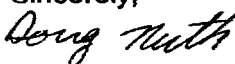


Greetings from LFS



Dear Clients and Friends:

Here is my quarterly newsletter, *Invest*. The goal of *Invest* is to keep you abreast of what is happening in the financial market, inform you about new investments and keep you informed about your current investments.

Sincerely,

 Douglas Ruth

Invest

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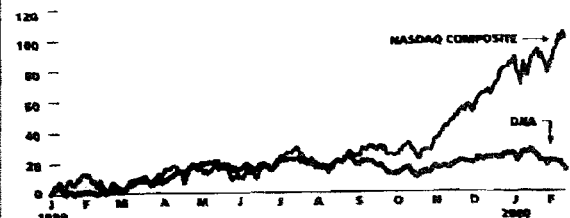
Strange Market

For the first time in memory, America has two distinctly different stock markets:

- **The Technology Market** in which many companies are trading for more than 100 times this year's projected earnings.
- **Everything Else** where many stocks are trading for as little as 5 times this year's projected earnings.

If a company isn't technology, Internet or biotechnology, then nobody wants its stock.

Parting Company: The Nasdaq index has left the Dow industrials in the dust in the past six months, as tech stocks have soared. How much longer can the disparity persist?



Byron Wien, domestic strategist at Morgan Stanley Dean Witter observed: "The New Economy stocks are being priced as if there is no risk and the Old Economy stocks are being priced as if there is no opportunity. Investing used to be driven by a rational analysis of companies but it is now derived by a clever analysis of momentum."

Momentum investing has been a popular strategy on and off for many decades and is used in many other parts of life. For example, Regis Philbin has been a fixture on television for many years. The television show *LIVE Regis and Kathie Lee* has been on television for about 15 years. When Regis became the host of the show *Who Wants to be a Millionaire?*, and the show became successful, he became one of the most sought after personalities in the entertainment business. He is featured prominently in ads for Wards Department Stores and has been making appearances on shows such as *David Letterman*. Regis has momentum. Wards and the other people who have hired him are hoping that his momentum can help them sell more of their products.



Another example of momentum was illustrated in the Sports Section of the February 27, 2000 *Chicago Tribune*. The following table is from that section and shows the Western Conference team standings in the National Basketball Association. Included in the standings is each team's performance over the last 10 games.

NBA Western Conference

Midwest	W	L	PCT	GB	L10	STRK	HOME	AWAY	CONF
San Antonio	36	19	.655	-	7-3	W2	21-5	15-14	22-12
Utah	34	19	.642	1	7-3	W5	22-8	12-11	21-12
Minnesota	31	23	.574	4½	5-5	W3	18-10	13-13	21-15
Denver	25	30	.455	11	4-6	L1	19-10	6-20	14-22
Dallas	23	31	.426	12½	6-4	W1	13-14	10-17	14-18
Houston	21	34	.382	15	3-7	L4	14-15	7-19	13-21
Vancouver*	17	37	.315	18½	5-5	L1	8-19	9-18	7-24
Pacific	W	L	PCT	GB	L10	STRK	HOME	AWAY	CONF
L.A. Lakers	44	11	.800	-	10-0	W10	24-4	20-7	24-9
Portland	44	11	.800	-	10-0	W10	22-3	22-8	26-7
Phoenix	34	20	.630	9½	9-1	L1	23-5	11-15	17-15
Seattle	34	22	.607	10½	5-5	L1	18-9	16-13	22-11
Sacramento*	31	23	.574	12½	3-7	L3	20-6	11-17	18-12
Golden State	15	40	.273	29	3-7	L2	9-18	6-22	7-25
L.A. Clippers*	11	45	.196	33½	0-10	L13	8-16	3-29	5-28

* Late game not included

We can see that both the L.A. Lakers and Portland have momentum. Both teams have won the last 10 games they played. The L.A. Clippers seem to be in the midst of a terrible losing streak. They have lost their last 10 games, and, in fact, their losing streak stretches to 13 games.

