

MARKET OVERVIEW

THE STRATEGIES

BETTER THAN BONDS / INCOME

A fixed income alternative/equity income approach utilizing reliable dividend growth companies from across the broad market. Stocks are conservative, high quality, high yield, and are projected to have a rising stream of income.

BETTER THAN BONDS / UTILITIES

A conservative, socially responsible strategy offering growth and income for total return investors by focusing on opportunities in the broad utilities sector: electric, gas, telephone, sanitation and water.

DISTRIBUTION / EMERGING UTILITIES

An opportunistic portfolio focusing on companies that are likely to be acquired during an era of utility consolidation and convergence, as well as companies poised to benefit from deregulation.

THE SBI PORTFOLIO

Based on the strategy detailed in Lowell Miller's book, *"The Single Best Investment,"* the SBI Portfolio combines value analysis with stable, moderate growth prospects from all sectors. The portfolio emphasizes companies with reliable dividend growth as well as strong fundamental characteristics.

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At the beginning of the year what was *expected*—that a Y2K bug would cripple the nation's information infrastructure and create chaos, or at least a major bump in the road—failed to materialize. And at the end of the year the *unexpected*—that the fate of the presidency would “hang” on several thousand poorly punched ballots in Florida—rose up to disturb investors as well as the general population. And between those two bookends the year was one in which investors were reminded over and over again that we live...in an uncertain world.

About the only thing certain in 2000 was that Old Economy or “value” stocks had dropped in the previous two years to remarkably cheap levels, reaching valuation ratios that had not been seen in decades, and that there were continual signs throughout the year that these levels had become sufficiently drained of risk to entice investors back to the real, the analyzable, even while the beat of the dot.com party was still throbbing. Even in value land, however, the going was spotty and halting, insecure and questionable, and most value investors had to content themselves with successful damage control rather than real prosperity.

At the inception of the year there were many novice investors running amuck in the markets. Masses of investors moved into the market, willingly or not, by their employers' adoption of 401K plans and the like. And there was the rise of investors with six-shooters trading on the internet. There were instant billionaires and multi-millionaires in tech companies using their float-y company stock as “security” for buying shares in other tech companies. There were literally millions of investors who could stand watching prosperity pass them by from the sidelines no longer.

Passing by our own window we saw a doctor friend who had tripled her stake and was now looking toward retirement, more interested in early morning earnings reports than in early morning rounds. A musician had a friend in Silicon Valley, and helpfully called us with the latest tips on news which was allegedly soon to be announced. One client left us and left her consultant to invest all her savings in Ariba. Cha Cha Cha.

With so many novices, the situation was ripe for an educational adventure. We've never been of the school that believes the market has a “mind,” but it surely appears as though the market was engaged in offering some lessons in the year 2000. A few of these worth remembering, for both novices and graybeards alike:

“Credible-sounding journalists made the case for stocks based on quick readings of reviews by brokerage analysts (analysts-in-training?), and investors jumped aboard, fearing that if they waited for afternoon they would be too late.”

—There is a kind of Heisenberg principle at work for expected events. The more closely observed a given phenomenon, the less likely it is to fulfill expectations. Headlines fade more quickly than stories from the back pages. Consider Y2K. Or the price of oil, which late last summer was widely perceived to have unlimited upside, yet has recently declined nearly 30% from its highs. Or the New Economy, which at the beginning of the year was expected to dominate the world by Christmas.

—Don’t take your investment advice from journalists. We were amazed to see the market respond to stocks mentioned on various reputable websites, in newspapers, or on the ubiquitous CNBC, last winter. Credible-sounding journalists made the case for stocks based on quick readings of reviews by brokerage analysts (analysts-in-training?), and investors jumped aboard, fearing that if they waited for afternoon they would be too late. Most of these stocks are now worth a tiny fraction of the prices when “recommended” by people who themselves likely have little investment experience.

—Life is imagined much more quickly than it can actually come into being. No doubt in our lifetimes many of the New Economy companies will come to be important factors in the real world as well as in the market. After all, only one company of the original Dow Jones group still remains. But there’s many a slip between cup and lip, little details such as running out of cash, being overtaken by new technology, convincing customers to change their technologies or process, bumping into a legislative wall. This year, companies found financing windows suddenly shut, forcing radical restructurings of their business plans and frequently diminishing their customers’

ability to pay for goods or services ordered. Business is hard. It’s not just the product, or the marketing, or the financing, or the people and management, or the protection from competition, or the end-user demand. It’s all of these things, and in most cases it’s impossible to know if all the elements of a successful business are present until they are, actually and demonstrably, present.

—Better not follow the “hot dot.” Despite all the academic and anecdotal evidence to the contrary, there is virtually no chance for long-term success in joining the crowd and buying yesterday’s top performers. It’s Heisenberg again: the more a stock is discussed and observed, the more it is in the limelight for its great potential, the less likely that potential is to become manifest. Indeed, effects of an inevitable reversion toward the mean can be wrenching and disastrous.

And so investors head into the new millennium decade sadder, wiser, and, for the most part, poorer (except our clients, mercifully); but also richer in one important way. The real has returned. There is doubtless always room for a well-considered speculation or two, but investors are not likely to go for the “oakey-doak” again anytime soon. Investments that succeed will be real companies in real businesses, proven, rationally analyzable, owned for their ability to succeed in the long term in their fields, bought when prices are modest relative to prospects.

