.2%	-22.8%
S&P Barra/Value	-16.2%	-18.2%
Value Line	-22.2%	-20.9%
NASDAQ Comp.	-30.6%	-39.3%

We thought the best way to convey our thoughts about investing in this challenging environment would be to explain our investment viewpoint just before and just after the September 11, 2001 attacks. Then we will describe how this impacts our investment strategy for the coming months.

Investment Climate Prior to September 11, 2001

While government statistics may show otherwise, we have felt for some time that the domestic economy was already in recession. As we stated in our Spring 2001 Investment Outlook, "We typically don't know when we are entering a recession or bear market until after the fact." One point that was not in question was that corporate earnings were extremely weak and probably headed somewhat lower. Technology and telecom had clearly been in a "bubble" and the over-capacity in that sector left little hope for a quick rebound in their fundamentals anytime soon. Stock indexes such as the S&P 500 remained rather richly valued despite the fact that they had declined by over thirty percent from their highs. We were expecting an economic recovery to begin sometime in the next six to nine months as a result of the aggressive moves by the Federal Reserve. The stock market is typically forward looking, and in the past has typically rebounded three to nine months before the end of the recession. While we expected a more muted market recovery due to valuation issues, we felt that a rebound in stocks would likely come sometime near year-end.

Investment Climate After September 11, 2001

First of all, the economic slump will almost certainly be more severe than it would have been otherwise. Business activity slowed dramatically for a few days and the aftermath is likely to impact consumer spending, business spending and capital investment. The degree of psychological impact on the consumer and business community is difficult to assess at this juncture. The worry that other terrorist acts could occur may result in a scenario where confidence is slow to recover. It is clear that the economy will be significantly weaker and recession becomes almost inevitable. Consequently, earnings continue to fall and the consensus forecast for the S&P 500 operating earnings for 2001 is now headed to approximately $40. This represents a decline of some thirty percent below the 2000 earnings level. Forecasts for next year are at around $55 (for the S&P), but in our opinion are too optimistic and likely to decline.

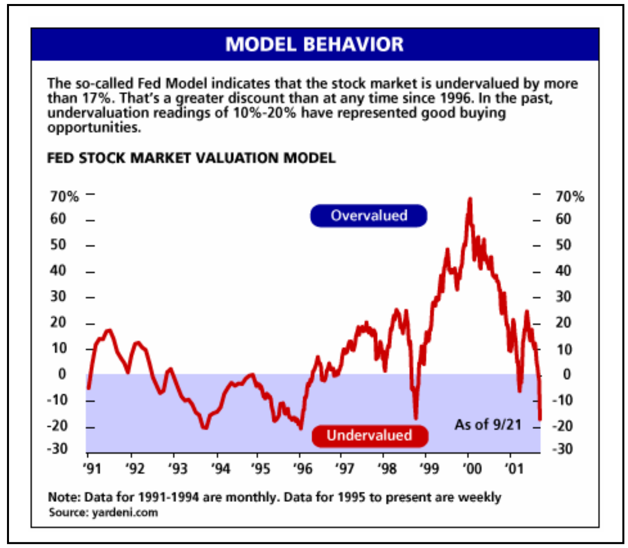
Monetary and fiscal policy is likely to be significantly more supportive than it otherwise would be. According to Ned Davis Research, liquidity is at a forty-one year high and the Federal Reserve discount rate is at a forty-two year low.

Since the September 11th attacks the Federal Reserve has moved twice, bringing the Fed Funds target rate to its lowest level since the Kennedy administration. The most recent rate cuts place the new target rate of 2.5% below August's inflation rate of 2.7%, resulting in a "real" interest rate of zero (actually slightly negative). This is the most aggressive easing by the Federal Reserve since early 1992 through the end of 1993. Fiscal policy will also likely be significantly more supportive than it otherwise would be. The political landscape has changed dramatically so that, in the near term, concern about depleting the surplus will take a back seat to stimulating the economy. It is all but assured that we will see significantly higher government spending that will help support the domestic economy. Despite the aggressive monetary and fiscal stimulus, we believe the near term inflation risk is low as consumer confidence is likely to weaken further. We would warn however, that the combination of aggressive monetary and fiscal policy could result in higher inflation a year or two out or possibly even "stagflation". "Stagflation" is a period of slowing economic growth coupled with a general rise in price levels (inflation).

The sharp decline in stock prices has resulted in much more reasonable valuation levels for domestic equities. According to Edward Yardeni, the chief economist at Deutsche Banc Alex. Brown, the so-called Fed Model showed that the equity market was undervalued by some 17% as of 9/21/01. The model essentially compares the interest rate on ten year Treasury notes to the "earnings yield" of stocks in the S&P 500 index. Essentially, when the earnings yield on stocks exceeds the Treasury rate, stocks are said to be undervalued and when the earnings yield is less than the Treasury rate the market is viewed as overpriced. While the model is crude and is only as good as the earnings forecast used to calculate fair value, it has a pretty good track record, especially at extreme levels.

Conclusions

The economy will ultimately recover. Yes, there will be more layoffs, consumers will spend less for a while and companies will invest more cautiously. However, economic cycles are



nothing new. We have had wars, assassinations, political upheaval, energy crises, financial crises, terrorist acts, and double-digit inflation. This event may be different, but in the end the economy has always proven resilient. We are confident it will again. Over the short-term the market is unpredictable. We have learned to respect that. Many times it does just the opposite of what people think and expect. That is why we believe market timing is a futile exercise. Market timing is a two-pronged exercise; one not only has to be right on the sale of equities, but also on when to re-enter the market (or vice-versa). Furthermore, for the majority of publicly traded companies, we do not believe that September 11th has vastly changed their long-term business prospects. Clearly the short term has changed, but it is the long-term business prospects that drive long term business values.

While we believe the events of September 11, 2001 might result in a steeper downturn, we also believe that the recovery could ultimately be sharper given the expected level of monetary and fiscal stimulus. In our opinion, an economic recovery is unlikely until the second half of 2002, however, we must remind ourselves that the equity markets are forward looking and usually precede an economic recovery by six to nine months. As a disciplined value manager, we are more price conscious than outlook conscious. When the price seems right on a long-term basis, we will often buy, even if the near term outlook is very poor. For that reason, we will attempt to take advantage of any further downturns in the equity markets. Recently we have begun to tilt our portfolios more towards large capitalization issues, as we believe the price declines have resulted in attractive valuations in a number of high quality businesses. We are confident that our disciplined approach to investing will continue to serve our clients well through this difficult period.

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