Gamblers use momentum as a guide when placing their bets. For even the casual gambler, betting that the Lakers or Portland will win their next game seems to be a relatively safe bet.

Eventually, Regis' popularity will not be as high as it is now, and both the Lakers and Portland will lose their next games. The momentum people will then shift to others and the momentum investors will shift with them.

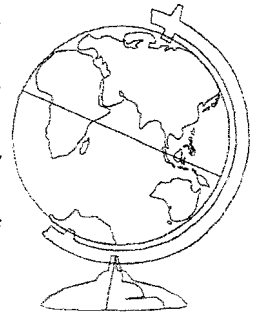


Cisco Systems has momentum. Cisco assists companies, which use various operating systems, to communicate with each other. An operating system is the equivalent of a language.

In the United States, the majority of people communicate by speaking and writing in English. Microsoft and Apple Computer each provide operating systems. The systems are very different from one another. A lay person could differentiate between the systems by considering the following example:

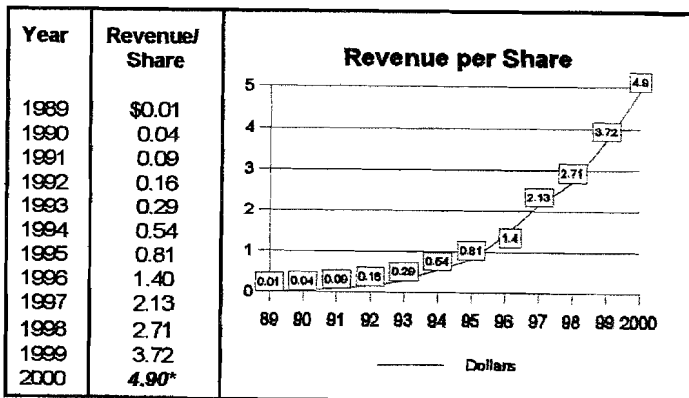
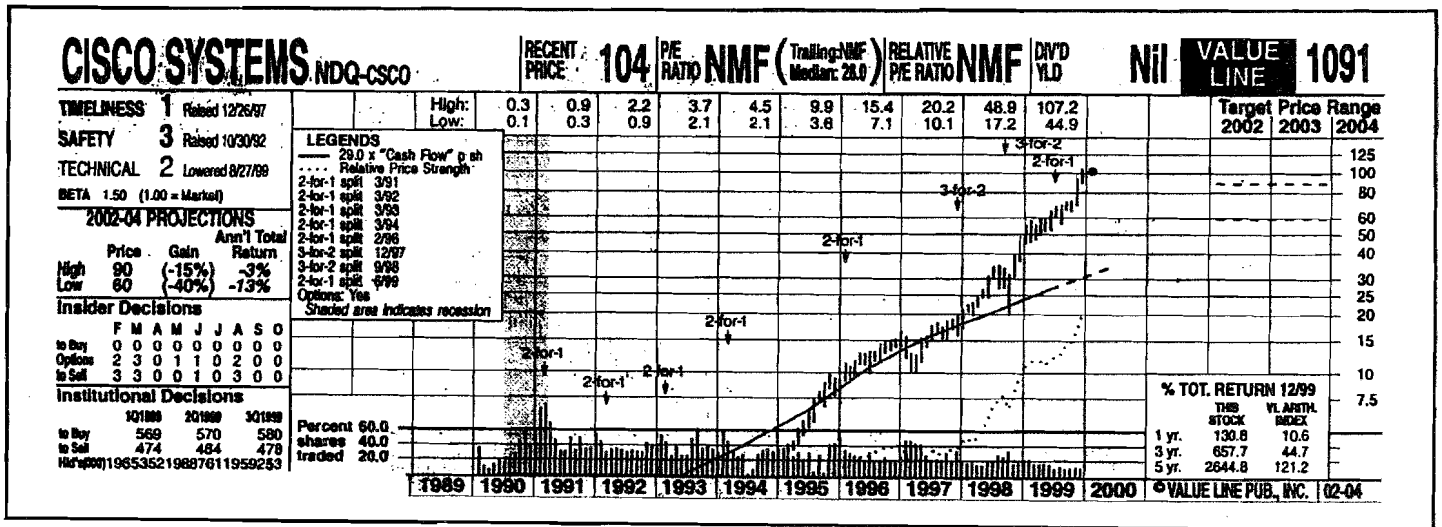
- Microsoft uses the "English language" to communicate.
- Apple Computer uses the "French language" to communicate.

