The Wealth Preserver

A Publication of Stamper Capital & Investments, Inc.

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Stamper Capital & Investments, Inc.

1011 Forty-First Ave., Suite A Santa Cruz, CA 95062 | www.risk-adjusted.com

Beware: "The Recovery" Isn't Wearing any Clothes

While it would be great if we could be recovering from the largest decline in wealth in American history ($5 trillion wiped out by the 70% or so drop in the NASDAQ), we do not think a lasting recovery is likely after just two quarters of recession. It takes time to unravel and work out expectations and structural issues such as long-term contracts that were struck before "the new paradigm" was brought back to reality.

Structural problems resulting from: the largest bankruptcy in history (Enron), the largest retail bankruptcy in history (K-Mart) and the largest telecommunications bankruptcy in history (Global Crossing), in addition to the bankruptcy of Argentina and the worsening depression in Japan, are most likely going to take years to work out, not just a few quarters.

Contracts and employment related to bankrupt entities must be unwound. Doubtless, most of those institutions and individuals who had counted on the continued existence of these institutions' existence will also experince financial hardship, with manygoing into bankruptcy and/or securing less lucrative new situations.

Unwinding similar spirals after such a large change in reality and/or perception have histori cally taken many years to work out. An excellent article just published in **Forbes** by Edward Clendaniel (March 25, 2002) titled "Bubble Trouble" highlights the five economic bubbles that took place over the last 400 years.

Continued at the top of the next page...

Economic Bubbles

1630's Tulipmania in Holland
1719-20 Mississippi Bubble in France
1720 South Sea Bubble in England
1929 The Stock Crash in the USA
1989-present Japan Land Bubble
1998-2010 New Paridigm ?

Morningstar Recognizes Stamper Capital

Stamper Capital managed fund, The Evergreen High Income Municipal Bond Fund, was recently recognized by Morningstar as a **"Pick of the Muni Short Term Category."** For the fourth consecutive time in two years Morningstar has selected the Stamper Capital managed Fund as a top 5 favorite for the municipal bond short term category, attributing the Fund's success to portfolio manager Clark Stamper, who "...is known for his ability to scour the market for underpriced bonds."

Lipper Awards

On December 31, 2001 Stamper Capital & Investments, Inc. was recognized by Lipper Analytical, a top mutual fund rater, as the **#1 High Yield Municipal Bond Fund for the three year period ending December 31, 2001.** This is not the first time Lipper has rated the Stamper Capital managed Fund in the top ranks. In year 2000 the Stamper Capital managed Fund was rated #1 for the one-year period ending December 31, 2000. In 1994 the Fund was recognized as the #1 High Yield Municipal Bond Fund for the one-year period ending December

Continued on the top of the inside back cover...

Continued From the First Page...

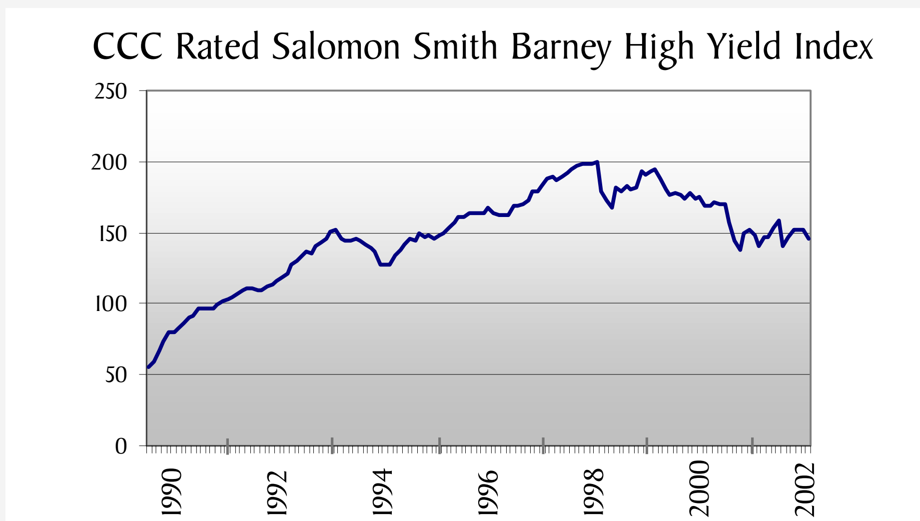
With respect to the bubbles, Mr. Clendaniel points out "**...while bubbles deceptively appear as if they're short-term blips in economic history, more often the aftermath is long term...**" **and that the collapse of the bubbles in the chart on the cover, "[threw] each nation into a recession lasting a decade or longer (my emphasis added).**" Incredibly, he points out that the crash of the South Sea Company **"created a recession that lasted for almost half a century."**

Based on this historical perspective, please let us re-emphasize to our readers that we do not buy into a quick recovery after the largest decline in wealth in US history – in this case recessionary (or worse) conditions are likely to last years.

