

# Morningstar Index Report

December 31, 2002

## Morningstar Market Barometer™ 1-Year

|           | Value  | Core   | Growth |
|-----------|--------|--------|--------|
| Large Cap | -15.05 | -23.82 | -33.15 |
| Mid Cap   | -10.00 | -12.42 | -32.54 |
| Small Cap | -8.24  | -14.16 | -36.87 |

## 4th Quarter

|       |      |       |
|-------|------|-------|
| 10.80 | 7.02 | 7.42  |
| 6.45  | 7.18 | 9.26  |
| 2.62  | 6.33 | 11.78 |

## Overview

Big or small. Racy or stodgy. Focused or diversified. No matter the size, stripe or asset allocation approach, if you invested in stocks this year, chances are you're none the richer for it. The Morningstar U.S. Market Index—a proxy for the broad U.S. equity market—has fallen 712 points, or 22%, in 2002.

The widespread nature of this year's downturn has been striking. Neither style nor size sheltered investors from the storm. Not a single one of the nine Morningstar Style indexes—which mirror the Morningstar Style Box™ by tracking stocks that share similar style and size traits—posted a positive return this year. Indeed, the Morningstar Market Barometer™ is a sea of red.

The sources of weakness in this year's market have been numerous and varied. Stocks began 2002 under pressure. A sharp fourth quarter 2001 rally left stock prices ripe for trimming as investors became wary of premium valuations. Those concerns were only heightened by the war on terrorism and continuing signs of an anemic economy. The Enron debacle and the ensuing spate of allegations regarding accounting chicanery and executive misdeeds—

ners of the market in October and November, bidding up nicked names in the hardware, software, and telecommunications sectors. However, the market hasn't been able to carry that momentum through the end of the year. Thus, the Morningstar U.S. Market Index has advanced 8% in 2002's fourth quarter.

## Top 10 Holdings in Morningstar US Market Index
















|                     | Market Cap | 1-Year Total Return % | Weight |
|---------------------|------------|-----------------------|--------|
| Microsoft           | 287,601    | -21.99                | 2.82%  |
| General Electric    | 251,224    | -37.71                | 2.47%  |
| Wal-Mart Stores     | 236,832    | -11.76                | 2.33%  |
| ExxonMobil          | 227,440    | -8.86                 | 2.23%  |
| Pfizer              | 196,645    | -22.16                | 1.93%  |
| Citigroup           | 187,001    | -24.22                | 1.84%  |
| Johnson & Johnson   | 175,278    | -7.88                 | 1.72%  |
| American Intl Group | 172,095    | -26.94                | 1.69%  |
| IBM                 | 133,748    | -35.47                | 1.31%  |
| Merck               | 122,016    | -1.26                 | 1.20%  |

## A Silver Lining?

Several noteworthy trends have taken shape. First, reasonably-priced—or value—stocks continued to fare better than their pricier, faster-growing—or growth—counterparts. In fact, the further one ranged from left to right across the Morningstar Style Box, the heavier losses became. This trend can be plainly seen in the Morningstar U.S. Value, Core, and Growth Indexes, which posted 13.7%, 21.2% and 33.2% losses, respectively, in 2002.

This shift continues a reversal that began with the collapse of the tech bubble in 2000. Investors who had once eschewed cheaper, slower-growing stocks in favor of sexier names in the tech and telecom areas have shifted course in recent years. Indeed, poor earnings visibility (amid a largely dormant business spending environment) and renewed liquidity fears (spurred by the cash-crunches of several big names, such as Tyco) weighed heavily on investor's minds. In this climate, traditional value havens like the consumer goods and basic materials sectors—populated with "old-guard" companies boasting earnings stability, established franchises and solid balance sheets—

## Morningstar US Market Index

|  |   |   |
|--|---|---|
|  <b>Information</b> <b>20.92</b> |  <b>Service</b> <b>50.23</b> |  <b>Manufacturing</b> <b>28.85</b> |
|  Software 4.66                   |  Healthcare 14.41            |  Consumer Goods 10.71              |
|  Hardware 8.01                   |  Consumer Services 9.46      |  Industrial Materials 9.82         |
|  Media 4.48                      |  Business Services 4.86      |  Energy 5.71                       |
|  Telecommunications 3.77         |  Financial Services 21.50    |  Utilities 2.61                    |

capped by WorldCom's stunning fraud disclosure in June—shook investor confidence further still in the second quarter. Those jitters—coupled with evidence of slowing consumer spending and fissures in the housing market—carried over into the year's second half as the Morningstar U.S. Market Index tumbled to a 17% third-quarter loss, its worst ever.

