HAMILTON-BATES HAMILTON-BATES HAMILTON-BATES HAMILTON-BATES

Disciplined Investment Strategies for **Undisciplined** Markets

Regular Mail:
P.O. Box 270
Newtown Square, PA 19073

Phone 877.768.4247
Fax 610.355.1972
www.hbir.com

Overnight Mail:
HRM Building
4 St. Alban's Avenue
Second Floor
Newtown Square, PA 19073

HAMILTON BATES INVESTMENT RESEARCH

 HAMILTON-BATES HAMILTON-BATES HAMILTON-BATES

INVESTMENT PHILOSOPHY

The Need for a Successful Strategy

Investment assets and home equity are the largest sources of individual wealth. Investors count on their investment assets to provide for a secure future. Volatile markets can make it challenging to achieve financial goals. Emotional reaction to unexpected market volatility is one of the most common reasons that investment plans are abandoned, or fail to achieve intended results. Chasing past performance is another common investor mistake. Furthermore, the number and variety of investment options available today has made selecting the right options confusing and time-consuming. With every change in the global economy and market sentiment, different investment categories move in and out of favor.

MARKET AND ECONOMIC CONDITIONS ARE **CONSTANTLY** CHANGING, AND AS THEY DO, THE ASSET CLASSES THAT ARE IN FAVOR CHANGE.

Knowledge is Power

Asset classes move in and out of favor in response to the business cycle. Today's leaders can be tomorrow's laggards. Market and economic conditions are constantly changing, and as they do, the asset classes that are in favor change. The best performing investments of the past year are rarely the best choices for today. A truly successful investment strategy that will stand the test of time does not try to mitigate changing conditions, but rather adapts and profits from them. We believe that you can achieve above average investment returns with below average risk by following a disciplined strategy. Our 'top-down' approach begins with a background analysis of the financial environment, economic expectations, and the relative attractiveness of stocks and bonds. **In our opinion, the ground work for successful investing is laid by having a proper grasp of the 'big-picture'.**

Flexibility is the Key

Our investment philosophy sets us free, as we are not tied to the exclusive pursuit of small-caps, large-caps, value or growth stocks. We are not rigidly forced into any one asset class or mix of asset classes by philosophy or program design. Our flexible portfolios adapt to market conditions and change as a result of our forward-looking research. Our approach is not about investing in last year's winners. What has done well is already 'a known' in the market. We use our fundamental and technical models in order to position assets where they should be—in those asset classes expected to do well in the months and quarters ahead.

WE ARE NOT TIED TO ANY ONE ASSET CLASS; THEREFORE, OUR OUTLOOK IS **OBJECTIVE** AND **UNBIASED.**

Putting it All Together

Reducing risk, while pursuing above-average investment returns, is at the heart of our investment philosophy. Time and again, market history has shown that human emotion is one of the greatest, if not the greatest, obstacles to successful investing. Our disciplined strategies remove emotional decision making, and its ensuing turmoil, from the investment process. Utilizing professional advisory services leaves investors free to handle everyday life and pursue other interests, with the comfort of knowing that their hard-earned assets are being continuously monitored. Our clients do not have to concern themselves with day to day financial market activity, freeing them from its stress and allowing them to pursue other activities with peace of mind. Some investors who could be successful on their own, often find they prefer the full-time focus of professional management services, especially during uncertain or volatile market conditions.

In the end, it is all about personal comfort, and achieving one's investment goals. While no strategy or methodology is perfect, a disciplined approach can help prevent investors from making the wrong move at the wrong time, potentially dismantling a lifetime of investment plans.

INVESTMENT STYLE & PROCESS

Top-Down Investing

Hamilton-Bates is a flexible manager, using a top-down approach to analyze all relevant asset classes and sectors within the framework of our macro outlook screens. Analysis of commodity price trends, stock/bond relationships and the slope of the yield curve, are a few of the indicators used to evaluate the economic cycle and overall economic outlook. Where we are in the business cycle is a large determinant of expected asset class performance. In addition, market valuations are measured to gauge stock versus bond attractiveness, and the overall attractiveness of the market in general. Finally, technical and relative strength analysis is done to provide consistency between the economic outlook and the 'message' the market is sending.