Fortunately, today’s market still reflects the abandonment since 1998 of these kinds of securities. Great values among solid companies with reliable if moderate growth are abundant. In an environment of slower growth and declining short-term rates, such stocks are likely to provide satisfying returns in the year ahead.

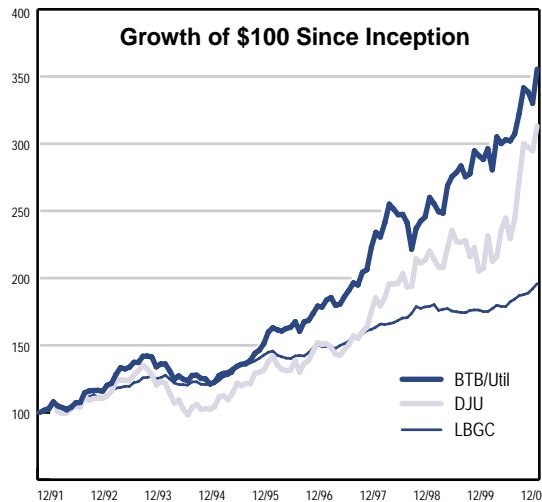
SELECTED INDICES

	4 th Qtr’00	12Mo
S&P 500	(7.82)	(9.11)
Equity Inc	2.72	6.77
Util Fund	(3.25)	8.29
DJUA	4.31	50.98
LB Treas	7.24	20.27
LBGC	4.37	11.85
S&P 400	(3.85)	17.51
Value Line	(6.28)	(8.71)
Rus 2000	(6.91)	(3.06)
Rus 2000 Val	8.11	22.83

S&P 500 = Standard & Poor’s Index
 Equity Inc = Ave Equity Income Fund
 (Lipper)
 Util Fund = Ave Utility Fund (Morning Star)
 DJUA = Dow Jones Utilities Ave
 LB TREAS = Lehman Long Treasury
 LBGC = Lehman Bros. Gov/Credit Bonds
 S&P 400 = S&P Mid Cap Index
 Val Line = Value Line Price Index
 Rus 2000 = Russell 2000
 Rus 2000 Val = Russell 2000 Value Index

In a quarter and year in which most investors would rather have had their money anywhere but equities, our portfolio continued to place foot after foot and hike past the chaos all around with nary a scratch; indeed with some rather nice “bull market” returns. To be sure, the large-cap electrics finally had their year (and we apparently will never tire of re-iterating the fact that we proposed this would happen back in January of 2000, when the very mention of utilities prompted investors to hold their collective noses)—the best year ever for this segment. But telecoms were as much a disaster as technology, and it is something of a testament to our portfolio balance that even without the large-cap electrics (nearly all have nuclear power, in which we don’t invest), and even with our typical complement of telecoms, we were able to return more than 20% for the year at a time when it was not unusual for traditionally-minded investors to lose 20%. For the quarter we showed decent gains though the major broad indices declined anywhere from –5% to –30%.

Normally, we don’t find it productive to compare our risk/reward profile to the broad market—our yield is so much higher and our portfolio valuations so much cheaper than nearly all equity categories. (We do find it hard to resist a comment or two when our “turtles” turn out to have greater long-term investment power than many of the conventional asset-allocation categories for which non-clients forsake us). But the dismal performance this year of those “other” categories reminds us of a few salient facts about our quiet and conservative approach. Recently we were somewhat surprised to find that MMR (an organization that ranks and reviews private account money managers) had us ranked



“We do find it hard to resist a comment or two when our “turtles” turn out to have greater long-term investment power than many of the conventional asset-allocation categories for which non-clients forsake us”

number one for the past five years for risk-adjusted return among all mid-cap managers, as well as all mid-cap value managers. Our goal has been simply to provide the best returns we can, consistent with minimum risk, and we are normal enough to have always aspired to be number one on someone’s list, so it’s definitely pleasant to see both our theory and our execution receive recognition.

But our real moment of bliss comes in relation to the S&P 500. We’ve often found that investors want to prospect for higher returns than they imagine our companies can provide, even though risk and volatility is higher. And when we’ve done well, investors often feel that they’ve “missed” a one-off event; that it won’t happen again anytime soon. Our long-term study, however, showed that investors should expect equity-like returns from a utility portfolio, with bond-like volatility. We think it’s worth pointing out that for the trailing five years—five long years of historic bullish activity, save for the year just past—we performed just about as well as the S&P 500 on an absolute basis. On a risk-adjusted basis, however, we’ve won laughing, since our

Quarter Composite Net of Fees*

BTB/Util (Preliminary)	4.09%
DJUA (total return)*	4.31%
LBGC*	4.37%
Ave Util Fund*	(3.25)%

12 Month Composite Net of Fees*

BTB/Util (Preliminary)	23.37%
DJUA (total return)*	50.98%
LBGC*	11.85%
Ave Util Fund*	8.29%

3 Year Composite Net of Fees*

BTB/Util (Preliminary)	14.97%
DJUA (total return)*	19.11%
LBGC*	6.21%
Ave Util Fund*	13.71%

**Index returns are stated gross of fees, although it is not possible for an investor to purchase the index without incurring fees.*

standard deviation is 10.65 compared to the S&P 500 at 13.41 (and long-term government bonds at 7.78) with an average portfolio beta of 0.46 relative to the S&P 500. And the correlation of returns between our portfolio and the broad market is attractively low, with an R^2 of 0.34.