The Best Indicator For this Cycle

The best leading indictor for this economic cycle has been the taxable, junk bond market. We forecasted the top of the economic cycle back in 1998 based, in a large part, on the underlying fundamentals and trend of this market. From the accompanying chart of the Salomon Brothers CCC-Rated Junk Bond Index (monthly basis) you can easily see the mid 1998 peak. This peak corresponded with the peak in the Advance/Decline line when the average stock began its current downward path. Looking backwards confirms the junk bond index's success as a forecast mechanism!

Looking forward, you can see that the index has not begun to rebound. Our point is that if "the recovery" were real or sustainable this index would be rebounding. It might be taking a breather – going sideways – but the trend is still down. Importantly, the credit extended to the junk bond market since the early 1980's is responsible, in a large part, to the current credit expansion cycle. If this lower quality credit continues to be liquidated, as we believe it will be, this index will continue to drop with the economy following on its heels. Accordingly, we continue to monitor what is going on in the junk bond market.



If the economy is rebounding, then why aren't junk bonds?

About Stamper Capital & Investments, Inc.

Stamper Capital & Investments, Inc. specializes in fixed-income portfolio management strategies and implementation tailored to each client's specifications. In order to help our clients meet their long-term investment goals while maintaining their chosen life-style, we focus on maximizing risk-adjusted performance, that is, we seek to obtain the most return per amount of risk our clients choose to take. The majority of our fixed income portfolios are invested in municipal bonds, but we also offer strategies for taxable municipal bonds, corporate bonds, mortgage-backed securities, high yield corporate (junk) bonds and convertible bonds, you could say we like bonds! In addition to private account management, Stamper Capital & Investments, Inc. manages The Evergreen High Income Municipal Bond Fund. In the 16 years our Portfolio Manager, Clark Stamper, has been managing accounts in the fixed income markets, he has come to believe that maximizing investor risk-adjusted performance is the most professional and prudent investment approach that can be implemented – and it works, as you can see from our top performance in the table on the back page of this newsletter. Call us today at 888-206-6295 for your free consultation to learn how municipal bonds can dramatically decrease your overall portfolio risk. We'd love to teach you how our strategies will help secure your wealth for your future, or check out our website at www.risk-adjusted.com.

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31, 1994 and in 1992 the Stamper Capital managed Venture Income Plus Fund was recognized as the #1 fund of the Taxable Fixed Income category for the one-year period ending December 31, 1992. To learn more about Stamper Capital's top-performance ratings be sure to check out our website at: www.risk-adjusted.com and click the "awards" link.

Recipe for typical Credit Expansion/Contraction Cycle

What is happening to the U.S. economy? We are in a classic credit contraction. In a credit expansion/contraction cycle, first credit is issued at higher and higher levels resulting in increased leverage. The increased credit results (temporarily, although it can be for decades) in increased prosperity. Over time, the increasing level of prosperity is taken as a "trend". Based on this new paradigm of ever increasing prosperity at a new higher rate, people begin to make foolish, short sighted economic decisions. It helps if a government bails out some entities that are "too big to fail" such as a country or a bank – thus, helping people to come to believe that nothing can go wrong – "the government won't let it."

Finally, because of this increased sensation of security, everyone gets tapped out, whether it be from using credit cards to purchase inflated internet stocks (that have no earnings) or from taking out a second mortgage on a long-term investment like a house to purchase a fancy car that depreciates in six years. Once everyone is up to their eyeballs in debt, the credit expansion ends. Of course, to make the cycle even bigger, it helps to have some government programs rob from the future to pay for the present – such as social security (which goes cash flow negative in 2014?) – Once "the future is now" for such pyramid programs, the credit expansion phase is over.

The first step in the credit contraction is for some entity that is depended upon to fail – such as an Enron, Kmart, Global Crossing – any couple of record bankruptcies could do the trick. The larger the failure and the more ludicrous the dependence (like having your entire 401K invested in the stock of the company that employs you), the greater contraction will most likely be. Unfortunately, the rest of the cycle is really depressing, hence the term "depression." This is where people realize that they have spent all their assets and their entire future on the recent past – they leveraged their future up on debt and now what they spent it on has dropped considerably in value. Unfortunately, many people directly related to the early failures lose their jobs and people who invested in those companies see their investments wiped out, but not their debts. **Unfortunately, after a large liquidation in perceived wealth, the liquidation of the accompanying debt can and usually does take years, not months or quarters.** Then, in order to protect a minority of jobs (at the expense of the rest of the public) the government starts protective policies (such as tariffs on imported steel) – aggravating the downward spiral and reducing economic activity and the standard of living in general. In a worst case scenario, like Japan, prices fall in a deflationary spiral. This deflation causes the value of labor to drop, but it is politically and socially awkward to get people to take salary cuts (especially when they are just barely able to pay the interest on their mortgages, housing loans, and credit cards) and for landlords to lower rents. Eventually, companies have to lay off workers, businesses close and people move in with relatives. The downward spiral of such a credit contraction continues until a large portion of the credit expansion debt is liquidated.

