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"You Can Observe a Lot by Just Watching"

So spoke that famous American philosopher, Yogi Berra, about baseball. We can apply his comments to the capital markets too. Companies have run amuck. CEOs are taking down outrageous salaries. CFOs misstating expenses. Auditors aren't. Boards are asleep at the switch. Enron. WorldCom. Arthur Anderson. TYCO. Global Crossing. RiteAid. Xerox. Wall street analysts. ImClone Systems. And now Martha Stewart, too. What's an investor to do?

Well, here are some remedies that should help.

1. Do not treat the corporate treasury as a private piggybank, permitting CEOs to borrow millions of dollars as did Dennis Kozlowski of TYCO, Bernie Ebbers of WorldCom and the Rigas family of Adelphia. Shameful.
2. Place tight reins on CEO pay. In 1980 the average CEO made 40 times the pay of the average factory worker. Twenty years later that ratio had climbed to 530 times. In the words of Aretaha Franklin, "Who's zoomin' who?"
3. Require stock analysts to work for investors. Separate that business totally from the business of investment banking. Don't permit analysts to tout stocks in order to win investment-banking clients.
4. Don't permit corporate auditors to reap fat consulting fees. Arthur Anderson earned \$54MM last year in non-accounting fees from Enron. Those consulting fees create a built-in conflict of interest with respect to traditional auditing functions.
5. Require board members to truly be independent. Make them proactive. Require them to challenge the assumptions of the CEO. Limit their terms of service to no more than 10 years. Do not

permit the CEO to serve as chairman. Require a majority be independent. Permit company executives to correspond directly with the board without going through the CEO.

6. Require companies to count stock options as a corporate expense when granted. Both Warren Buffet and Alan Greenspan believe that all publicly traded companies should do so. The tech companies strongly object. Watch out Cisco and Microsoft shareholders.

7. Require business leaders to take the ethical high ground. Former SEC Chairman, Arthur Levitt, recently expressed serious skepticism about our nation's business leader's ethics. "What troubles me is that what is fueling these corporate implosions are not strategic misjudgments, the rise of new competitors, the sudden appearance of rival technologies or even basic managerial mistakes. Instead, it's the uncovering of accounting irregularities, inflated balance sheets and outright corporate deceit and malfeasance," he said recently. The gatekeepers have failed. Our accountants, internal auditors, corporate boards, corporate lawyers and regulators.

8. Conclusion: Send 'da bums to jail! I am not talking about the Brooklyn Dodgers, Yogi. I'm talking about the CEOs and other Bad Boys of the business world. Make an example of them. Clean the system up. Join Peter Finch in saying "I'm mad and I'm not going to take it any more."

Westover's place in this pantheon is as a small speck in a very large constellation. Fortunately, on Planet Westover we do our research independently. We work only with the best professionals. We know our clients "by the color of their eyes."

What I like is diversity. Stability. Bonds coupled with stocks. Cash coupled with mutual funds. In the past reports to you I have talked positively to you about Reits and large caps which pay good dividends. I have emphasized investment grade bonds.

In this report I offer a couple of new ideas to go into the investment stew. The first is investment rated preferred securities of foreign banks. The second is international stocks and the last, small and mid cap arenas. If your exposure is in these areas as well as in the good, stolid large cap ones then you should do fine.

Have a good summer!

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