The Wealth Preserver

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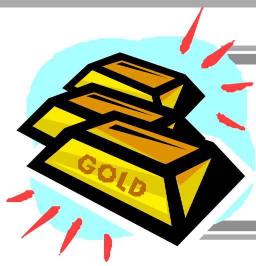

Our Gold and Silver Forecast:

Final Legs Down Before Bull Market in Bullion

In our Fourth Quarter 2001 issue we highlighted our forecast for increased disinflation and finally deflation. Although not highlighted in the general media, this trend has been continuing. Late last year and early this year, domestic auto manufacturers combated the trend with zero interest auto loans; thus, masking price decreases which were hidden in give-away loans. This trend has continued. Currently, Toyota is offering grossly discounted financing on its flagship new model 2002 Toyota Camry that has won all the awards and is one of the top two cars in the U.S. (along with the Honda Accord). **The reality is that this terrific vehicle is not selling because the economy is weak and getting weaker.**

One glimmer some people point to for disinflation and deflation going away is the recent rise in the prices of gold and silver. The typical view, based on the history of the last thirty years, is that the prices of these metals rise during inflation. That is what has happened....in a way; however, they have risen on the expectation of inflation. Gold, from a bottom of about $270 an ounce in early April 2001, rose 22% to just shy of $330 an ounce just a couple of weeks ago. Silver has risen about 25% from a bottom of about $4.09 an ounce in November 2001 to $5.14 an ounce a couple of weeks ago. Importantly, we believe gold and silver will drop in price from the recent tops to below the previous bottoms. We believe these drops are occurring because of the increasing perception that we are not in a "recovery" but actually in a recession/depression with disinflation and/or deflation. We note that the Philadelphia Gold and Silver stock index (XAU) has dropped 17% from its high of late May 2002.

The main point we want to make is that at some time coming later this year, disinflation and deflation themselves will not be the driving force behind gold and silver. **We expect that when deflation really hits, people around the world will begin to fear holding money backed only by paper, especially as governments around the world begin to default as Argentina did recently.**

After that change in psychology, we expect the metals to begin major bull markets that will eventually take out their previous highs from decades ago. Thus, there is considerable upside even from current levels (before our forecasted drop). The key for investors will be to not be shaken

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"W"hat the Economy Might Look Like

June 12, 2002

As forecast, the feeble rebound of the U.S. economy since its bottom in late September 2001 has begun to wane – you will probably agree that you no longer hear the "R" word bandied about like it was even a month ago – in this case the "R" word is "recovery." Unfortunately, we believe the other "R" word, "recession," will start to be heard again and in the end, quite possibly the "D" word (see our previous newsletters and our website www.risk-adjusted.com).

Although barely covered in the media, we note that the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) did not declare the economy to be in a "recovery," and that it has taken issue with the widely held notion that the recession has been unusually brief and mild.

The Dow Jones Industrial Average (DJIA) is down about 10% since the mid-March 2002 rebound peak and the NASDAQ has dropped about 25%. Importantly, the movement of stock prices has historically been the best indicator of the future direction of the economy out of the ten components of Conference Board's U.S. Index of Leading Economic Indicators (LEI). In fact, the stock market is a better indicator of the direction of the U.S. economy than the LEI itself (of which it is a component, as mentioned above). The U.S. index of Leading Economic Indicators (LEI) fell during April, the first drop in seven months (but rose for in May).

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Interest Rates Can Rise in Recession

In fact, it is widely accepted that interest rates for lower quality borrowers normally rise near the end of a recession. This rise in interest rates of lower quality borrowers is usually the final domino before an economy rises from an economic trough. And, interest rates for high quality borrowers/issuers normally go down through a "normal" recession and begin to rise just as the economy begins to revive. However, as we have reviewed several times previously, there are numerous reasons that we believe this downturn is anything other than "normal."