Enough trumpeting. Back to work.

PORTFOLIO HIGHLIGHTS

Although we'd thought telecom stocks had fallen enough and were ready to find buying interest this quarter, these were once again a drag, and the portfolio again repeated the pattern of the year—led upward by our traditional utility names and by our added exposure to gas transportation equities as well as companies with gas exploration and development subsidiaries.

Sometimes companies from which you anticipate merely respectable performance—"portfolio stocks," we call them—will surprise you. Peoples Energy, the Chicago gas distributor certainly surprised to the upside this quarter, with a portfolio-leading gain of 35% for the period. This long-time holding has always been a kind of steady-eddy company, one that helps the overall portfolio yield while also offering potential appreciation. In our view, the company was a ripe consolidation candidate, given its strategic location, low price, and excellent finances. But in recent years the company has also been diversifying, creating electricity generation joint ventures with Dominion and Aquila Energy. (Bear in mind that gas transporters are likely partners for a generating company, since an electric plant is best located on or near a gas transport line).

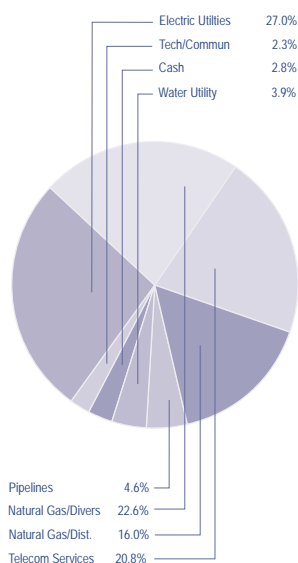
We've mentioned before that NiSource "stole" Columbia Energy (full disclosure: we never thought NiSource would prevail in acquiring its larger target, opining so in national media!), and this quarter investors began to

recognize the strategic fit of the new acquisition, which makes NiSource one of the key players in gas transport east of the Mississippi. Early cold weather certainly didn't hurt in clearly establishing the earnings- and revenue-accretive benefits of this deal. NI is still cheap even after its 25% gain for the quarter, though, and is itself a consolidation candidate until it moves to much higher prices, which we think are in the offing.

If gas holds appeal (let's stipulate that it does, since prices for the commodity have more than tripled over the past year, based on recent quotes), then it's not hard to imagine which issues helped boost returns over the quarter. Our KN Energy securities, a frequent name on the "helped us" list, added a 17% return, and now threatens to become a triple, since our first purchase in July of 1999. El Paso Energy, NICOR, Kinder Morgan Energy Partners, AGL Resources, and Keyspan were among the gas-related issues providing a boost to returns, most of whom were heavily weighted. Our favorite among the utilities with energy exploration and production, Questar, gained 8% for the quarter and has doubled in price this year.

The telecom world was...another world...this quarter and this year, and it definitely dragged down our results (at other times, of course, it has been telecom that lifted us up). Phones transmogrified from existence in a virtuous to a vicious circle this year, and there was hardly a toadstool in the forest under which to hide.

It was a year in which a grand old name like AT&T lost more than 60% of its value (we were fortunate to sell this one last winter), and the competitive carriers, including our own Global Crossing, were demolished. It was not uncommon, by year's end, to see this category down like a dot.com, off 70-80% and more from the yearly highs. Very new entrants, such as second tier fiber companies and some DSL players, all but expired as the capital markets closed the financing window and bonds could



UTILITIES PORTFOLIO CHARACTERISTICS

Beta*	0.49
Dividend Payout	60.05%
Sharpe Ratio	1.00
Projected Dividend Growth	4.38%
Treynor Ratio*	24.16
Current Yield	3.29%
Annualized STD	11.97
Market Cap (MDN)	\$4.2 Bil
Price/Book	2.48
Quality (Equity Rating)	A--
P/E Ratio (MDN)	16.68

*Relative to DJUA, 12/31/95-12/31/00

not be sold at any price—an impossible situation for a company in high construction mode. We had a small position in Covad, a leader in DSL provision, hoping to make it a larger one later, but the company was staggered by news that many of its customers—the newer brand of competitive telco—were unable to pay their bills. We found ourselves in the third quarter buying back Sprint at about a third of what we’d sold it for the previous fall, only to see it drop a bit more through the fourth quarter.

In our overview we spoke of lessons, and there was a big lesson in Telecom land this year: *the incumbents win*. New competitive legislation and rules were never really able to pry open the tenacious grip the incumbent phone companies like Verizon, SBC, and BellSouth have on their customers and their physical networks. The devil was in the details for competitive players, and it was also in the wallet. New infrastructure is expensive, and a new competitor has to both build infrastructure (on borrowed funds or equity capital raised) and fill that infrastructure with customers. The incumbents already have the customers as well as a base infrastructure on which to build. The business is theirs to lose.

