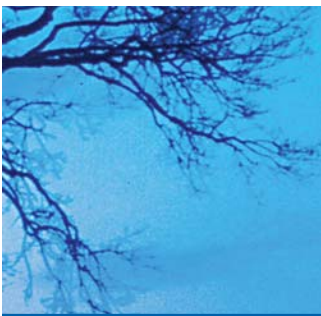


Yielding to the Signs

Using StockVal's suite of products to forecast the economic strength



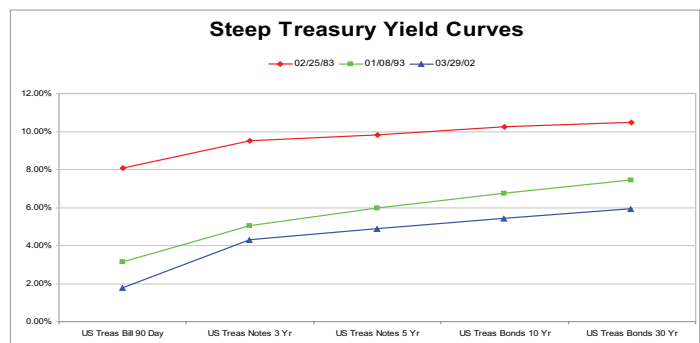
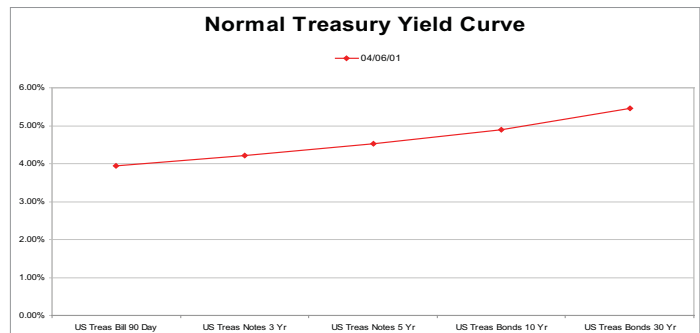
ABOUT STOCKVAL

Since 1985, StockVal has offered comprehensive equity analysis and portfolio management tools to the investment management community through distinctive software and database products.

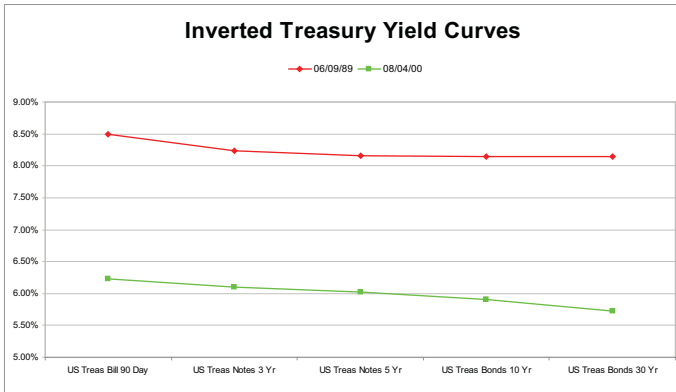
The yield curve is a graphical depiction of treasury yields (interest rates) across various maturities at a given point in time. The line begins on the left with the shortest maturity (90 Day T-Bill) and it ends on the right with the longest maturity (30 year Treasury Bill). The yield curve can be used as a leading economic forecasting tool alerting investors to an imminent recession or pointing to an economic upturn. The forecasting depends on one of the four shapes of the curve: normal, steep, flat, and inverted.

In a normal yield curve, yields rise as the maturities' lengths increase. A gently upward sloping curve indicates investors believe the economy is healthy and do not anticipate interest rates or inflation to rise in the near future.

A steep upward sloping yield curve indicates investors think the economy is improving and an economic expansion is on the horizon. Steep yield curves in 1983, 1993 and 2002 were approximate twelve month precursors to a rapid acceleration in the economy. A steep curve gives banks the incentive to borrow money short term and lend it long term, earning money on the difference. The steeper the yield curve the greater the incentive for banks to lend money. This in turn stimulates an economic expansion by making it easier for companies to borrow money to expand their operations.