With a world economy, the need to communicate both domestically and internationally is more important today than ever. Cisco's products allow companies to communicate and overcome the problems of language, distance and time.

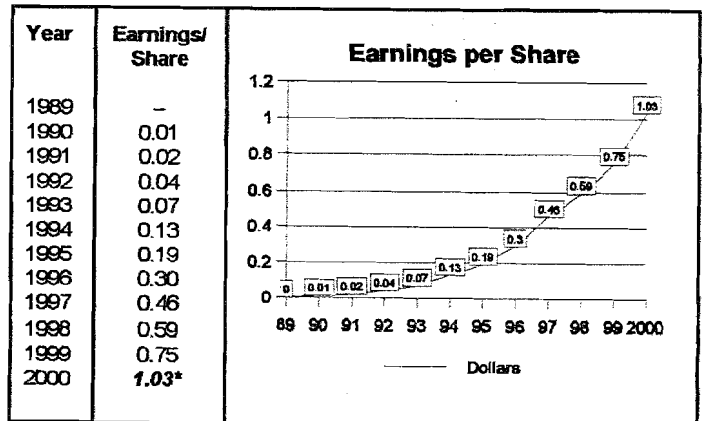


A simple example of a Cisco product is watching a soccer game on television. The viewer can change the language of the announcers by using the remote control. All the viewers are watching the same program but the sound could be broadcast in English, Spanish or Polish depending upon the language selected by the viewer.

Cisco has enjoyed tremendous revenue and earnings growth as the following information illustrates:



Estimated.



* Estimated.



The question being debated is: *Have investors bid up the price of Cisco beyond its fair value?* Robert Marcin, a portfolio manager at Morgan Stanley Dean Witter Investment Management has computed some intriguing data that

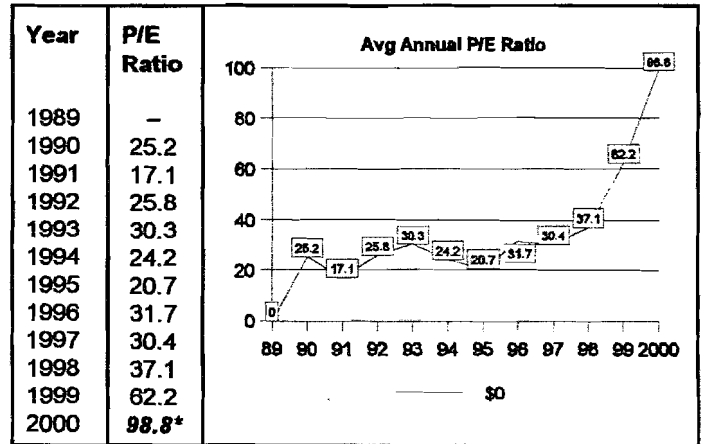
suggests it may be tough for technology leaders to maintain their hyper rates of earnings growth. He states: "People look around and see the increased pace of technological innovation and assume there has been a significant increase in technology consumption. That hasn't been the case. The market for technology is good and solid but there has been no material acceleration in technology over the past 10 years."

Big Challenge: Even though technology stocks have soared the past two years, revenue growth of the tech companies in the S&P 500 Index has risen at a much slower pace. Revenues were up 15.8% in 1999, after rising 7.4% in 1998. Skeptics maintain that moderating revenue growth may be the tech sector's undoing.