Though telecom results hurt us in 2000, already this year we’ve seen the benefits of a portfolio balanced across the various utility industries, as our portfolio has remained stable while the large-cap electrics and the independent generators have taken a shot across the bow due to the turmoil in California. As we’ve written before, regulators in that state have made a royal mess of deregulation by opening up markets before there was sufficient capacity to supply them, and it is still difficult to site a new plant in California. As of this writing there’s no way to know exactly how things will fall out there, save to say that energy consumers will always, finally, pay for their energy, whether directly or in the form of higher taxes necessitated by a state takeover. Fingers

are pointing everywhere in Sacramento and San Francisco and Los Angeles and San Diego, but few fingers are pointed toward Texas. No one seems to want to remember that some 60% of electricity cost is in fuel, that natural gas is the fuel that supplies incremental increases in electricity production, and natural gas prices have risen three to four fold over the past year. Of course electricity is going to cost more, though the regulators seemed to have thought that a 10% rate increase would just about cover it.

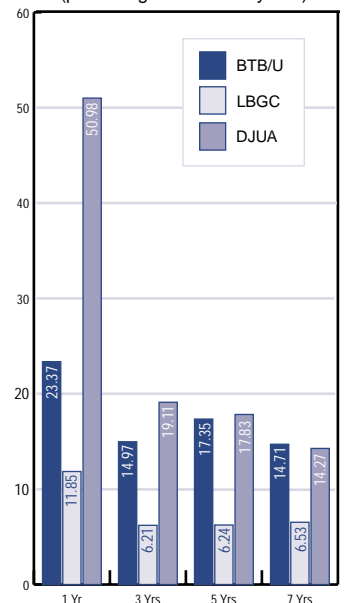
Our hope is that this one-state crisis will provoke action at the Federal level. Deregulation has gone slowly precisely because it has been a state-run affair (only about half the states have actually deregulated), complete with inept politicians or ignorant elected officials, relying on university professor consultants to design their systems (why not ask Enron?). Federal legislation, which has been on the table for a couple of years but has yet to pass, would level the playing field across the nation, and, through abolition of the Public Utility Holding Company Act, invite new and well-financed players into the utility arena. California has certainly shown decision-makers what not to do, which makes the job at least a little less anxiety-producing. Our own portfolio contains no California utilities and no generators which might be hurt by the payment circumstances there, though this latter category gets more interesting to us as the prices have come down.

LOOKING FORWARD

As the year opens a bit of air has been let out of our balloon, which helps us relax about the upcoming stanza. In an environment of slower growth and declining interest rates, we’ll be surprised if even the California situation can restrain our returns very much, though we’re definitely due for a minor rest after the satisfying results of the past year, three years, and five years. □

“Phones transmogrified from existence in a virtuous to a vicious circle this year, and there was hardly a toadstool in the forest under which to hide.”

Seven Year Average Annualized
12/31/93 - 12/31/00
(percentage of return in years)



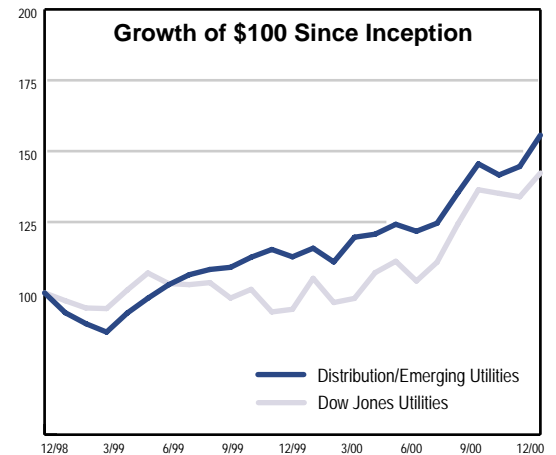
“But investors were not done re-rating these stocks upwards based on both their intrinsic values and their private market value as takeovers.”

This group of stocks, which—apart from their appeal as takeover candidates—are probably the most conservative and boring entities in the entire equity universe, was our best-performing portfolio in 2000 as well as in the 4th quarter. And they provided returns in the top few percentiles for all equity portfolios of any kind for the year. Last quarter we thought the rate of change had to slow (from the 3rd quarter’s torrid 20% pace), and it did. Frankly, however, we would have been content to merely tread water and would not have been surprised to see some backing off, after the outstanding returns posted previously. But investors were not done re-rating these stocks upwards based on both their intrinsic values and their private market value as takeovers. The quarter’s good returns were not blessed by transactions, since there was only one.

PORTFOLIO HIGHLIGHTS

The single transaction was a fairly complicated deal in which Public Service of New Mexico will acquire the two Kansas electric utility holdings of Western Resources, and WR holders will retain various other WR businesses, including a 45% stake in gas distributor and processor Oneok. While this deal is far from a sure transaction, it did serve to establish the market value of the parts of WR (mid \$30’s), and for now we’re content to retain our position, purchased about 30% lower than current quotes, while awaiting the outcome of shareholder and regulatory voting.

