The McGraw·Hill Companies

STANDARD & POOR'S

FINANCIAL ADVISER

Asset Allocation	
Stocks	65%
Bonds	15%
Cash	20%

DID YOU KNOW?
The worst decade for stocks as measured by the S&P 500 was the 1930s. From 1930 through 1939, the index posted a meager average annual total return of 5.3%. The current decade could be even worse, says David Braverman, senior director of portfolio services at Standard & Poor's. Braverman calculates that from March 25 of this year through the end of 2009, the index would have to return 15% annually just to end up with an annualized 4.8% for the full decade. Although an average return of 15% annually is possible, the odds are against it.

For important regulatory information, please go to: www.standardandpoors.com and click on "Regulatory Disclosures."

Looking Beyond War

Although stocks have been hostage to headlines for 2003's first few months, we look for higher prices ahead.

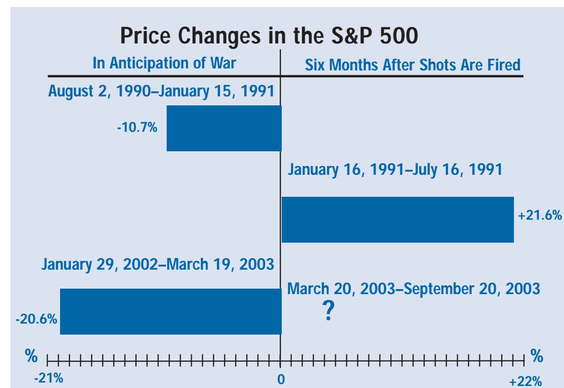
A few years ago, the "January effect" was popular among professional investors. It was based on the observation that small-cap stocks, beaten down by tax-related selling at the end of the year, tended to rally in January. Then savvy investors started to buy the small caps earlier to get a jump on the crowd. Soon the January effect was occurring as early as November. We may have experienced the same phenomenon recently with what might be called the "war effect."

In the six months after the start of the 1991 Gulf War, the S&P 500 advanced 21.6%. This time, investors acted sooner: The "500" climbed 9.2% in the six trading sessions before the firing of the first shots on the evening of March 19. Contrast that with the six trading sessions before the opening salvos of war in 1991, when the index fell 0.4%.

The periods of uncertainty before the latest war and the 1991 Gulf War both saw stocks weak. From the August 2, 1990, invasion of Kuwait by Iraq until January 15, 1991, the day before Desert Storm began, the S&P 500 fell 10.7%. In the uncertainty prior to Gulf War II, which we date from President Bush's January 2002 State of the Union Address when he promised to "fight freedom's fight" against states that support terrorism, the market fell 20.6%. (See chart below.)

Stocks should rise, but uncertainty about the economy has caused us to lower our year-end target for the S&P 500 to 985 from 1,005, a 12% gain for 2003.

S&P 500 BEFORE AND AFTER THE WAR



Please see page 25 for required research analyst certification disclosure.

Long-Term Strategies

DRIPs, Direct Investment Plans Ease the Way

In addition to their strong fundamentals, each of the companies profiled allows investors to reinvest dividends. One permits direct purchase of shares as well.

Dividend reinvestment plans (DRIPs) have become a big hit. There are now more than 800 companies that allow existing shareholders to have their dividends automatically reinvested in additional shares of stock and to purchase shares directly, without going through a broker.

An increasing number of companies offer direct purchase, allowing investors to buy their initial shares from the plan.

Beyond their relatively low cost, direct investment plans provide an excellent way to dollar-cost-average. With this strategy, you put a set amount of money into a stock at regular intervals, so in theory you buy more shares when they're cheap and fewer when they're expensive.

Besides reinvesting dividends for you, many plans also allow you to send in optional cash payments or have money automatically taken out of your checking or savings account each month to purchase more shares.

Minimum initial investments for direct investment plans run from $50 to $1,000. Most DRIPs require investors to own at least one share of stock to participate. Many companies with higher minimums will waive them if you agree to their automatic debit plans. Some also offer individual retirement accounts (IRAs).