Our macro or 'big-picture' evaluation helps us answer such questions as:

Is the economy expanding or contracting?

Where are we in the economic cycle?

What asset classes would be expected to do well in this part of the cycle? Stocks, Bonds, Inflation Hedges?

Are Stocks Over or Under-Valued?

Are Bonds Over or Under-Valued?

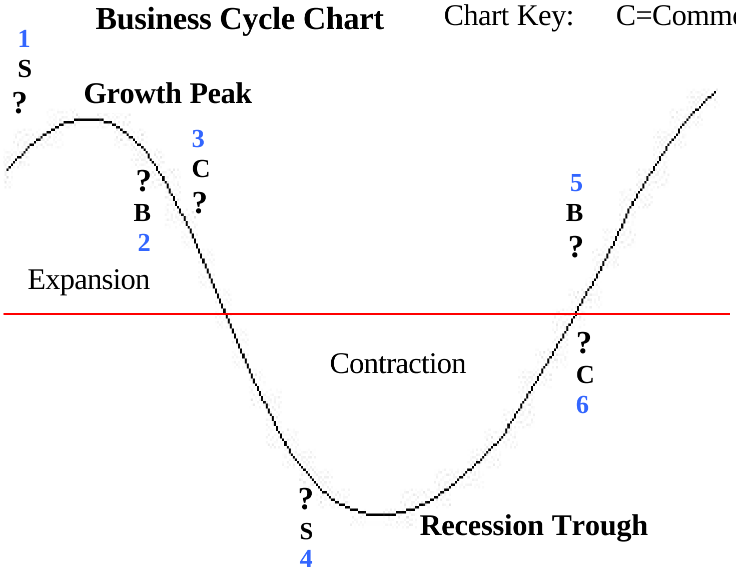
What is the Relative Attractiveness of Stocks versus Bonds?

Are our Technical measures confirming our Economic and Fundamental Evaluations?

It starts with the Business Cycle

Over the past two centuries, the American Economy has gone through repeated growth and contraction cycles. At times these cycles have been dramatic, such as the Great Depression of the 1930's, or the pronounced and protracted growth cycle of the 1990's. On some occasions, the impact of these cycles has been so muted that they have gone largely unnoticed. In fact, the lack of a defined contraction in economic activity during the mid to late 1990's led to talk of 'the death of the business cycle'. Given the subsequent history of the early 00's, it is clear that the business cycle is very much alive. Approximately every four years the economy experiences a period of expansion followed by the inevitable contraction or slowdown. The contraction often turns into a recession, a period of negative economic growth, but it isn't mandatory. The slowdown or recession invariably bottoms, and begins to turn around as the Federal Reserve and the Federal Government take measures to stimulate the economy in order to bring about the next growth cycle.

Business Cycle Chart Chart Key: C=Commodities & Inflation Hedges B=Bonds S=Stocks



The chart at left is an idealized diagram of how the stock, bond and commodities markets interact during the economic cycle.

The stock market normally peaks ahead of a contraction, near or at the peak of the expansion (1). Shortly thereafter, bonds return to favor (2), and commodities begin to weaken ahead of coming contraction (3). Prior to the economy's recovery, the stock market turns up in anticipation of the next growth leg (4). Once the growth phase begins in earnest, Bonds begin to weaken (5). As the growth phase hits it's stride, commodities and inflation hedges perform well (6). Prior to the expansion, peak stocks will begin to roll over in response to higher interest rates and the anticipation of the next economic contraction, taking us back to the beginning of the cycle at (1). Of course, reality is never this simple, but this should provide some understanding of the relationship between the asset classes and the economic cycle.