Though there were no other new transactions, we did well with stocks in



which we have taken or maintained post-announcement positions. GPU has come along faster and further than we expected. As of this writing the stock is above the originally stated purchase price because its acquirer, First Energy (formerly Ohio Edison), has rallied sharply and is above the transaction collar, meaning that GPU can now rise in tandem with FE stock. This means we’re now less interested in the outcome of the deal (approvals seem to be a shoo-in at this point) than in the progress and prospects of FE. Since we’ve already reached our price target, we’ll be selling on the first hint of FE weakness but attempting to temporarily retain shares based on FE’s significant market strength and the overall positive climate for utilities. We won’t take FirstEnergy shares, since the company is not itself a takeover candidate. MCN is similar. The acquirer, DTE, is now above the collar price and has become, therefore, the real item we’re watching. With a weakening auto sector in its territory DTE is hard to favor in the utility universe, and MCN may go sooner rather than later. Empire District declined on word that Utilicorp is backing out of the

merger agreement, based on regulatory uncertainty (there was a year-end deadline for this deal). In our view EDE is for sale and there are a number of other logical buyers, buyers who now have a much clearer idea of the requirements of the regulators. We doubled up.

Lots of stocks participated in the gains this quarter, and only our three small telecom positions were a drag, as one might expect given the conditions in the telecom world. We couldn't understand why Piedmont Natural Gas was "just sitting there" for so long, as it's a prime consolidation candidate for a number of large utilities. Investors stepped in where corporations had not yet tread, though, boosting the stock about 30%. NiSource closed on its fabulous deal with Columbia Energy (a stock on which we earned 35+% in about 7.5 months, buying it during the market chaos last April). Arbitrage pressure was released, permitting the stock to rise more than 25%. We still think NI is itself a takeover candidate, valued modestly and valued nearly without Columbia's major gas pipeline assets which they practically stole away. Elsewhere the re-rating story was similar, with about half our issues in double-digits, including RGS, CMS, TECO, Atmos, Peoples, Energen, Utilicorp, and NUI.

LOOKING FORWARD

What next? Or, more precisely, what do we do for an encore? It is undeniable that some of our stocks have risen to a level that approximates fair value—at least insofar as we determine fair value from previous

transactions in the industry. Those need to be trimmed in portfolio weight now, and held with a close eye to developing fundamentals as well as on new deals and the valuations at which they emerge. Transaction candidates have grown a bit scarcer now. Will scarcity raise the private market value of utility transactions? We'll have to watch and wait.

On that subject, what's happened to the deal flow? The pause is temporary, we think. Earlier in the year rising rates and the digestion needs of several major acquirers, in addition to a wait-and-see attitude among many participants with regard to federal energy and utility deregulation legislation, prompted a kind of resting period. In the interim, utility stock prices rose generally, giving acquirers greater currency but also raising the prices of many potential acquirees. However, there are a number of fine candidates whose prices rose little or not at all over the past year, and that very fact may help predispose them toward a merger scenario. Our strategy is to lighten up on the stocks that have risen on their own, increase weights in holdings that haven't participated greatly, and add new items which we believe are priced right for acquirers—a group which we believe will become more active now that digestion has occurred and, importantly, now that regulators at the Federal level are more likely to favor deals than some of their Democratic predecessors. □

FUNDAMENTAL CHARACTERISTICS

Yield	3.79%
Proj Div Gro	2.93%
Payout Ratio	68.63%
Market Cap (MDN)	\$2.0 Bil
Price/Book	1.72
P/E Ratio(MDN)	15.14
Quality (Equity Rating)	A--
Beta*	0.45

*Relative to Dow Jones Utilities Index (12/31/99-12/31/00)

Quarter Composite Net of Fees*

Distribution (Prelim)	6.95%
DJUA (total return)*	4.31%

12 Month Composite Net of Fees*

Distribution (Prelim)	38.09%
DJUA (total return)*	50.98%

2 Year Composite Net of Fees*

Distribution (Prelim)	24.77%
DJUA (total return)*	19.28%

*Index returns are stated gross of fees, although it is not possible for an investor to purchase the index without incurring fees.

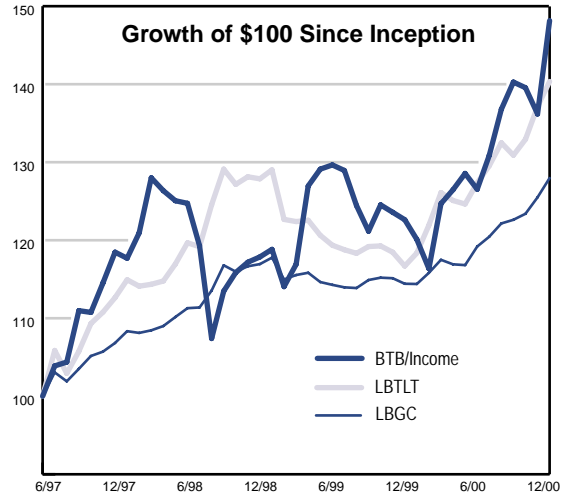
"...there are stocks in most industries that fit our criteria now, and investors in this strategy have an opportunity to lock in a 5.75% (current) yield which will grow in the future, in companies that will grow as well."