Year	No. of companies in the S&P Tech Sector	Sales Growth	P/E Ratio	Five Year Profit Estimate
1976	21	13.9%	-	-
1977	21	14.3	13.92	-
1978	21	18.9	13.11	-
1979	20	16.1	12.15	-
1980	24	16.4	13.91	-
1981	30	12.3	12.6	17.1%
1982	32	9.3	16.75	16.9
1983	32	11.0	17.94	17.3
1984	36	16.4	15.04	17.6
1985	38	3.1	35.38	15.0
1986	29	6.9	21.81	13.5
1987	29	13.8	14.69	14.1
1988	32	15.5	13.50	13.2
1989	34	6.6	14.79	11.9
1990	34	7.6	12.31	12.2
1991	33	0.4	19.68	11.0
1992	33	5.7	22.15	12.6
1993	34	8.0	27.95	14.3
1994	36	13.4	19.74	15.9
1995	41	19.1	19.40	17.8
1996	49	9.0	27.26	19.1
1997	51	11.3	31.32	19.7
1998	54	7.4	53.51	20.3
1999	61	15.8	63.62	22.5

Mr. Marcin notes that the technology stocks in the S&P are expected to generate 22.5% profit growth in each of the next five years, a tall order given that revenues are expected to expand at a far slower pace.

You can see that Cisco is trading at the highest price/earnings ratio ever. The financial publication *Value Line*, predicts that Cisco's price/earnings ratio will drop back to the 1998 level.



* Current

Barrons Financial Newspaper featured a cross section of Old Economy stocks in its February 21, 2000 edition. All of the companies have a long history of profit growth.



In fact, the projected growth for the next five years is respectable but the projected growth is small in comparison to a similar cross section of the New Economy stocks (see charts on pages 5 and 6).

Old Economy Stocks (as of 2-17-00)									
Company	Price	52 Wk High/ Low	Price Chg 12 mons	P/E Ratio High/ Low	Market Value \$Million	5 Yr Prof Grth Rate	Comment	Facts and Figures	
AMR	\$54.31	\$76 \$52	-2.1%	12.1 9.5	\$9,043	8%	Sabre spinoff could spur stock. American Airline has a P/E of just 5.	AMR owns American Airlines, American Eagle and 82% of the Sabre group. Sabre is going to be spun off to stockholders in March. The Sabre spinoff is currently worth about \$30 per share meaning that investors are valuing AMR at 5 times earnings. Historically AMR has traded at a higher P/E ratio. In 1994 the stock was 12.9X; 1995, 9.9X; 1996, 8.8X; 1997, 9.4X; 1998, 9.0X; 1999, 11.8X	
Berkshire Hathaway	49.900	81K 43K	-29.9	46.8 36.2	75,848	14	Buffet's company trades for just 1.3 times book value.	Historically, this stock has traded at a higher level.	
Bestfoods	43.88	60 40	-10.6	17.7 16.1	12,238	10	Knorr soups give it strong overseas presence. Merger?	Makes Skippy peanut butter and Hellman's mayonnaise. Historically has traded at a higher price/earnings ratio. The company is viewed as the sector's best operator.	
Emerson Electric	49.38	72 45	-13.3	16.1 14.5	21,454	11	Boasts 42 years of rising profits. Few match that record.	Is not as well known as General Electric but the company has a record of 42 straight years of rising earnings.	
Fannie Mae	53.25	76 52	-28.0	14.3 12.6	54,561	13	Big mortgage player seen insulated from rising rates.	One of only seven companies in the S&P 500 that has generated double-digit profit growth in each of the past 13 years.	
May Dept Stores	25.69	46 25	-34.1	9.9 9.0	8,563	11	Retailer's 25 years of rising profits mean little now.	May Department Stores, owner of the Lord and Taylor chain, boasts 25 straight years of rising earnings.	
Philip Morris	19.31	43 18	-50.0	5.9 5.2	45,696	12	May finally have hit bottom with P/E of 5 and 10% yield.	Down from a high of 60. The company is expected to buy back about \$3 billion of stock this year, 6% of the outstanding shares and again raise its juicy dividend.	
SBC Communications	38.38	60 38	-24.8	17.8 16.8	130,912	13	Big wireless business, overseas telecom stakes.	Representative of the depressed "baby Bells," yet investors seem to be giving the company little credit for its substantial wireless business and a slew of investments in foreign carriers including Bell Canada and Telmex. SBC fetches 17 times projected 2000 profits and just seven times cash flows making it one of the cheapest major telecom companies in the world.	
Schering-Plough	38.88	61 37	-28.4	27.4 23.6	57,110	16	Competition, patent fears dog top-notch drugmaker.	Has been one of the most consistent industry performers with annual profit growth averaging 18% for the past 5 years.	
U.S. Bancorp	19.06	39 18	-40.2	9.0 8.3	13,671	12	Down with regional banks. Can CEO Grundhofer deliver?	Formed in 1948 from the merger of Minneapolis based First Bank System and Oregon's U.S. Bancorp. The company has lost nearly half of its value since October.	