VOD 2K@24.98? .34 VOD 300@24.97? .35 VOD 200@24.96? .36 IBM 1K@101.44? 1.30 GM

SONS 100@6.73? .10 SIRI 3K 2.61? .32 CENX 300@26.18? .05 CSCO 700@26.46? .27 ICGE 40K@.41? .02 EBA

INVESTMENT STYLE & PROCESS

Top-Down Investing
Hamilton-Bates employs a multi-disciplinary approach to evaluate financial market and economic conditions.

Economic Cycle Analysis
The business cycle has an important bearing on the financial markets and the relative performance of financial and non-financial assets. The periods of expansion and contraction, even though they are irregular in nature, can provide an economic framework that helps explain the linkages between the asset classes and allows us to develop a guideline expectation of future financial asset performance. For example, if all indications are that the economy is coming from a recession trough, stocks would be over-weighted, bonds under-weighted, and commodities and inflation hedges would be on the 'watch' list for future additions. Furthermore, our road map of how asset classes perform during a particular phase allows us to examine real world performance to provide an idea of where the economy might be in the cycle. For example, if stocks and commodities are strong, we can surmise that the economy is in the upswing of a growth cycle. Should stocks weaken while bonds strengthen, it could be a clue that the growth cycle is peaking. In addition to examining the inter-relationships of the asset classes, the bond market itself is often an excellent indicator for the overall economy. The bond market is the center of the financial markets, and the direction of interest rates can tell us a lot about inflation expectations and the overall health of the stock market. Interest rate direction also tells us much about where we are in the business cycle and allows us to further hone our asset class expectations. At the height of an expansion, interest rates rise, thus "choking off" growth and leading to an eventual contraction. As the economy contracts, rates fall, triggering renewed demand for money and the early stages of recovery. We measure the health of the bond market and the slope of the yield curve (the relationship of short-term rates to long-term rates) to provide us with clues for future interest rate direction.

Fundamental Valuation Analysis
The incorporation of stock and bond market valuation modeling provides us with an overall 'attractiveness' level for stocks and bonds. Pronounced and protracted business cycle moves can create distortions between the intrinsic value of an asset class and its current price level. Periods of sustained contraction often lead to a higher demand for bond assets, and bonds tend to become 'overvalued' during contractions. During protracted growth phases, stocks tend to become richly overvalued. Using proprietary valuation models, we can attach risk parameters to the stock and bond market, and we can over-weight stocks or bonds depending on how favorable (or unfavorable) the valuation models are at a given time. Our valuation models are calculated using the S&P 500 as a stock market proxy, and incorporate trailing 12-month earnings figures, I/B/E/S consensus future 12-month earnings, current dividend yield, and varying Treasury yields. Armed with these figures, the models provide a clear picture of the market's 'fair value' and the relative attractiveness of stocks versus bonds at any given time.

Technical Analysis
By definition, technical analysis is the study of market action, primarily through the use of charts and models for the purpose of forecasting future price trends. Technical studies are based on the premises that: market action discounts future events, prices move in definable trends, and that history often repeats itself. The study of market action includes not only prices, but volume as well. A common form of technical analysis would be the use of moving averages for trend identification. For the broad market, we can evaluate 'market breadth', which measures the number of stocks rising compared to the number falling. One graphical interpretation of breadth would be an indicator called the Advance/Decline Line, or A/D Line. Healthy, strong markets show broad participation or 'good breadth', with a majority of stocks rising. The A/D Line will move in sync with the market averages making highs and or lows together. Turning points can often be found when market breadth (or the A/D Line) diverges from price movement of the market. Technical tools help us confirm (or possibly flag a warning about) our economic and fundamental evaluations, and helps provide consistency between the theoretical evaluation process and actual market action.

OVERVIEW OF THE INVESTMENT PROCESS

Evaluating the Investment Landscape

Our top-down approach begins with an analysis of all relevant asset classes and sub-sectors within the framework of our 'macro' outlook screens. An analysis of commodity price trends, stock/bond relationships and the slope of the yield curve are a few of the methods used to evaluate the business cycle and the overall economic outlook. Where the economy is in the business cycle is a large determinant of expected asset class performance. In addition, market and bond valuations are measured to gauge stock versus bond attractiveness, and the general level of 'risk' in the broad market. Finally, technical and relative strength analysis is done to provide consistency between the economic outlook and market price action.