We've been enthusiastic about the prospects for this portfolio for some time, and while the greater market breadth we'd been anticipating as support for these "old economy" stocks didn't develop, we nevertheless were able to add substantial gains to our already-strong yearly returns. Fundamentals of our stocks continued to improve, with only one disappointment, and their cheapness has continued to attract investors. Too, at a time when long-term treasury bond yields have declined into the low 5% range, our current yield of closer to 6% looks mighty attractive, especially when coupled with the dividend growth and appreciation potential which characterize this strategy.

PORTFOLIO HIGHLIGHTS

The strengths in our portfolio did not vary much from the third quarter and the year in general. Gas volumes and gas prices rose radically for the year and quarter, prompting startlingly good gains from otherwise humble issues. Peoples Energy, a gas distributor in the Chicago area which has been touching a toe in the electricity generation waters through joint ventures, awoke after many quarters of sleep with a 35+% gain. Washington Mutual added a 35% gain to its similar rise last quarter, and has now more than doubled since our purchase earlier in the year. We also have yearly doubles in KN Energy preferreds as well as Questar, both of which also added double-digit gains this past quarter. Who says conservative investors have to accept limited upside potential?

A number of issues were chasing right behind these good quarter and year perfor-



mances. We were pleased to receive some instant gratification from our new position in Genuine Parts, about which we noted "there are not many 5+% yielding stocks that have raised their dividends every year for more than 40 years, sell at a P/E of 9 on this year's earnings, sport among the best financials in all of corporate America...and have historically sold at a P/E premium to the market." Not only are we up a quick 30%, our plump yield on cost is also intact...indefinitely.

We bought Firstar, a dominant regional banking company in the upper midwest, on a dip down to the 17-18 range, where we found it almost unbearably cheap, if perhaps not the highest yielding stock in our universe. Lightning struck twice, as the newfound investor interest in moderate growth stocks at immoderately low prices also targeted this one, boosting it more than 30%. Existing bank holdings Amsouth and Union Planters benefited from investor expectations of interest rate cuts. We also bought BCE, formerly Bell Canada, which has been fairly dormant and unnoticed since spinning

Quarter Composite Net of Fees*

BTB/Income (Preliminary)	5.61%
LBGC	4.37%
LB Long Treasury Index	7.24%

12 Mo Composite Net of Fees*

BTB/Income (Preliminary)	20.79%
LBGC	11.85%
LB Long Treasury Index	20.27%

2 Year Composite Net of Fees*

BTB/Income (Preliminary)	12.13%
LBGC	4.62%
LB Long Treasury Index	4.77%

*See Performance Disclosure on page 12.

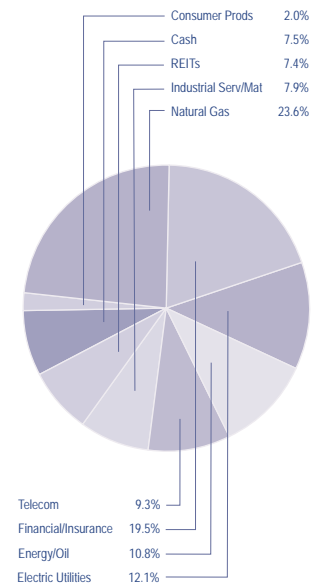
off its Nortel holdings last spring (with perfect timing, we might add). The largest phone company in Canada, in both local and long distance as well as the newfangled services, BCE doesn't suffer from the competitive and financial issues of domestic carriers, and has moved up since purchase. We also bought Suburban Propane MLP units, at a rousing 10% distribution yield. Volumes are rising quickly for this company, and the yield is not only safe, in our view, but likely to grow soon. Given the reasonably solid circumstances of this producer of cash flow for the portfolio, our reasoning was not all that sophisticated: we've had three warm winters in a row. How much risk could there really be in purchasing a very cheap high yielding stock in anticipation of a return to more normal temperatures? Propane companies are unregulated, and reasonable to consider as acquisition candidates for utilities which are spreading their wings. Too, though few people realize it, propane companies will be big beneficiaries of the fuel cell innovation, if, as, and when that should ever arise. Their more rural customers are among the most likely buyers of fuel cells, and propane companies will also be supplying the fuel for the cell, taking market share from electric companies. So there could be a lagniappe laying in wait in this area.

A few stocks weakened. AES Trust shares came off their highs, along with the rest of the generating group, but these have been excellent performers for us since purchase earlier in the year, and we continue to expect the long-term to be rewarding. Dana suffered from perceptions and realities of a slowdown in the auto and truck markets, but this is an

outstanding company with outstanding management, the sort of company whose shares will move quickly upward once the light at the end of the tunnel begins to show. Meantime...a safe 8% yield. Crown Pacific stumbled on a sharp deterioration of fundamentals in the lumber market. We're unhappy with the news, coming so soon after a generally positive outlook was expressed by management at the end of the third quarter. The chairman is a major holder, however, and the company was already put up for sale once within the past twelve months, so we elected to hold our shares at least for a while, pending some currently unknown and unknowable corporate development.