New Economy Stocks (as of 2-17-00)									
Company	Price	52 Wk High/Low		Price Chg 12 mons	P/E Ratio High/Low		Market Value	5 Yr Prof Grth Rate	Comment
Applied Materials	\$188.38	189	48	179.6%	75.7	40.5	\$71,284	25%	Semiconductor equipment maker no longer seen cyclical.
Cisco Systems	130.50	136	45	174.4	147.0	113.0	426,866	30	Great company. Huge market value. High P/E. Can it last?
EMC	118.00	123	46	136.0	108.0	81.7	120,066	30	Database storage king had slower revenue growth in 4Q.
Exodus Comm	124.00	145	9	1142.0	NM	NM	21,138	65	Leading Web-hosting outfit soars despite lack of profits.
JDS Uniphase	212.81	249	19	982.7	386.0	235.0	73,839	45	Hot maker of optical components has 200+ P/E.
Oracle	61.63	65	10	250.7	126.0	98.8	175,468	25	Database software company surges on Internet prospects.
Siebel Systems	116.81	120	15	496.2	220.0	160.0	22,517	40	Oracle rival scores big in past year.
Sun Microsystems	96.13	97	23	308.8	122.0	93.5	150,159	20	Server growth powered big 4Q profit gain.
Veritas Software	173.50	182	20	670.4	338.0	238.0	44,967	50	Storage software provider now worth more than Gillette.
Yahoo	163.19	251	55	151.8	666.0	418.0	85,915	50	High market value supported by profits of just \$250 million.

* Estimated.

Source: Baseline

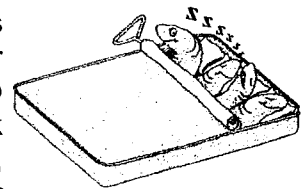
Comparing the two charts explains the extreme differences in valuation between the Old and New Economy stocks. Why should an investor buy stock in a company that might grow earnings at 8 - 16% when they can buy stock in a company that might grow earnings at 20 - 50%? The answer is that there is a vast difference between *saying* you are going to do something and *actually doing* it!

The Old Economy stocks have a proven track record of success while the New Economy stocks do not. Through the passage of time, it will become more evident which of the New Economy stocks actually achieve earnings of 20% per year or better per share and which cannot. When this happens, the valuations will change again. Patient investors can use the recent market weakness to build positions in Old Economy stocks while waiting to see how the New Economy stocks will change.

There is no question that some of the technology companies are well run and very profitable. They could and should be considered core investments for long-term investors. Many (possibly most) of the technology companies are probably not worth the price at which they are currently trading.

The classic story that is used to explain this phenomenon is "the can of sardines." Two friends go to the grocery store and one buys a can of sardines for \$1.00. Later in the day, the person who

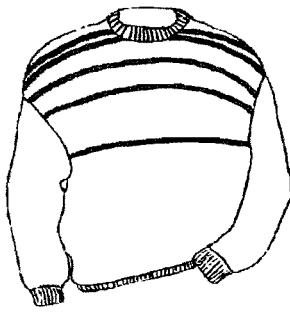
purchased the sardines sells the can to his friend for \$2.00. The friends keep trading the sardines back and forth to each other, always charging a dollar more per transaction.