We use forward- looking techniques and models, combined with a desire to position assets advantageously, in those areas expected to perform well.

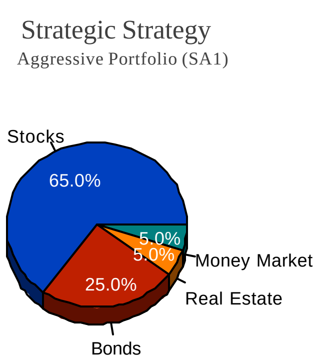
Investment Options Screened and Selected

Portfolio Construction

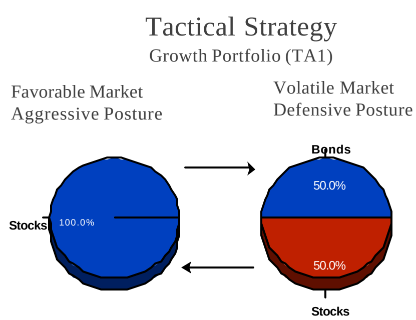
With analysis of the asset classes and our overall outlook in place, the investment options are screened and selected. For fund and annuity portfolios, our universe of funds and available annuity sub-accounts are evaluated for management expertise, style consistency, risk, and overall expenses. Once this is complete, the portfolios are created.

Our market and fund evaluations can be implemented through two distinct strategy options:

Strategic Asset Allocation
Portfolio Example



Tactical Asset Allocation
Portfolio Example



The **Strategic Asset Allocation** Portfolios are diversified and balanced, holding a mix of stocks and bonds at all times. (Example - far left)

The **Tactical Asset Allocation** Portfolios are concentrated, and can be invested as much as 100% in one asset class, depending on market conditions. (Example - near left)

ACE 300@44.50? .15 MCD 1.5K@26.95? .17 JPM 300@40.35? .87 DIS 15K@27.52? 3.44 HL 200@8.74? .45 GE 500
SIRI 1.5K 2.48? .45 MSFT 100@30.69? .57 AMGN 300@63.40? .35 CSCO 700@26.49? .30 GOAM 12.5K@.56? .02

INVESTMENT PROGRAM OPTIONS — STRATEGIC ASSET ALLOCATION

There is more than one path to successful investing, and any particular strategy may not be appropriate for all investors. Success comes from consistently following a strategy that matches your individual needs for growth and/or income, while balancing your tolerance for risk. Hamilton-Bates offers two core program options; Strategic Asset Allocation or Tactical Asset Allocation, each with its own set of characteristics and level of appropriateness, depending upon an investors' objectives and risks profile.

Strategic Asset Allocation Theory

Most strategic asset allocation approaches utilize the Modern Portfolio Theory of asset allocation and diversification, put forward by investment allocation pioneers Sharpe and Markowitz. Their theory was the foundation of the current Strategic Allocation process employed today. Strategic Asset Allocation follows a diversified approach to investing, holding a mix of stocks, bonds and cash equivalents, with the mix being optimized based on their **historical relationships**. This theory is based on the concept that a portfolio can be optimally invested by utilizing a variety of asset classes. Historical relationships between asset classes are analyzed. If two asset classes historically move together in price, they are said to have positive correlation. If two asset classes tend to move in opposite directions, they are said to have negative correlation. By combining asset classes that have low or negative correlation, a more efficient portfolio is created. This diversified portfolio will have much lower volatility than a portfolio created with just one asset class (e.g. all stocks or all bonds). Modern Portfolio Theory endeavors to generate the maximum possible expected return for a given level of acceptable risk.

This is where most strategic allocation programs end. Once a portfolio is optimized using historical data, the asset mix is generated, positions are chosen, and perhaps quarterly or annually assets are re-optimized and rebalanced. There may be some assumption of interest rate and/or inflation expectations, but expected future performance and current asset 'risk' is largely not considered.

