Alban Investment Management, LLC Newsletter for August 2003

The newsletter has three sections. **Investment and Economic Indicators** gives a brief snapshot of some current and predicted conditions. **Investment Product of the Month** provides information on a selected investment product or opportunity. **Investment Topic of the Month** provides information on an investment concept. Past issues of the newsletter can be found at **www.alban-invest.com**.

The **Investment Product for August** is **developed world equities**. The **Investment Topic for August** is the **structure of the US securities market**.

If this newsletter was forwarded to you and you wish to receive future issues, please e-mail me at **rcalban@alban-invest.com** so that I can add your e-mail address to the distribution list. Or, if you want to be dropped from the list, please e-mail me at the same address.

My firm provides two services: (1) the development of comprehensive, long-term **investment plans** to achieve client objectives, and (2) the **on-going management** of investment assets. My goal is to help clients achieve their investment objectives through a combination of sound investment principles and practical knowledge. To learn more, visit **www.alban-invest.com**, or e-mail me at **rcalban@alban-invest.com**.

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Investment and Economic Indicators

Category	Total Return YTD 7/31/2003	Comments
1. US Equities Overall	**+15.7%**	recovery continued in July
Technology	+26.3%	best performing sector
Telecommunications	-4.0%	worst performing sector
2. High Yield Bond	**+15.6%**	prices fell in July
3. Developed World Equities	**+11.8%**	recovery continued in July
Sweden	+25.2%	best performing country
Finland	+0.1%	worst performing country
4. Money Markets	**+0.6%**	below inflation rate
5. Investment Grade Bonds	**+0.5%**	prices fell sharply in July
6. Municipal Bonds	**+0.1%**	prices fell sharply in July

7. Year that world mobile phones exceed land lines: **2003**
8. Year that US digital camera sales exceed film camera sales: **2003**
9. Year that US digital camcorder sales exceed analog camcorder sales: **2003**
10. Year that over 60 million US households will be online: **2003**
11. Projected PC sales over next 6 years: **1 billion units**

	Interest Rates on 10 Year Gov. Bonds	
12. United States	4.43%	rose by almost 1% in July
13. Germany	4.16%	direction unclear
14. Japan	0.96%	likely to remain very low

15. % change in exchange rates since 1/1/03

Euro to $	+7.1%	euro weakened in July
Lb. Sterling to $	flat	Lb. weakened in July
Yen to $	-1.5%	Japanese gov. continues to intervene

Note: The strong euro is favorable to US exports going into Europe.

Developed World Equities

Developed world equities (excluding the US) are generally considered to be from the following countries:

Australia	Japan
Austria	Netherlands
Canada	New Zealand
Belgium	Norway
Denmark	Portugal
Finland	Singapore
France	Spain
Germany	Sweden
Greece	Switzerland
Hong Kong	United Kingdom
Ireland	
Italy	

These countries have **developed economies** and reasonably well **functioning capital markets**.

What are the characteristics of developed world equities as an asset class?

1. **Size**: The combined market value of the equities from these countries is about the same size as the US stock market (about $10 trillion).

2. **Return & Risk**: Since 1970, developed world equities have had an average annual return of 10.1%, with a standard deviation of about 22%. (Over the same period, US equities had an average annual return of 10.8%, with a standard deviation of about 17%.)

3. **Correlation**: Until recently, international stock returns had a correlation of about 50% with the movement of US stock returns. However, in recent years the correlation increased to the **70-80%** level. This is believed to be due to the greater integration of the world economy.

In sum, **the international market has similar* risk/return characteristics to the US market, with a correlation of about 75%.**
*The international equities have had a slightly lower return and a slightly higher volatility than US stocks over the past 32 years. However, the difference is not large. The extra volatility may be attributed to political risk and exchange rate risk.

The value of having some international equities in a portfolio derives from the fact that international equities are not perfectly correlated with US equities--and thus **increase diversification and reduce overall portfolio volatility**. By including international equities in a portfolio (usually in the range of 10-20% of the total portfolio), a more optimum risk/return relationship is created. Over a long time period, this can result in improved portfolio performance for the same level of risk.

Generally, the **best way to obtain international equities is through exchange traded funds or international index funds**. These vehicles have low expenses and have well diversified holdings. Actively managed international mutual funds usually have high expenses that reduce long-term returns. Second, some foreign companies trade shares on US exchanges through American Depository Receipts **(ADRs)**. The ADR is a claim on shares that the foreign company has reserved for this purpose. ADRs trade on US exchanges just like any other stock. There are hundreds of ADRs that trade on US exchanges. **ADRs are a way to obtain ownership of a particular foreign company**. The third way to obtain foreign stocks is to arrange to purchase them in their home country stock exchange. However, this is usually more expensive and involves dealing in multiple currencies.

Structure of the US Publicly Traded Securities Market

The **definition** of a security is a legal representation of the right to receive prospective future benefits under stated conditions. Publicly traded means that a security is able to be bought or sold by the general public through well functioning national markets. All publicly traded securities are subject to various government regulations.

Publicly traded securities can include stocks, debt instruments such as bonds, mutual funds, limited partnerships, and options. There are many investment assets that are **not** publicly traded securities. These include certificates of deposit, savings bonds, savings accounts, stocks and bonds of private companies, restricted stock options, and privately owned real estate.

The total US securities publicly traded market presently has an estimated market value of about **32 trillion dollars**.

The breakdown of the total US market is listed below.

Segment	Estimated Market Value ($ Trillion)	% of Total
Money Market Funds	**2.4**	**7.5%**
Fixed Income Securities:		
Investment Grade Bonds		
US Treasury	3.3	10.4%
US Agencies	2.4	7.6%
Municipal Bonds	1.8	5.7%
Corporate	3.3	10.4%
Mortgage Related	4.9	15.5%
Asset Backed	2.5	7.9%
Total Investment Grade	18.2	57.5%
High Yield Bonds	0.8	2.5%
Total Fixed Income Securities	**19.0**	**60.0%**
Equities	**10.3**	**32.5%**
Grand Total	**31.7 trillion $**	

Note: Publicly traded stock options have a **net** market value of zero because for every position there is an equal and opposite offsetting position.

A **weighted average investment return** for the total US securities market can be calculated by multiplying the return for each segment by its percentage of the total market value of the US securities market. **This calculation for year to date 2003 gives a total weighted average return of 5.8%.** You can loosely view this as the investment return for owning a share of "America" for the first seven months of 2003.