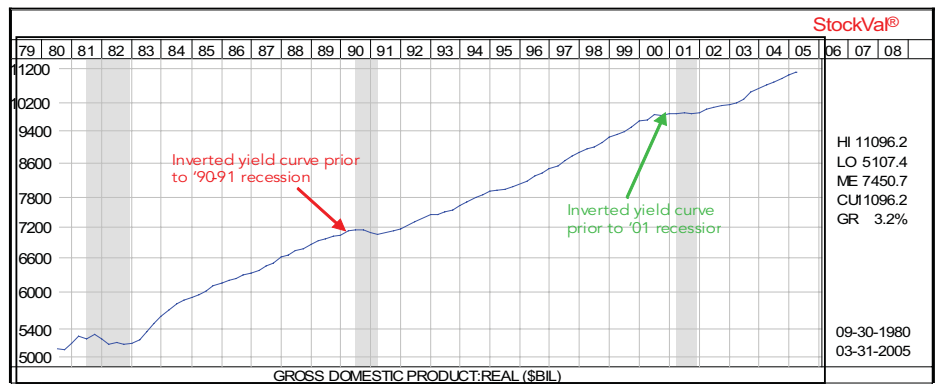


In November 2003 the curve was abnormally steep due to the Federal Reserve lowering of short-term rates from 2001 to 2003 in an attempt to spur the economy. The arrows in the graph to the left show the positions where steep yield curves closely follow rapid growth in the economy.



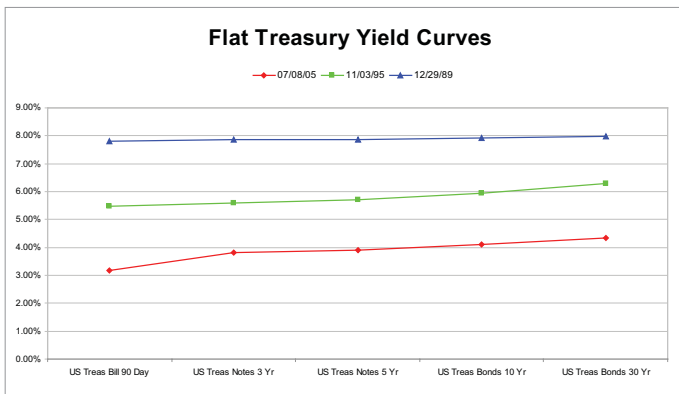
At times, the yield curve has taken on an inverted shape with short-term rates higher than long-term rates. Historically, the yield curve has become inverted approximately a year preceding an economic slowdown or recession. An inverted curve as a rule means the Federal Reserve is attempting to increase short-term rates to slow an overheated economy in anticipation of an economic downturn. The yield curve became inverted in mid-2000, almost a year before the economy fell into recession in 2001. It was also inverted in 1989 before the 1990 recession.

A flat yield curve occurs when short- and long-term interest rates are approximately the same. A flat yield curve is usually an intermediate step as the curve moves toward a normal or inverted slope. As the yield curve flattened in 2000 the economy leaned into a recession. A flat curve also signaled an economic slowdown prior to the recession of 1990-91.



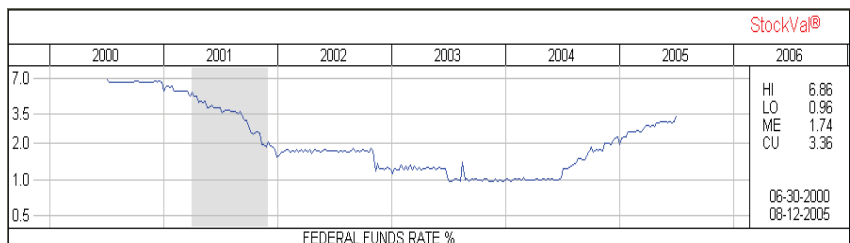
Lately there has been a lot of talk about how flat the curve has been. History predicts a flat curve will swing into an inverted slope. However, a flat curve