Finally, the price reaches \$10. The friends decide they should eat one sardine and see how they taste. They both reach the same conclusion simultaneously; they don't like sardines! The morale of the story is that sardines are for trading, not eating.

Many people believe that the technology stocks are similar to the "can of sardines." Everyone is happy because they can always sell the tech stocks for more than they paid for them. This is great until investors start to demand earnings in exchange for the price they are paying for the stock. Then, like the can of sardines, they may realize that they don't really like tech stocks after all.

Investors should only buy stock in companies that are making money or have the potential to make money in the near future.

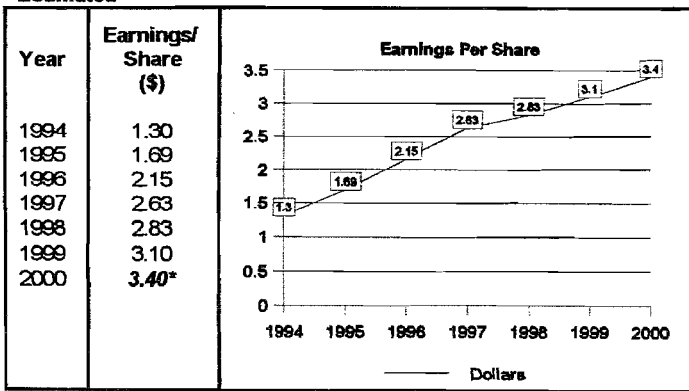
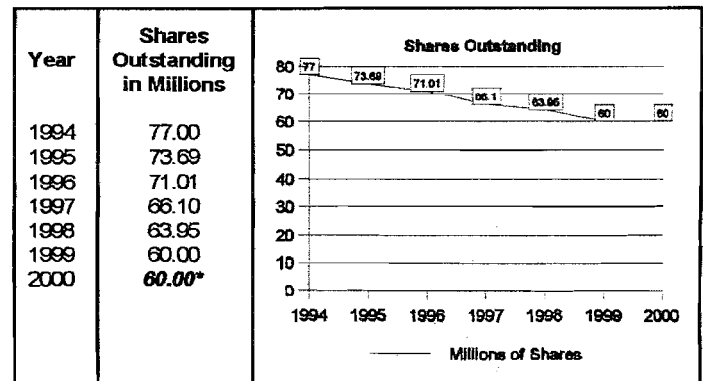
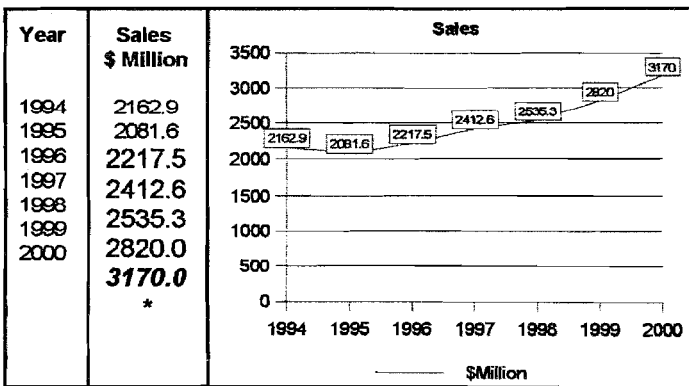
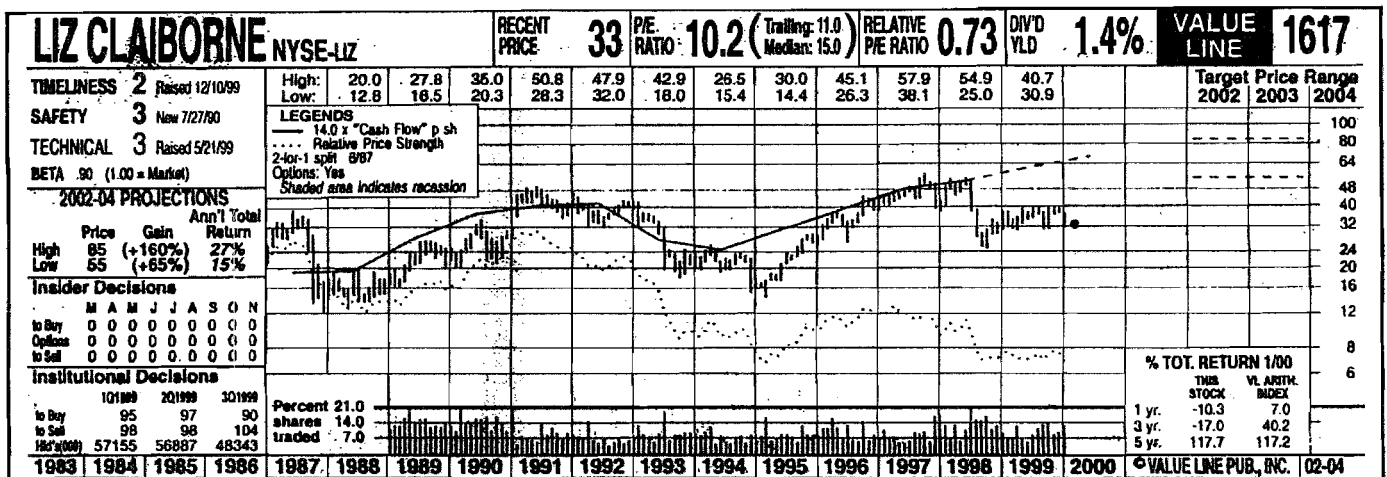