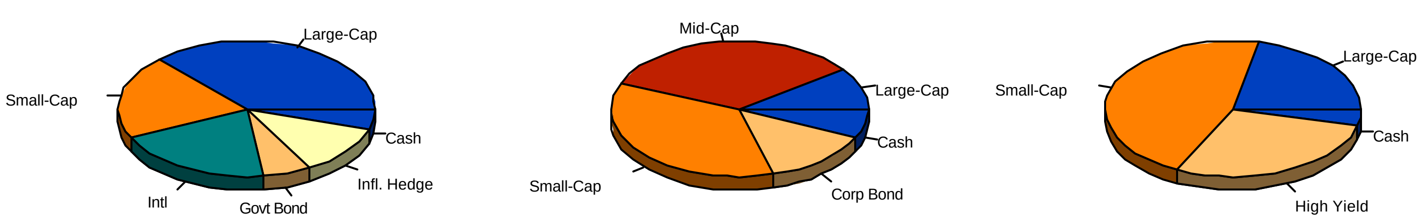
How the Hamilton-Bates Strategic Allocation Program is Different

The development of Modern Portfolio Theory was a significant stride in portfolio construction. Prior to its acceptance, most investors classified themselves by the type of investment they owned. Investors with income needs bought only bonds. Growth investors bought only stocks. MPT proved that portfolio diversification is appropriate for the majority of investors. The main criticism of Modern Portfolio Theory is the 'look back' nature of most of the analysis process. In our opinion, portfolio optimization based entirely on past data may not be highly efficient nor effective. You don't drive your car by looking through the rear-view mirror at where you have been right? **Market conditions change, and as they do, asset class correlations and expected future returns change, making the use of past data alone a flawed approach**. Furthermore, other factors also have a significant impact on **expected future** asset performance, and this cannot be measured by **past** performance or historic correlations.

An Evolutionary Process: One Portfolio —Three Time Frames

Strategic Allocation Aggressive Portfolio (SA1)

March 2000 **October 2002** **May 2003**



INVESTMENT PROGRAM OPTIONS — STRATEGIC ASSET ALLOCATION

Strategy Summary

The Hamilton-Bates Strategic Allocation Strategy combines forward-looking evaluations with the Modern Portfolio Theory of Asset Diversification, in an attempt to identify those asset classes that are likely to outperform. Overvalued asset classes and those whose expected performance peak has passed are under-weighted, while undervalued asset classes with strong relative strength and future performance expectations are given greater weight. The Strategic Allocation Strategy is flexible, but it is **NOT** market timing. We do not utilize large money market positions. The H-B Strategic Asset Allocation Program is designed for investors who desire a strategy that remains fully invested with measurable asset diversification. **Modern Portfolio Theory provides the skeleton framework, while our expectation analysis provides flesh for the bones.**

All major asset classes are analyzed in the Strategic Asset Allocation Program and divided into specific categories. Asset classes differ in their expected returns and levels of risk. We combine assets that complement each other by having negative correlations, with the proven outcome that some assets will increase in value even as others fall, therefore lessening portfolio losses and volatility. The result can be a portfolio that has a low level of risk relative to its expected return. We have added another dimension to the strategic allocation process, our top-down valuation and expectation analysis, allowing us to further focus on and capture those asset sectors expected to do well

The Strategic Allocation Program identifies asset classes with specific benchmarks, to provide diversification and reduce overlap. Using these benchmarks, the varying asset classes are analyzed and the portfolios are created. The available mutual fund universe undergoes an investment-style analysis to insure that it reflects the appropriate benchmark. Once the mutual funds are selected, the optimized portfolio is complete. The portfolios are reviewed, re-optimized and re-balanced on a regular basis. The mutual funds within the portfolios are regularly reviewed to insure investment style consistency and adjustments are made when necessary. In addition to a regular statement from the custodian or annuity company, clients receive a Quarterly Hamilton-Bates Account Statement along with a newsletter detailing our financial market outlook.