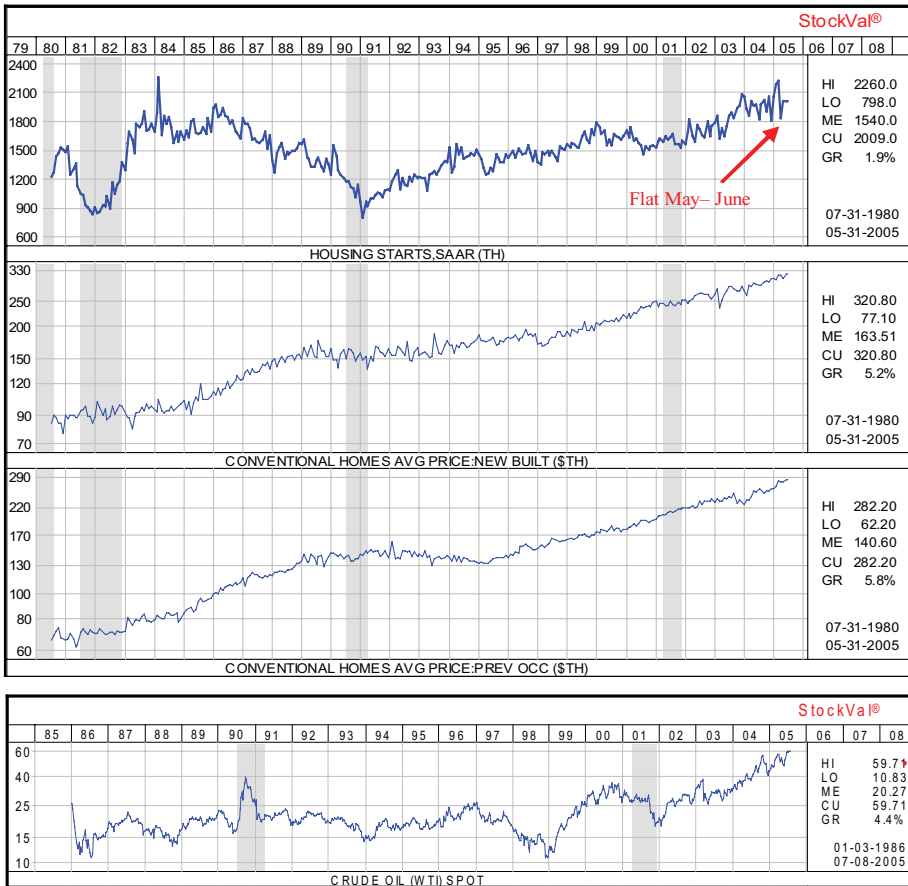
does not necessarily have to tip towards inversion and be followed by a recession. To turn the curve downwards there should be aggressive monetary tightening by the Federal Reserve to control inflation by raising the short- and long-term rates.



Over the past year we have seen the Fed Fund rate increase ever so cautiously to maintain stable inflation rates without hitting the inversion point. Furthermore, the current curve is not as flat as it was in 1989 prior to the 1990 recession showing there is still room to flatten more. The yield curve was also flatter in late 1995 and the economy did not dip into recession. Other positive indicators that the economy is strong are that the GDP is healthy and unemployment has edged down to five percent. The housing market, even though new home starts were flat for June, it is still strong

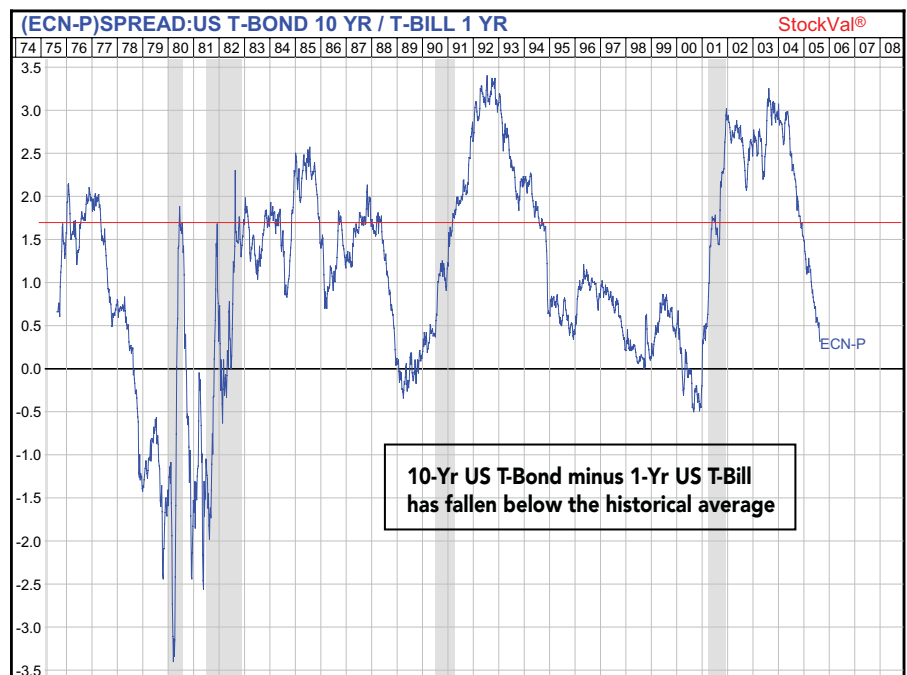
according to realtors. One issue of concern is the run-up in oil price as was the case before the 2001 recession and during the 1990 recession. Also, a weighted combination of ten leading economic indicators has been falling over the past year.