We believe the overriding factor of this economic cycle will be the enormous amount of credit/debt that is outstanding and which will be liquidated. First, ridiculous equity overvaluation will be liquidated – this liquidation has already started with the over $5 trillion decline in market value of the NASDAQ from its peak of 5048 in March of 2000 down 71.8% to 1423 on September 21, 2001. Some people pointed to the rebound in the NASDAQ since that time to rebuff some of our arguments; however, the NASDAQ has dropped approximately 25% from its March 2002 rebound high to 1519 which is hardly above the previous bottom. More important is that the trend in the Dow Jones Industrial Average and the NASDAQ is down and heading lower, and that fair value of the Dow calculated in our January 2001 issue is around 3,100 based on average multiples of dividends and 6,200 based on net profit. Of course, dividends and net profits are down dramatically since then, so fair value is much lower and, of course, the numbers for market bottoms are much lower than those based on market averages. Thus, we continue to believe that much of the value of the equity market will be liquidated.

Now for bonds. Prices of lower quality bonds are the next to go…and they have already started. As discussed previously, credit quality yield spreads (the difference in yield between high quality bonds and low quality bonds) had already widened out to the levels of the bottom of the 1991 mini recession by mid-2001. Now we are beginning to see even worse drops in the value of these junk bonds.

> "We believe the dramatic rise in low quality interest rates will actually **pull up** interest rates of even the highest credit quality issuers."

The bonds of Enron, Global Crossing, Kmart, and Adelphia Communications, etc. have dropped precipitously in value, in part due to the weakening economy and in part due to unethical behavior and even fraud. In addition, several "higher quality" companies have recently been downgraded to "junk bond" status. It is not that this type of activity is unusual in a recession; rather it is the depth and breadth of it and it's definitely related to the upward mania in the valuation of assets that peaked in the U.S. in early 2000. Its become evident that unethical and even fraudulent behavior by many major firms and maybe entire industries helped get the stock market and other assets up to those ridiculous heights from which they are now falling.

Of course, you now probably know what I am talking about….."Bull Market" accounting tricks – basically, many major blue chip and high technology companies with their "pro-forma" income statements, stock options, which were issued and exercised but not expensed, income smoothing (G.E.) all with the blessing of the Big Five accounting firms. Some techniques without the blessing or DETECTION of the outside accountants – i.e. non-disclosed, off-balance sheet loans to company officers (Adelphia, Kmart, etc.) Now the public is shocked that there is a conflict of interest between investment analysts employed by brokerage underwriters of new stock issues and the general public who purchase the stocks. Let me say that none of this is new – most of these conflicts have been discussed routinely in undergraduate business courses at least since the 1970's (when I was in business school). **The same type of activity took place in Japan back in the 1980's before their twelve-year recession/ depression.**

The new issue is that the telltale signs were ignored by the public, and an entire profession (accounting) was complicit with "bull market" accounting techniques in order to get more lucrative consulting contracts. Again, the scope of this unethical activity is without parallel, except in regards to the astronomical asset valuations themselves. From those heights, we find asset values dropping precipitously. As more and more dubious behavior is exposed (rather highlighted), asset values of the accompanying firms will be dropping dramatically.

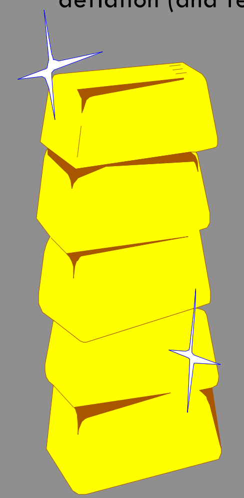
Now, we think that as the economy begins to get even worse, yields of lower quality borrowers will continue to rise. It will even get to a point where some companies will not be able to obtain extended credit, no matter what assets they have that can actually service the debt.