If you can't beat 'em, join 'em! Warren Buffet has recently been buying stock in Liz Claiborne. The company has momentum. Liz Claiborne designs and markets better lines of clothing under Liz Claiborne, DKNY, and Kenneth Cole labels as well as Emma

James (moderately priced apparel) and Russ/Villager (popularly priced apparel).

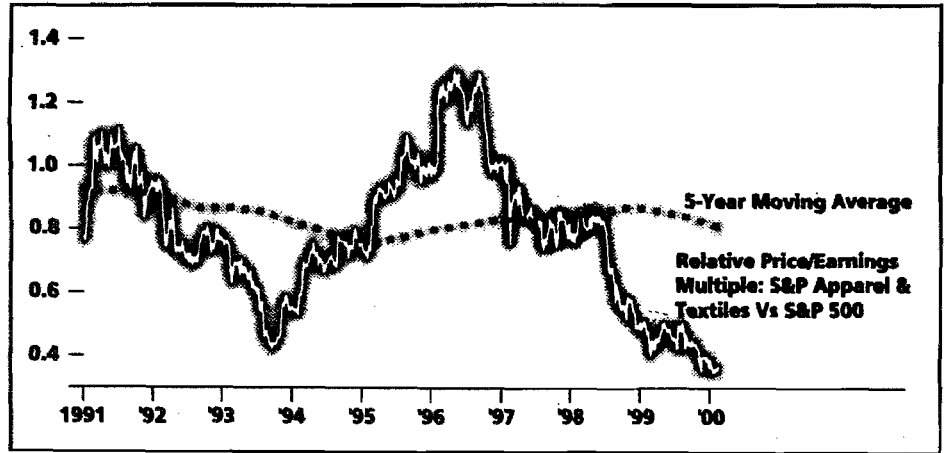
The company sells its products through department stores including Sears, J.C. Penney, Kohl's, Wal-Mart, K-Mart and others.

The company's sales and earnings are growing and, since 1994, has been buying back its stock. Also, the company has no debt.



Apparel stocks have been tossed into the bargain bin, whether judged by their price/earnings ratio or their individual stock prices. The price/earnings ratio for the group woefully lag the S&P's. The stock prices have been battered in recent weeks.

A company such as Liz Claiborne offers the opportunity for terrific appreciation for the patient investor. I encourage you to consider buying the stock at its current level.



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