The Conference Board®, publisher of the U.S. Leading Economic Indicators states one of the ten indicators increased in May. The positive contributor was stock prices and the largest negative contributor was the interest rate spread. As the Fed worries about the potential for future inflation, citing rising labor and energy costs, will the Fed be able to raise rates without sparking a recession? If we only had a time machine...

The graphs in this report were generated using the StockVal suite of products. The Economic Graphs are available in the flagship program presenting deep histories of interest rates, GDP, commodity, and other key economic data. Economic Graphs provide the capability of generating up to four economic series on a single screen with custom time frames and specialized data formats.

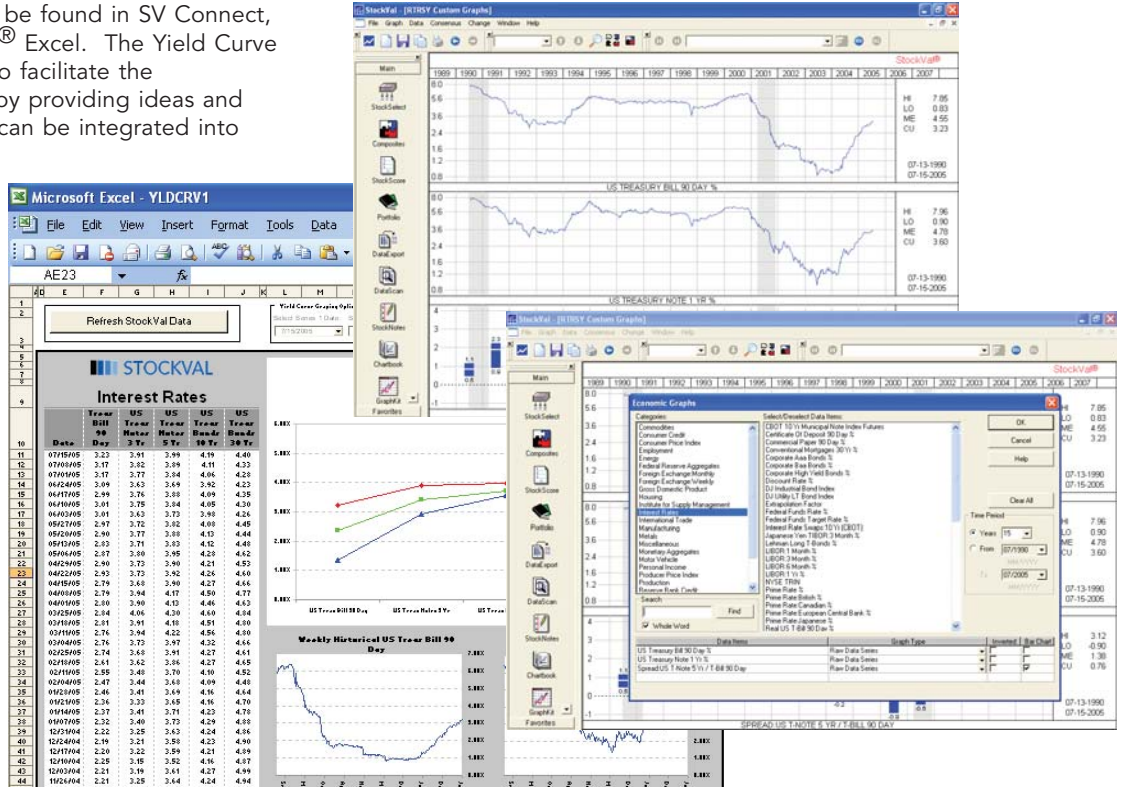


QUICKTAKE - JULY 2005
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Customizable yield curves can be found in SV Connect, StockVal's add-in for Microsoft® Excel. The Yield Curve template has been designed to facilitate the spreadsheet creation process by providing ideas and examples of how SV Connect can be integrated into everyday analytic routines and presentation quality reports.

StockVal and SV Connect have a dedicated support staff available to assist users with everything from general usage questions to custom model building. Please contact your local support representative or the Client Support department at (800) 637-8625.

Carl Magdefrau
StockVal Product Specialist



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