In the most recent historical example, Japan's credit contraction has already been going on for over ten years and is not yet finished. Moody's has cut Japan's credit rating three times, most recently, on December 4th, 2001 down to Aa3. Importantly, since then Moody's has put Japan on notice that it is reviewing the Country for a two notch downgrade, which would bring their rating down to A2. Vincent Truglia, managing director of sovereign risk at Moody's commented, "we see an ongoing deterioration in creditworthiness; the only question is speed."

Real Estate Subsidy Problems?

What would happen to housing prices if single family housing lost its government subsidy?

Unfortunately, we might find out shortly. Recent articles in the Wall Street Journal have highlighted the incredible leverage of Fannie Mae and Freddie Mac, the quasi government housing agencies that have been the major source of home financing for the past forty or so years.

It turns out that Fannie Mae is leveraged 60 to 1 – that is 60 parts debt to 1 part equity – in other words Fannie Mae has a debt ratio of 98.4% or it has an equity ratio of 1.6%. These levels indicate a risk level of almost four times that of the riskiest U.S. banks. This razor thin margin for error portends potential problems for the housing and real estate markets. Incredibly, in the wake of the failure of Enron and disclosure of off balance sheet assets and liabilities, Fannie Mae has disclosed that it also has approximately $800 billion of off-balance sheet derivatives. **Now these derivatives can actually lower the Company's risk profile, if the counter party (the other side of the derivative contract) is of high credit quality.** Unfortunately, not enough information on these off-balance sheet derivatives has been disclosed to make a reliable risk assessment. However, upon the recent disclosure, Moody's cited Fannie Mae's "exposure to significant asset-liability and credit risks" under "Weaknesses/ Challenges." If these financing companies get into trouble, you can bet the cost cost of financing real estate will rise-causing the value of single family houses to drop, possibly dramatically.

Our Fund Performance

Stamper Capital & Investments, Inc. has managed the Evergreen High Income Municipal Bond Fund since June 1990. The $675 million fund has been repeatedly recognized by Morningstar as a top-performer among its class, with the highest ratings in the current overall, three, five and ten-year periods. Stamper Capital & Investments, Inc. is a Registered Investment Adviser that specializes in the municipal bond market and is dedicated to helping investors earn the maximum return per the amount of risk taken. **Check out our website at www.risk-adjusted.com to find out more about how our strategies can reduce your overall portfolio risk, while maintaining equity-sized returns!**

Short-Term Municipal Bond Fund Category, Morningstar Rankings

Period As of 2-28-02	E.H.I.M.B.F.* Rank	Number of Competitors	Category Average Total Return	E.H.I.M.B.F. Tax-Free Total Returns	Pre-Tax Equivalent Total Return[1]	Morningstar Ratings[2] (5 stars possible)	Percentage Ranking
1 Year	**21**	117	4.84%	5.43%	8.84%		
3 Years	**32**	105	4.02%	4.31%	7.02%	★★★★★	Top 10%
5 Years	**13**	90	4.34%	4.90%	7.98%	★★★★	Top 22.5%
10 Years**	**6**	22	4.93%	5.29%	8.62%	★★★★★	Top 10%
Overall	**-**	-	-	-	-	★★★★★	Top 10%

*E.H.I.M.B.F. = Evergreen High Income Municipal Bond Fund, subadvised by Stamper Capital & Investments, Inc.
** Results from the B shares. A share estimate: 5.29 + .80 basis points = 6.09% or 9.92% pre-tax equivalent

The above chart summarizes the performance of our mutual fund client. We also offer Private Account Management with different strategies and greater opportunities to earn higher yields. **To give you an idea of the types of strategies available and the potentials offered through our Private Account Management, be sure to check out our website at: www.risk-adjusted.com.**

Stamper Capital & Investments, Inc.
1011 41st Ave., Suite A
Santa Cruz, CA 95062
888-206-6295

Preserving Your Wealth While Getting You Potential Double Digit Returns!

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[1] The pre-tax equivalent total returns are figured based on the highest Federal income tax bracket of 38.6%, no state taxes were included in the calculation.

[2] Morningstar gives its highest ratings of five and four stars overall and for the three, five and ten years ending February 28, 2002 out of 1651, 1495 and 503 municipal bond funds, respectively to the $654 million mutual fund we have managed for over ten years. **The top 10% of the funds in an investment class receive 5 stars, the next 22.5% receive 4 stars.** Morningstar proprietary ratings reflect historical risk-adjusted performance as of February 28, 2002. The ratings are subject to change every month. Morningstar ratings are calculated from the Fund's 3-, 5-, and 10-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee and tax adjustments, and a risk factor that reflects fund performance below 90-day T-bill returns. Past performance cannot guarantee future results.