LOOKING FORWARD

We're looking for positive performance in the near term. A decline in interest rates will likely help our high-yielders. As cheap stocks with growth they remain an alternative of interest for investors licking their Nasdaq wounds and returning to the world of the real. Best of all, really, we find lots of opportunities in our universe—that's the most reliable future indicator for patient investors. As has been the case for several quarters, there are stocks in most industries that fit our criteria now, and investors in this strategy have an opportunity to lock in a 5.89% (current) yield which will grow in the future, in companies that will grow as well. We would note also that a recent ranking of private account managers showed that our Better Than Bonds/Income strategy had the lowest standard deviation (volatility) of any mid-cap equity portfolio. □



FUNDAMENTAL CHARACTERISTICS

Yield	5.89%
Proj Div Gro	6.56%
Payout Ratio	68.95%
Market Cap (MDN)	\$3.6 Bil
Price/Book	2.59
Beta*	0.50
P/E Ratio**(MDN)	13.90
Quality (Equity Rating)	A--

*Relative to LBGC, 12/31/97-12/31/00
 **Reit's use P/FFO ratio rather than P/E Ratio

"Bargain value? Or bargain tech? The Lady or the Tiger? That's the investor challenge posed today. In truth, we really want what's behind door number three!!!"

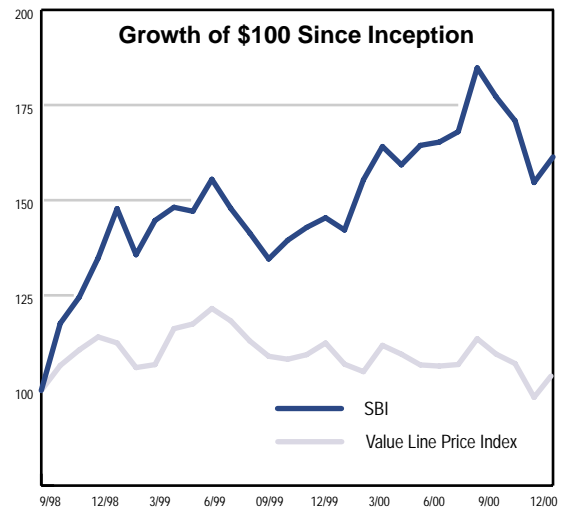
As most know by now, the 4th quarter of 2000 was one of the toughest for equity investors in recent memory. The negative interest rate environment along with the never-ending chain of warnings, downgrades, and lowered forecasts, cast a shadow of doubt on most growth industry sectors. Remarkably, according to the statisticians, the US economy lost approximately \$3 trillion in the slide of the century. The weakest components in the S&P index were technology and telecom services, and our portfolio, while "light" in these areas was certainly touched by the torpor. For the quarter, our immunity to tech problems finally broke a bit, and we declined a bit more than the S&P 500, at -8.89%, net of fees. For the year our returns were in good shape, especially considering the opportunities for disaster that lurked around so many corners, as the value elements in our list helped bring our annual return up to 11.03%—a healthy cut above all the major averages and categories of mutual fund.

PORTFOLIO HIGHLIGHTS

A number of surprising stocks helped us this quarter—bit players that suddenly turned, if perhaps temporarily, into celebrities. Stocks of various backgrounds, industries, and financial characteristics performed well. At the top of the list was the stodgy Genuine Parts, a stock we mentioned last quarter as a new position. This excellent, fundamentally sound auto parts distributor took off in mid November after months of sleepy performance and produced a quarterly gain of over 37% Washington Mutual, regarded a safe haven by investors due to its relatively low credit risk, followed closely with a 33% gain.

Another stock we've been excited about

since the moment we bought it, Medtronic, finally broke out of its trading range and in spite of recent market volatility hit a new all time high. In November it went through some troubled times caused by the ubiquitous "rumor mill" of the market, but the company yet again came out with stellar earnings and very enthusiastic comments about the prospects for the rest of the fiscal year. In addition to the superior financial performance, a rock-solid balance sheet with over \$900 million in cash, MDT remains the leader in



Quarter Composite Net of Fees*

SBI (Preliminary)	(8.89)%
Value Line Index	(6.28)%

12 Month Composite Net of Fees*

SBI (Preliminary)	11.03%
Value Line Index	(8.71)%

2 Year Composite Net of Fees*

SBI (Preliminary)	9.43%
Value Line Index	(5.13)%

*See Performance Disclosure on page 12

the heart implant market, with a constant "stream" of new products. In fact, we believe it's one of the best-positioned companies in the medical device universe and should be able to sustain an annual growth rate of over 15%. It's not especially cheap, but impeccable stories are rarely found on the bargain counter.

Along the same lines, Baxter International, our favorite holding for a while, outperformed the market greatly during the last quarter. And as we write this report in the first week of the new millennium, it's approaching new highs. There's fundamental change at Baxter, a transformation from the commodity supplier to the medical industry

to a value-added high-volume specialty products supplier. The stock's performance warrants some trimming down of weight, but the underlying fundamentals argue for a long, long, relationship with this company.

One of the new portfolio additions for the quarter was Firststar Corp, a midwestern bank holding company which just about fits into the category of super-regional. The stock looked appealing to us based on its valuation, an attractive dividend yield, as well as the formation of a favorable fundamental base driven by the possibility of lower interest rates. In addition, we believe that FSR can further benefit from its soon to be completed merger with US Bancorp, which should provide sustainable revenue growth for many years. The stock helped our returns almost from day one, and it remains exceptionally cheap.