In recent months, the selling has relented somewhat. Bargain-hunters swooped into the most beaten down cor-

took on added luster. On the flipside, investors became increasingly skeptical of names laden with debt or heavily dependent on forecasted demand for price appreciation, such as those in the tech and telecom areas.

A second trend was that investors continued to refocus their sights on smaller and mid-sized stocks, which had been largely neglected during the bull market frenzy.

## Morningstar Cap Indexes

### Morningstar Large Cap Index: -23.47%

Some of this index's biggest constituents came under heavy pressure in the year's first half. With questions swirling about the veracity of reported numbers and the integrity of Wall Street research, even a whiff of accounting or corporate governance hanky panky met with a hefty swat from jittery investors. Marquee names like General Electric, Citigroup, Tyco, and AOL Time Warner felt the pain earlier this year.

The index has also suffered from its above-average weighting in tech, telecom, and healthcare names that have been among the poorest performing segments of the market. However, a late rally in those areas—led by downtrodden telecom and tech stocks like SBC Communications and Intel—has brightened the picture somewhat as evidenced by the index's 8% fourth-quarter return.

### Morningstar Mid Cap Index: -18.06%

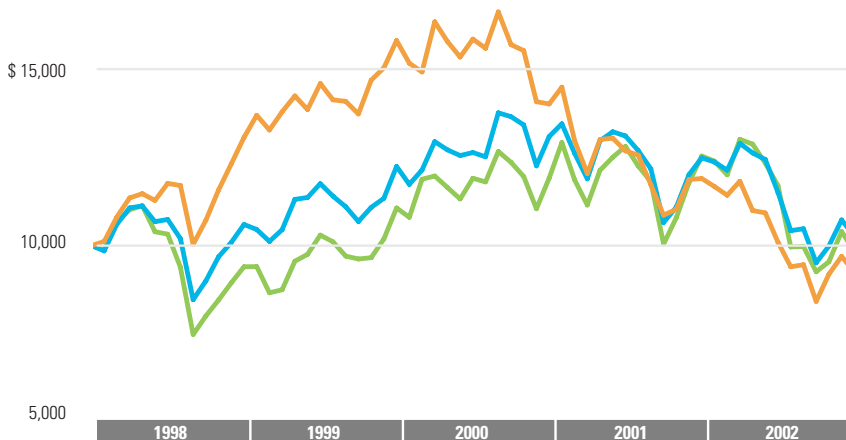
The Mid Cap Index was buoyed by its 54.3% stake in manufacturing and financial-services stocks. These areas—consumer goods and industrial materials in particular—were spared the heaviest losses dished out by the market. Top holdings like Newell Rubbermaid and agribusiness giant Archer Daniels Midland turned in solid years, helping to offset weakness among the index's energy and telecom names (which include the likes of crestfallen merchant energy trader Dynegy and cable-provider Charter Communications). The index also got a big boost from Amazon's surprising 75% return in 2002.

Late year bargain-hunting powered the index to a 7.6% return in the fourth quarter. Wireless service provider Nextel Communications and multimedia titan Yahoo led the way, each posting hefty gains.

### Morningstar Small Cap Index: -20.36%

Despite the strong showing of small value and small core stocks this year, this index was dragged down by its growth component. As explained in further detail below, small growth stocks were the worst place to be this year, posting an average loss of 36.9%. Thus, weakness in the health-care, hardware and software areas more than offset strength in various financial services and manufacturing names, such as Hudson City Bancorp and Blyth.

Growth of \$10,000



- Morningstar Large Cap
- Morningstar Mid Cap
- Morningstar Small Cap

The Morningstar Small Cap and Mid Cap Indexes both outperformed the Large Cap Index in 2002.

The convergence of these two trends has produced a flight toward smaller, value-oriented fare. Nowhere is this more evident than in the lower, left-hand region of the Style Box. While the Morningstar Small Value Index has been this year's standout performer (posting a relatively modest 8% loss), its next-door neighbors—the Mid-Value (-10.0%), Mid-Core (-12.4%) and Small-Core (-14.2%) indexes—follow closely behind. The nearer one was to the southwest corner of the Style Box, the milder the losses were.

As shown in the next section, index performance also turned to a large degree on sector exposure. For instance, the higher an index's exposure to the software, hardware, and telecom sectors, the worse it fared.

## Morningstar Style Indexes

### Morningstar U.S. Value Index: -13.68%

With growth stocks taking yet another drubbing, value was the place to be in 2002. The flight of investors toward sturdier "old economy" names was a boon to this index. Indeed, the financial services, consumer goods, and industrial materials sectors—which account for over 60% of this index—have been this year's strongest performers, with blue-chip names like Bank of America and ExxonMobil turning in solid showings.

generics, and SEC investigations. Thus, there were few places for growth investors to hide. Indeed, of the top 20 most widely held stocks in this index, not a single one broke into the black this year. Among the biggest losers this year were former high fliers AOL Time Warner and Sun Micro-systems, which sank 59.2% and 74.7%, respectively, in 2002.