Asset Class Ranges

The Stocks category includes international as well as domestic equities, while Bonds includes cash equivalents)
There are three portfolio options in the Strategic Allocation Strategy, based on investment objective and risk tolerance.

	SA1 Aggressive	**SA2 Moderate**	**SA3 Conservative**
Acceptable Asset Class Range for **Stocks**	65-80%	60-75%	20-50%
Acceptable Asset Class Range for **Bonds**	15-35%	25-40%	50-80%
Acceptable Asset Class Range for **Real Estate and Inflation Hedges**	0-20%	0-20%	0-20%

Investor Suitability

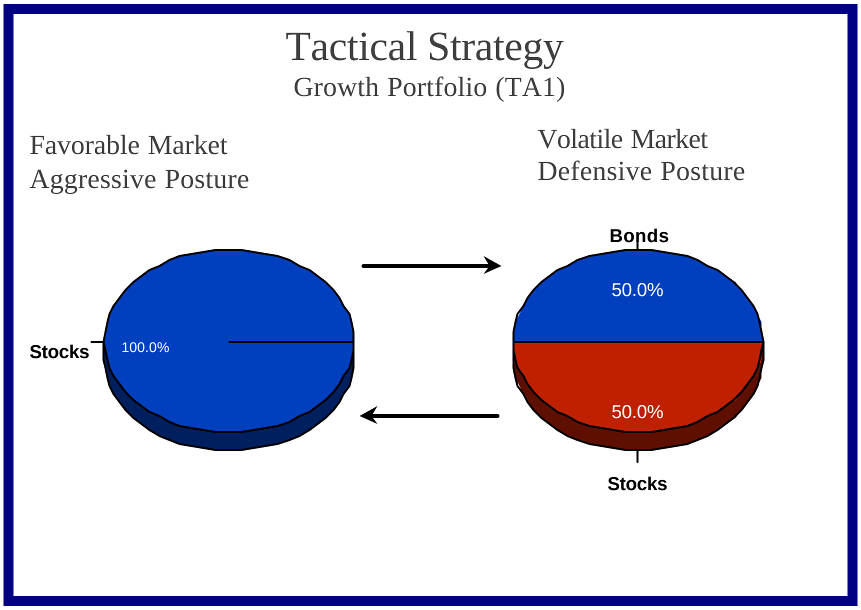
The Strategic Asset Allocation Program is appropriate for virtually all long-term investors. Its diversification makes it well suited to represent the core portfolio in an investor's holdings.

INVESTMENT PROGRAM OPTIONS — TACTICAL ASSET ALLOCATION

There is more than one path to successful investing, and any particular strategy may not be appropriate for all investors. Success comes from consistently following a strategy that matches your individual needs for growth and/or income, while balancing your tolerance for risk. Hamilton-Bates offers two core program options; Strategic Asset Allocation or Tactical Asset Allocation, each with its own set of characteristics and level of appropriateness, depending upon an investors' objectives and risks profile.

Tactical Asset Allocation Theory

Portfolio diversity reduces risk, but at a cost. When you combine the returns of many asset classes, the resulting average return must always be less than the return of the top-performing asset. If the best asset class earns record returns, as stocks did in the 1990's, the resulting shortfall in a broadly diversified portfolio could be significant. Through the use of our top-down evaluation, the Tactical Allocation Portfolios are over-weighted in those asset classes expected to do well. **As a result, the Tactical Asset Allocation Portfolios may at times be non-diversified.** Tactical Asset Allocation endeavors to be invested in the most favorable asset classes at any given time, while avoiding those with unfavorable risk/reward characteristics. **By identifying the strongest (anticipated) asset classes, the portfolios can then be positioned in those areas that represent the best opportunity for growth.**



The decision chart below is designed to be overly simplistic, but will hopefully help explain the 'tactical' process.