To learn more about a plan or to enroll, call the company's investor relations department, which will refer you to the plan agent. You can also enroll online in a number of plans via Web sites like www.netstockdirect.com.

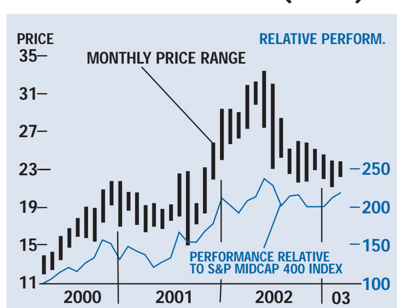
The four recommended stocks appraised here all offer dividend reinvestment plans. Bob Evans Farms also offers a direct purchase plan with a $100 minimum initial investment. For an extensive list of companies offering such plans, go to www.equiserve.com or www.netstockdirect.com.

BOB EVANS FARMS

BOBE, 25, Nasdaq; Quality ranking: A-

In addition to operating 510 full-service family restaurants, this company also produces and distributes pork sausage products. The company expected to open a total of 28 stores in fiscal 2003 (ended April) and at least 32 more in fiscal 2004. Propelled by this expansion, as well as by new retail products, revenues should grow in the mid-to-high single digits annually over the next few years. Same-unit sales were down slightly over the first three quarters of fiscal 2003, reflecting a difficult competitive environment, harsh winter weather, and a soft economy. However, earnings per share increased more than 12%, primarily because of lower food costs, reduced debt levels, and controlled wages.

BOB EVANS FARMS (BOBE)



For fiscal 2004, we project earnings per share of $2.20, up from the $2.10 we believe the company earned in fiscal 2003. We estimate fiscal 2004 S&P Core Earnings per share of $2.12, with the difference coming from stock options expense. Longer term, we see earnings growing at an average of about 8% annually. At 11 times our fiscal 2004 earnings-per-share estimate, the stock is trading at a discount to its peers and to the S&P 500.

continued

S&P Evaluation Symbols

QUALITY RANKINGS

Our appraisals of the growth and stability of earnings and dividends over the past 10 years indicated by quality rankings:

A+	Highest	B+	Average	C	Lowest
A	High	B	Below Avg.	D	In reorganization
A-	Above Avg.	B-	Low	NR	Not Ranked

Quality rankings are not intended to predict stock price movements.