### Worst Performing Morningstar Style Index

#### Small Growth: -36.87%

With software, hardware and telecom names comprising over 50% of this index, is it any wonder that it got creamed this year? Investors in small-growth stocks have taken it on the chin in 2002 from the new economy fare that dominates this Index. Making matters worse, the index has a mere 13% slotted in better-performing consumer goods, industrial materials and energy names.

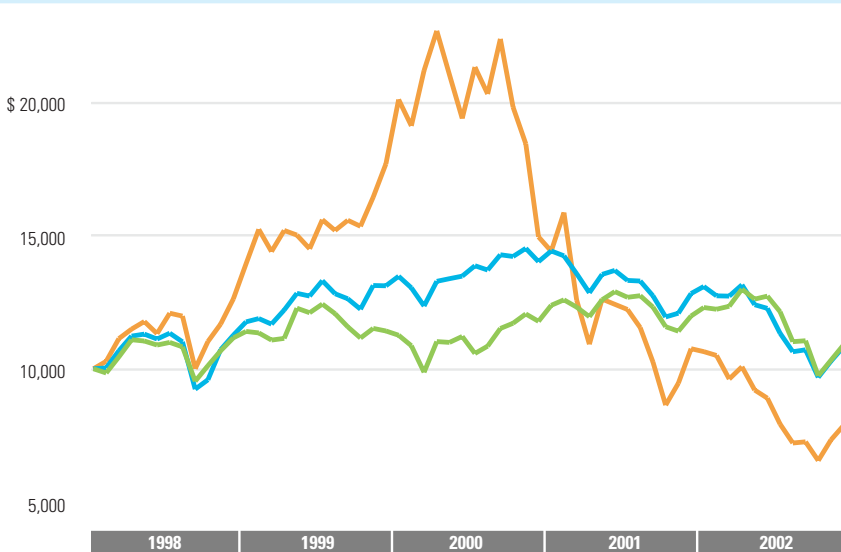
### Best Performing Morningstar Style Index

#### Small Value: -8.24%

The Morningstar Small Value Index suffered a relatively low 8% loss, leading all style indexes. The story here is much the opposite of the Small Growth Index. Indeed, whereas the Small Growth Index suffered from its high exposure to the flagging hardware, software, and telecom sectors, this index treaded lightly in those areas. Instead, it boasted the second-largest manufacturing stake of any of the Morningstar Style indexes. With holdings in the better-faring financial services, consumer goods, industrial materials and energy sectors soaking up nearly 70% of the index, it enjoyed a strong tailwind through much of the year.

—Jeffrey Ptak

Growth of \$10,000



- Morningstar U.S. Growth
- Morningstar U.S. Core
- Morningstar U.S. Value

### Morningstar U.S. Core Index: -21.18%

Straddling the old and new economy, this index's performance landed smack in the middle of its value and growth siblings. Since its tech, healthcare, financial services, and manufacturing stakes all fall in between the growth and value indexes, its showing was understandably a mixed bag. Among the biggest laggards this year were Tyco and Bristol-Myers Squib, which were felled by executive avarice and accounting irregularities.

### Morningstar U.S. Growth Index: -32.20%

Look out below! After the tech bubble lifted software, hardware, and telecom names to unthinkable heights, they've come down in a heap. In addition to tech and telecom—which still are struggling to work off the excesses of the bull market run, such as heavy debt and a glut of supply—big pharma was also roiled by questions concerning patent expirations, the encroachment of more-cheaply priced