Case in point is Tyco International ("TYC"-NYSE) previously one of the largest capitalized companies in the world. Tyco's stock price has dropped from near its high of $60 per share in late December 2001 down 83% to approximately $10 per share currently. The drop in market value in terms of dollars is about $100 billion. Of course, that is only the equity. The Company also has almost $50 billion of long-term debt. That debt is trading at a yield of 30% - so you could say interest rates for Tyco debt have exploded. When rates go up, principal goes down…so the bondholders of Tyco debt have taken a bath. Now, that's all old news, but this is where the story gets more interesting. Tyco plans to do an initial public offering (IPO) of one of its subsidiaries, CIT Group, but has put it on hold several times. Now that multiples of cash flow that are being paid for companies have begun to implode to more normal levels, the amount of money Tyco had planned to raise from the sale has dropped in half. The reality is that a huge portion of the more than 5,000 acquisitions this company made to grow so swiftly were made at double the going rate in the early and middle 1990's. Tyco needs money to refinance its debt that is rolling over (maturing). Here is the important point – due to the Company's black eye, and because so many other companies and even entire industries (utilities, accountants, and underwriters, for example) are now under the microscope for unethical behavior (of which there is plenty), its unlikely that anyone will lend Tyco enough money to refinance those maturities. This situation is very similar to the Enron melt down. You can almost hear the boards of directors of lenders telling loan officers to avoid another Enron at all costs. **This change in psychology from bull (credit expansion) to bear (credit contraction) is primary to understanding what is currently taking place in the financial markets.**

Finally, as credit for the low quality borrower dries up and contracts, interest rates of lower quality borrowers will rise dramatically. **We believe the dramatic rise in low quality interest rates will actually pull up interest rates of even the highest credit quality issuers.** In fact, it has already begun. The yield of the U.S. Government Long Bond has risen from its low on November 7th, 2001 of 4.79% to 5.54% currently. **Thus, the trend for even interest rates of the highest quality of issuers is UP.** This trend points to the severity of the continuing decline in the U.S. economy – that of a probable depression as opposed to a recession.

Gold and Silver Forecast Continued...

out when the final bottoms are made. Headlines and newscasts will likely trumpet the end of gold and silver, due to deflation during the downward spike, just when governmental default due to deflation (and fear of default) will be starting to push the metals, which are the only real and lasting form of money, dramatically higher. **We believe bullion and coins will dramatically outperform shares of mining companies as all stocks will mostly be dropping and going out of favor. We also believe that once the bottom takes place, silver will outperform gold to the upside.**



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The recent stock market drop (along with the analysis in our previous reports) leads us to continue to believe that the recession is going to be much tougher than most in the press have forecast…so far. At this time, we believe the shape could be a "W" – with the bottom of the left side of the "W" being around September 2001 and with March 2002 being the middle peak of the "W". Thus, **we believe that the down leg of the right side of the "W" began in March of this year.**

The main point of this discussion is that the slight economic rebound that took place from September 2001 to now was not a "recovery" but simply a "breather" in a much larger downtrend in economic activity. Accordingly, we are still recommending investor's brace for the worst, which we expect to begin shortly.

Our Fund Performance

Stamper Capital & Investments, Inc. has managed the Evergreen High Income Municipal Bond Fund since June 1990. The $745 million fund has been repeatedly recognized by Morningstar as a top-performer among its class, with the highest ratings in the current overall, three, 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 5-31-02	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	**5**	109	4.37%	5.57%	9.07%		
3 Years	**22**	98	4.27%	4.67%	7.61%	★★★★★	Top 10%
5 Years	**22**	85	4.37%	4.74%	7.72%	★★★★	Top 22.5%
10 Years**	**7**	25	4.84%	5.12%	7.88%	★★★★★	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: 5.12 + .80 basis points = 5.92% or 9.64% 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.**

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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's proprietary ratings reflect historical risk-adjusted performance within a broad investment category. Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance, including the effects of sales charges, loads and redemption fees, placing more emphasis on downward variations and rewarding consistent performance. The ratings are subject to change every month. Morningstar ratings are calculated from the fund's three-, five- and ten- year (or life of fund, which ever is shorter) average annual returns in excess of 90-day U.S. Treasury Bill returns (on a monthly basis) with appropriate fee and tax adjustments and a risk factor that reflects the fund performance below 90-day T-bill returns (on a monthly basis). The top 10% of the funds in each category receive the highest a rating of five stars. The next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars, and the final 10% receive one star. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.