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INT'L FLAVORS & FRAGRANCES

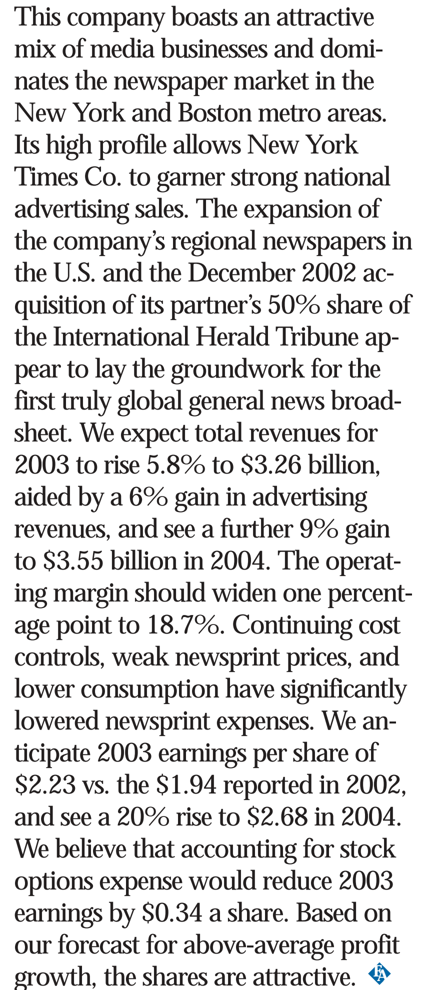
IFF, 32, NYSE; Quality ranking: B

The leading worldwide supplier of ingredients to enhance the aromas and tastes of consumer products appears to have successfully integrated the late-2000 purchase of Bush Boake Allen Inc. and has been renewing its sales growth with a higher rate of new business wins. The purchase of Bush Boake Allen, which had annual sales of $500 million, made International Flavors & Fragrances the world's largest flavors producer and boosted its fragrance business. The company has achieved $80 million in cost savings from the acquisition, exceeding its original goal of $70 million. New business wins have been particularly strong in its North American flavors and global fine fragrances businesses. Sales in the company's major global regions should continue to increase in the low single digits in 2003, before the favorable effect of currency exchange rates. But Latin American sales should remain sluggish due to economic problems in that region. We see earnings per share rising to $2.15 in 2003 from the $1.84 reported for 2002, which included $0.08 of special charges and a $0.35 benefit from a change in accounting for goodwill. The shares were recently trading at only 14 times our 2003 earnings estimate and are relatively inexpensive.

MANPOWER INC.

MAN, 32, NYSE; Quality ranking: B

This major staffing organization, which derives the largest part of its business from France and the U.S., specializes in the temporary placement of office and industrial workers. After a lackluster performance since early 2001, Manpower's business has shown some early signs of revival. However, it is unlikely that the recovery will be completely smooth. Although we believe that global economies will bottom out over the course of 2003, currently soft economic conditions, combined with geopolitical woes, are creating obstacles for labor markets. Still, we expect Manpower's business to begin improving in 2003. It is likely that the company's operations will strengthen in the early part of an economic recovery since the temporary non-professional area that it focuses on usually leads a staffing revival. We expect slightly better labor markets in France and the U.S. to lead to a modest gain in revenues in 2003. We also look for margins to widen and see a rise in per-share earnings to $1.75 in 2003 from the $1.46 earned in 2002. Trading at a modest 18 times



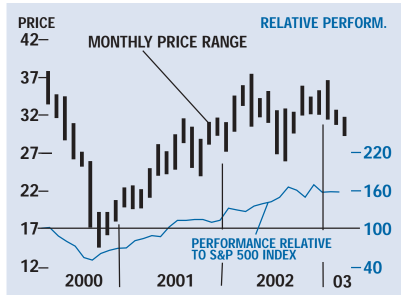
our 2003 forecast, the shares are attractive for capital appreciation.

NEW YORK TIMES CO.

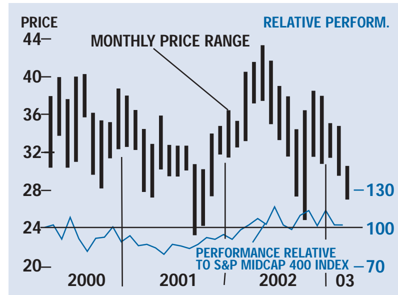
NYT, 44, NYSE; Quality ranking: B+

This company boasts an attractive mix of media businesses and dominates the newspaper market in the New York and Boston metro areas. Its high profile allows New York Times Co. to garner strong national advertising sales. The expansion of the company's regional newspapers in the U.S. and the December 2002 acquisition of its partner's 50% share of the International Herald Tribune appear to lay the groundwork for the first truly global general news broadsheet. We expect total revenues for 2003 to rise 5.8% to $3.26 billion, aided by a 6% gain in advertising revenues, and see a further 9% gain to $3.55 billion in 2004. The operating margin should widen one percentage point to 18.7%. Continuing cost controls, weak newsprint prices, and lower consumption have significantly lowered newsprint expenses. We anticipate 2003 earnings per share of $2.23 vs. the $1.94 reported in 2002, and see a 20% rise to $2.68 in 2004. We believe that accounting for stock options expense would reduce 2003 earnings by $0.34 a share. Based on our forecast for above-average profit growth, the shares are attractive.