If the Technical Outlook for Stocks is:	And the Fundamental Outlook for Stocks is:	Then the Investment stance would likely be to:
Favorable	**Favorable**	**Overweight** Stocks, **underweight** or **avoid** other Asset Classes
Favorable	**Unfavorable**	Hold a mix of Stocks and other Asset Classes
Unfavorable	**Favorable**	Hold a mix of Stocks and other Asset Classes
Unfavorable	**Unfavorable**	**Underweight** or **avoid** Stocks, **overweight** other Asset Classes

Market Indices…DJIA 10455.90 +101.40 TRAN 2898.03 +25.02 UTIL 228.03 +2.42 TICK +408? TRIN .90

NASDAQ Dec 1227 NASDAQ Quotes Delayed 15 min…MSFT 100@30.70? .58 QQQ 900@37.55? .33 QQQ...

INVESTMENT PROGRAM OPTIONS — TACTICAL ASSET ALLOCATION

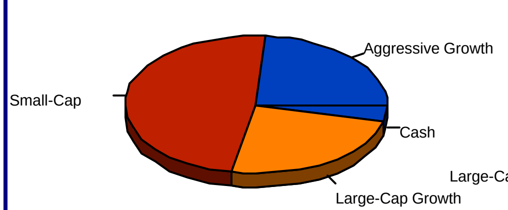
Strategy Summary

The Tactical Asset Allocation Program identifies those asset classes with strong appreciation potential. The available mutual fund universe undergoes an investment-style analysis to insure it reflects the appropriate asset classes recommended. Once the mutual funds are selected, the portfolio is implemented. The portfolios are monitored continuously, and the portfolios are re-balanced as often as the financial markets and the HBIR models dictate. The mutual funds within those portfolios are also regularly reviewed to insure investment-style consistency, and adjustments are made when necessary. In addition to a regular statement from the custodian or annuity company, clients receive a Quarterly Hamilton-Bates Account Statement along with a newsletter detailing our financial market outlook.

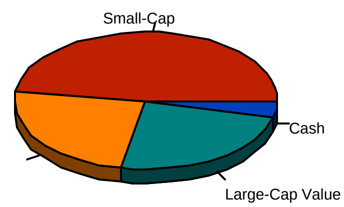
Portfolio Comparison **Tactical Allocation Portfolios**

September 2003

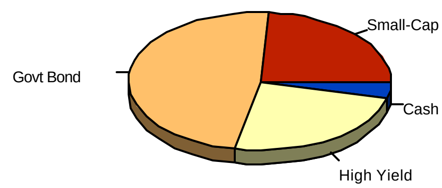
TA1 Growth



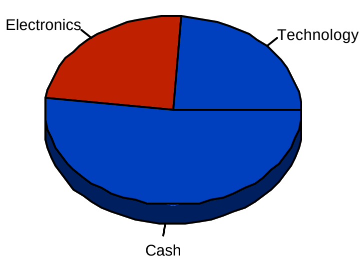
TA2 Moderate Growth



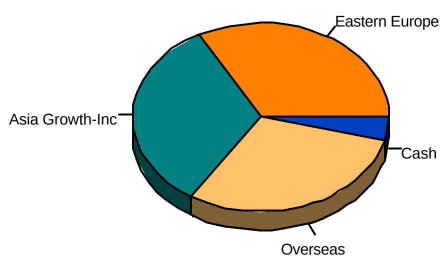
TA3 Income



TA4 Sector Growth



TA2 International Sector Growth



There are five portfolio options in the Tactical Allocation Program, based on investment objective and risk tolerance.

Asset Class Ranges

	TA1 Growth	**TA2 Moderate Growth**	**TA3 Income**	**TA4 Sector Growth***	**TA5 Intl Growth****
Stocks	0-100%	0-100%	0-25%	0-100%	50-100%
Bonds	0-100%	0-100%	75-100%		0-50%