One of the indisputable truths of investing is the admonitions to buy great companies when their stocks are out of favor or when they are experiencing short-term difficulties. It's actually a little difficult to know which of those two conditions applies in this case, but we added Home Depot during the quarter. On average, this portfolio is a mid-cap entrant, but we are not biased against large-caps when we can buy steady and reliable growth companies at historically modest PE multiples. The company warned of a light quarter and the market quickly carved out \$33 billion in market value from the stock. We bought after the dust settled. While we realize that the company is not fully immunized against the economic cycle, we can't imagine that the bad news is not already mostly reflected in the stock price.

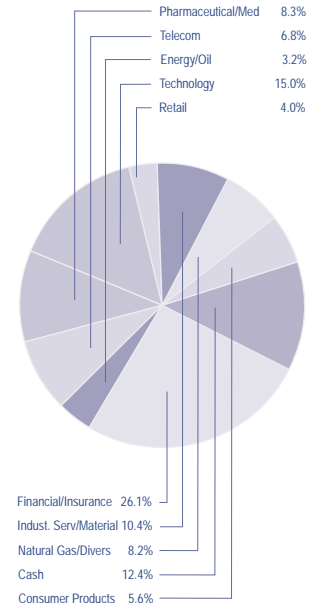
A couple of other trades worth mentioning were the addition of Symbol Technologies, a manufacturer of scanner integrated mobile and

wireless information management systems (wireless LANs, bar code scanners, etc), and a global electric utility, AES Corporation. The two stocks represent an excellent value, giving us the opportunity to diversify the portfolio while providing for high projected growth with a high level of predictability and high appreciation potential.

On the sell side, we chose to selectively reshuffle our technology weights, reducing holdings of names with shadowy earnings expectations, heavy Euro exposure, single client dependence, as well as the ones that are likely to be affected by the slowing growth in the US economy. Alcatel, Phillips, Motorola, Hughes Electronics, and Antec were in the trim/sell list for the quarter. Although, we still believe these companies have promising fundamentals (especially at current valuations), there will be time to return to them later. In the interim, new faces are showing improvement, and there are numerous attractive stocks that promise less volatility in a still-volatile market world.

LOOKING FORWARD

We think we've got a well-organized portfolio that can participate in whatever sub-plots the market may have in store this year. Our balance between value stocks, growth companies, growth companies with value characteristics, and special situations gives us a somewhat unique and eclectic mix that we think is right for the current environment, though we'll continue to fine-tune. Bargain value? Or bargain tech? The Lady or the Tiger? That's the investor challenge posed today. In truth, we really want what's behind door number three!!! ☐



FUNDAMENTAL CHARACTERISTICS

Yield	1.53%
Proj Div Gro	14.17%
Payout Ratio	38.07%
Market Cap (MDN)	\$20.9 Bil
Price/Book	4.83
P/E Ratio(MDN)	24.10
Quality (Equity Rating)	A--
Beta*	0.88
STD	18.64
Sharpe Ratio	0.20
Treynor Ratio*	4.25

*Relative to Value Line Index
(12/31/98-12/31/00)

Yield-Oriented Portfolios: Gross of fees performance is based on actual results according to standards set forth by the Association for Investment Management and Research (AIMR). Miller/Howard Investments has prepared all performance results. AIMR was not involved in the preparation or reporting of these results. Net of fees performance is calculated by deducting a weighted average annual fee of 75 basis points from gross of fees performance. A complete list of all the firm's composites is available. Portfolios are matched across all accounts so that each client holds substantially the same issues at the same weights. Portfolios are typically fully invested, and hold minimal cash although cash holdings may fluctuate somewhat on a residual or transitional basis. No representation is made that future returns will approximate past results, and none should be implied.

Better Than Bonds/Utilities: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 12/31/00 was 186, which represents 40% of total assets managed in this strategy with a measure of dispersion of 0.66. Inception of the composite was September of 1991. (Note: The composite represents only 40% of assets managed in this strategy because two large clients, a mutual fund and a pooled fund, are not included due to excessive and non-regular cash flows.)

Better Than Bonds/Income: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 12/31/00 was 21, which represents 79% of total assets managed in this strategy with a measure of dispersion of 0.85. Inception of the composite was May of 1997.

SBI: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 12/31/00 was 7, which represents 96% of total assets managed in this strategy with a measure of dispersion of 1.17. Inception of the SBI composite was September of 1998.

Distribution: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 12/31/00 was 22, which represents 99% of total assets managed in this strategy with a measure of dispersion of .19. Inception of the Distribution composite was December of 1998.

Benchmarks: The benchmark data from which this report is prepared has been provided by sources generally considered reliable. Except for benchmark returns based on published mutual fund net asset values, and unless otherwise stated, the index performance figures contained in this report do not reflect the deduction of investment advisory fees. Mutual fund data published by Lipper and Morningstar are net results after deductions of all annual fees and expenses by the advisor. Benchmark returns are presented on a total return basis.

Please Note: Our street address has changed to 324 Upper Byrdcliffe Road. Our PO Box remains the same. Our area code has changed to (845).