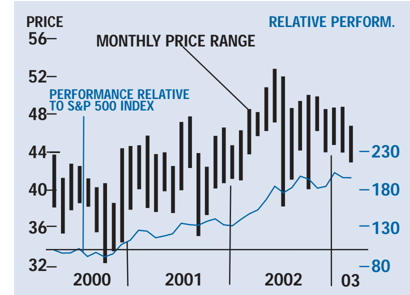
INT'L FLAVORS & FRAGRANCES (IFF)



MANPOWER INC. (MAN)



NEW YORK TIMES CO. (NYT)



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Portfolio Strategies

Rebalancing Is Worth the Effort

A periodic review and revision of your asset allocation can become a disciplined way to sell high and buy low, allowing you to lock in gains and reduce risk.

To rebalance or not to rebalance, that is the question.

Rebalancing simply means periodically reviewing your portfolio to ensure that it is still fulfilling your investment goals. If, for example, an investor set up a portfolio that was 60% stocks and 40% bonds three years ago, the outperformance of bonds in recent years could mean that the portfolio no longer reflects the desired allocation strategy. In fact, it would have flip-flopped to 40% stocks and 60% bonds. In that case, you might want to rebalance—meaning sell some bonds and buy more stocks—to get the portfolio back to the asset allocation you want.

Many investors dislike rebalancing, however, because it means selling winners in favor of losers. Rebalancing can also generate trading fees, as well as taxes on any gains booked by selling securities.

But most financial professionals believe the benefits outweigh these disadvantages.

"You want to rebalance to avoid owning a portfolio dominated by overvalued securities," says David Braverman, senior director of portfolio services at Standard & Poor's. "Rebalancing can reduce the risk of your portfolio and, often, boost returns as well."

That's because rebalancing forces you to sell high and buy low.

"Think of it as an exercise to remind yourself that you do have to sell," says David Blitzer, S&P's managing director for investment analysis. "Rebalancing gives you a discipline for determining what to sell and when to sell it. The idea is that no one is going to be the perfect market timer. Rebalancing is a guaranteed way to buy low, though perhaps not at the low, and sell high, though perhaps not at the high."

How often should you rebalance? Most experts suggest you do it once a year, though some say you might want to consider rebalancing even more frequently if the markets are especially volatile.

"I use the 5% rule with my clients," says Larry Swedroe, a financial planner with Buckingham Asset Management in St. Louis. "If a portfolio shifts more than 5% away from a desired asset allocation, that's when you want to think about rebalancing."

If you haven't rebalanced in the past year, you should think about it. Take a look at all your investments, whether they are in a taxable brokerage or mutual fund account, or a tax-deferred account like a 401(k) plan or an individual retirement account (IRA). Calculate how much is in stocks and how much in bonds. Then determine whether you are comfortable with your allocations. S&P is currently recommending an asset allocation of 65% stocks, 15% bonds and 20% cash.

It is also important to drill down deeper than that. Within your stock portfolio, for example, you probably want a split between U.S. stocks and foreign issues. Many financial planners advocate keeping at least 10% of your equity portfolio in foreign stocks.

Similarly, many investors prefer to keep their bond portfolios invested in a mix of U.S. Treasuries, municipals, and corporate bonds.

Once you determine how to bring your asset allocation back to where you want it, there are several ways to get it done.

Some advisers suggest making as many changes as possible in a tax-deferred account like a 401(k) or an IRA because that will reduce your immediate tax liability. Also, since few 401(k) accounts charge trading fees, it is a way to cut down on transaction costs.

You can also rebalance without incurring a tax liability by using new money instead of moving around existing money in your portfolio.

"Try to rebalance using new cash, rather than selling current investments," says Swedroe. "If you have too much in bonds right now, invest some new money in stocks, instead of having to sell the bond position to raise money to put more in stocks."

If rebalancing is going to cause a tax liability, you might want to consider waiting until the end of the year. Then you can determine whether to pay the tax in the current year, or defer it to the following year.

"I meet with each of my clients in November, and we map out a strategy for rebalancing," says Alan Kahn, president of AJK Financial in Syosset, New York. "The important thing to remember is that you are in control of the portfolio; it isn't taking control of itself."