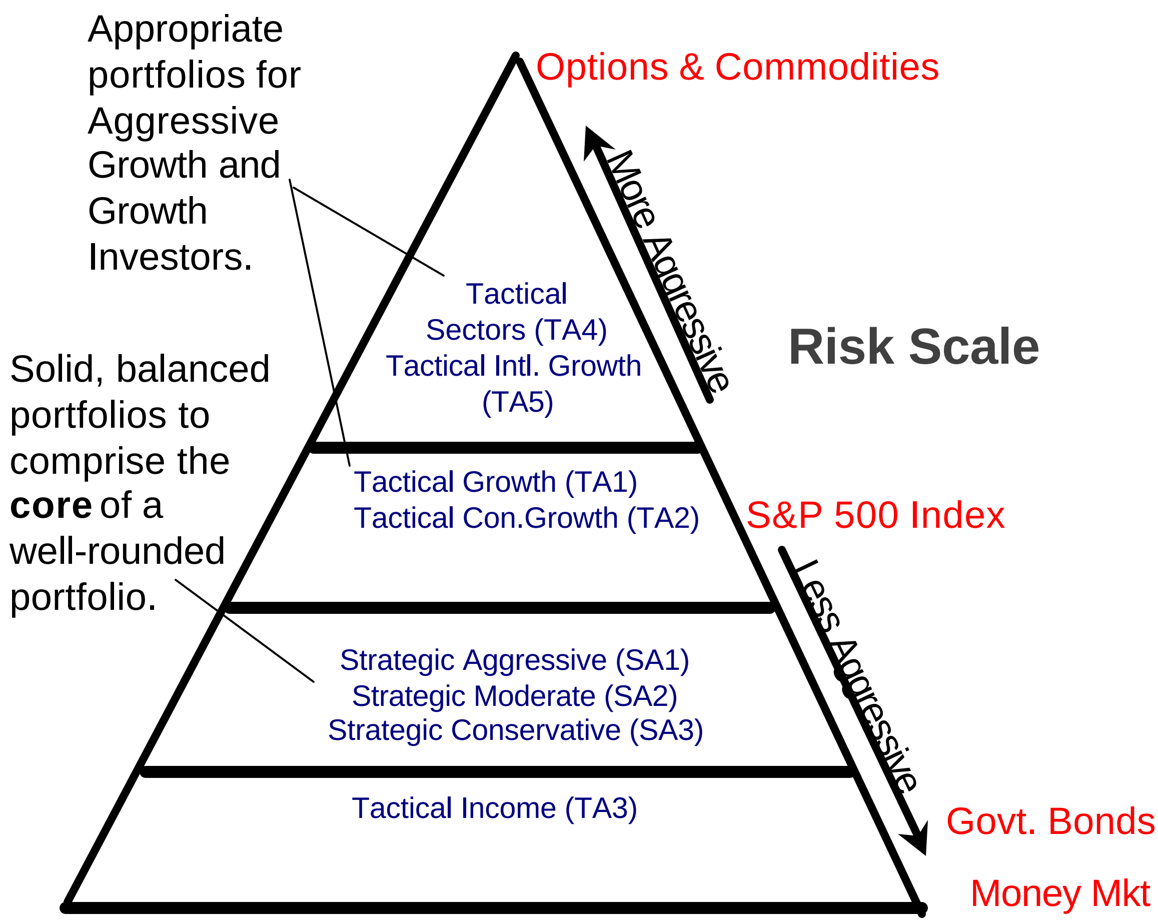
* The Sector Growth Portfolio Invests in Sector Funds, and is designed to exceed the performance of the S&P 500.

** The Intl Growth Portfolio Invests solely in International Stocks and Bonds.

Investor Suitability

The Tactical Asset Allocation Portfolios are appropriate for most investors seeking long-term capital growth. Tactical Asset Allocation Portfolios can hold concentrated asset positions at times, and while enhancing potential investment returns, can also increase portfolio volatility.

Choosing the Right Portfolio



Sample Investor Profiles:

Growth oriented investors with a long investment horizon should consider:	Growth investors who have a lower risk or volatility Tolerance should consider:	Conservative investors or those who have current income needs should consider:
Tactical Sectors (TA4) Tactical Intl Growth (TA5) Tactical Growth (TA1) Tactical Con. Growth (TA2)	Strategic Aggressive (SA1) Strategic Moderate (SA2)	Tactical Income (TA3) Strategic Conservative (SA3)