# Morningstar Index Report

| Trailing Returns %  |         |         |         |        |        |        |
|---------------------|---------|---------|---------|--------|--------|--------|
|                     | 1-Month | 3-Month | 6-Month | 1-Year | 3-Year | 5-Year |
| Morningstar Indexes |         |         |         |        |        |        |
| US Market           | -5.68   | 8.04    | -10.29  | -22.17 | -13.92 | -1.10  |
| -----               |         |         |         |        |        |        |
| Large Cap           | -6.13   | 8.24    | -9.76   | -23.47 | -16.81 | -1.84  |
| Mid Cap             | -4.41   | 7.64    | -11.04  | -18.06 | -5.81  | 0.47   |
| Small Cap           | -4.68   | 7.07    | -13.67  | -20.36 | -3.36  | -0.02  |
| -----               |         |         |         |        |        |        |
| US Value            | -2.28   | 9.47    | -12.46  | -13.68 | -1.91  | 1.24   |
| US Core             | -5.22   | 7.02    | -8.89   | -21.18 | -8.52  | 0.67   |
| US Growth           | -8.95   | 8.08    | -9.85   | -33.20 | -29.38 | -6.59  |
| -----               |         |         |         |        |        |        |
| Large Value         | -2.55   | 10.80   | -12.30  | -15.05 | -4.64  | 0.55   |
| Large Core          | -6.79   | 7.02    | -7.89   | -23.82 | -12.06 | -0.26  |
| Large Growth        | -9.23   | 7.43    | -9.30   | -33.15 | -31.94 | -7.43  |
| -----               |         |         |         |        |        |        |
| Mid Value           | -1.77   | 6.45    | -12.49  | -10.00 | 5.61   | 3.59   |
| Mid Core            | -3.37   | 7.18    | -10.93  | -12.42 | 2.15   | 2.24   |
| Mid Growth          | -7.74   | 9.26    | -10.03  | -32.54 | -22.23 | -4.73  |
| -----               |         |         |         |        |        |        |
| Small Value         | -1.00   | 2.62    | -14.30  | -8.24  | 8.89   | 3.35   |
| Small Core          | -2.66   | 6.33    | -12.27  | -14.16 | 6.62   | 5.52   |
| Small Growth        | -9.43   | 11.78   | -14.69  | -36.87 | -21.53 | -7.89  |



## 1st Quarter 2002

|       |       |       |
|-------|-------|-------|
| 4.40  | -1.33 | -5.48 |
| 8.61  | 6.09  | -4.91 |
| 12.75 | 6.21  | -6.17 |

## 2nd Quarter 2002

|       |        |        |
|-------|--------|--------|
| -7.18 | -16.30 | -21.89 |
| -5.44 | -7.23  | -21.18 |
| -3.56 | -6.96  | -20.46 |

## 3rd Quarter 2002

|        |        |        |
|--------|--------|--------|
| -20.83 | -13.64 | -16.40 |
| -17.19 | -16.85 | -18.12 |
| -16.90 | -19.70 | -25.24 |

## 4th Quarter 2002

|       |      |       |
|-------|------|-------|
| 10.80 | 7.02 | 7.42  |
| 6.45  | 7.18 | 9.26  |
| 2.62  | 6.33 | 11.78 |

## Portfolio Analysis

|                     | Median Market Cap (\$Mil) | Price/Earning | Price/Book | Price/Sales | Price/Cash Flow | Dividend Yield | 1-Yr Revenue Growth | 1-Yr Book Value Growth | 1-Yr Historical Earnings Growth | 1-Yr Projected Earnings Growth |
|---------------------|---------------------------|---------------|------------|-------------|-----------------|----------------|---------------------|------------------------|---------------------------------|--------------------------------|
| Morningstar Indexes |                           |               |            |             |                 |                |                     |                        |                                 |                                |
| US Market           | 779                       | 24.73         | 4.11       | 2.71        | 14.17           | 1.72           | 4.12                | 9.08                   | 3.81                            | 12.66                          |
| -----               |                           |               |            |             |                 |                |                     |                        |                                 |                                |
| Large Cap           | 16,335                    | 25.09         | 4.40       | 2.86        | 14.70           | 1.80           | 3.29                | 9.08                   | 3.20                            | 10.40                          |
| Mid Cap             | 2,532                     | 25.11         | 3.35       | 2.33        | 12.94           | 1.51           | 6.44                | 8.77                   | 6.66                            | 17.41                          |
| Small Cap           | 615                       | 24.50         | 2.73       | 2.46        | 12.61           | 1.46           | 5.03                | 8.60                   | 4.34                            | 19.95                          |
| -----               |                           |               |            |             |                 |                |                     |                        |                                 |                                |
| US Value            | 1,210                     | 20.85         | 2.22       | 1.37        | NA              | 3.40           | -2.79               | 4.78                   | -12.30                          | 7.11                           |
| US Core             | 1,323                     | 22.08         | 4.35       | 2.11        | 13.08           | 1.61           | 2.53                | 9.76                   | 3.81                            | 11.94                          |
| US Growth           | 970                       | 31.81         | 5.20       | 4.45        | 18.41           | 0.47           | 12.13               | 11.73                  | 6.81                            | 16.66                          |

Notes and Disclaimer: ©2002 Morningstar, Inc. All Rights Reserved. Unless otherwise noted, all data is as of December 31, 2002. Multi-year returns are annualized. NA: Not Available. All portfolio analysis data is as of the most recent month ending. Price/Earnings are based on trailing 12-month earnings. Biggest Influence of Index Performance lists are calculated by multiplying stock returns for the week by their respective weights in the index as of the start of the week. Sector Averages are based on Morningstar's proprietary sector classifications. The information contained herein is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. For information visit <http://indexes.morningstar.com>.

