

Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Quarter	YTD 2002
S&P 500	-7.1%	-13.4%	-13.2%
Dow Jones Industrials	-6.8%	-10.7%	-6.9%
NASDAQ	-9.4%	-20.7%	-25.0%
S&P/BARRA Value	-6.3%	-10.7%	-9.5%
S&P/BARRA Growth	-8.0%	-16.3%	-16.9%
S&P 500 Equal-Weighted	-8.2%	-12.9%	-8.4%
S&P 400 Midcap	-7.3%	-9.3%	-3.2%
Russell 2000	-5.0%	-8.4%	-4.7%

	2002Q2	YTD 2002
BASIC MATERIALS	-2.2%	8.3%
CAPITAL GOODS	-7.7%	0.9%
COMMUNICATION SVC	-25.8%	-38.2%
CONSUMER CYCLICALS	-4.4%	4.9%
CONSUMER STAPLES	-3.7%	5.4%
ENERGY	-6.0%	5.9%
FINANCIAL	-3.5%	4.1%
HEALTH CARE	-11.6%	-15.1%
TECHNOLOGY	-27.8%	-28.9%
TRANSPORTATION	-5.7%	5.0%
UTILITIES	-11.7%	-6.9%

The quarter could not end quickly enough for the U.S. stock markets. For the quarter, the major U.S. indices all recorded negative results. The Dow Jones Industrial, S&P 500, and NASDAQ posted losses of -10.7%, -13.4% and -20.7%, respectively. The U.S. economy continued to show signs of improvement however; this was more than offset by a number of accounting, fraud and insider trading scandals. In addition, a number of high profile technology and telecom companies lowered their earnings outlook for Q2 and the remainder of 2002. More specifically, a number of underlying factors drove the markets performance during the quarter:

- Fed Funds rate remained at 40yr low: With the U.S. economic recovery now expected to be modest, no near-term inflation concerns and an opaque corporate earnings outlook, the Fed had little reason to raise interest rates. Current expectations are that the Fed will not begin to raise rates until late 2002.
- Value dominated growth across all market capitalization levels during the quarter. The S&P/BARRA Value index out-performed its Growth counterpart, returning -10.7% vs -16.3%, respectively. Midcap Value also outperformed Midcap Growth -5.9% vs. -13.0%.
- Small-cap. stocks outperformed again, although not by the substantial margins seen in recent quarters. The equal weighted S&P 500 index out-performed the cap-weighted version by only 50bps in the quarter. For the latest 12 months, the equal weighted index has out-performed the cap-weighted index by +759 bps. The equal weighted index continues to lead the cap-weighted index over the 1, 2, 3, 4, 5 and 10-year time periods.
- Earnings picture remains unclear. Although, published reports indicate that the ratio of positive vs. negative EPS pre-announcements is improving, a number of high profile technology and telecom companies have already announced that Q2 EPS will not meet previous guidance. In addition, investors appear to be increasingly skeptical of companies reported numbers. Looking forward, Q2 EPS reporting season is set to get underway in mid-July. Once again, company guidance will remain the key driver of near-term stock performance, in our opinion.

No sector registered a positive performance during the quarter. The Technology and Telecom sectors were the worst performers down -27.8% and -25.8%, respectively. The Technology sector came under pressure from a number of negative Q2 EPS pre-announcements. In addition to a lack of EPS visibility, the Telecom sector continued to be battered by accounting and fraud issues. Basic Materials, buoyed by signs of economic improvement and Financials, helped by the continued strength in the housing market, were the best performers, down -2.2% and -3.7%.

Model Attribution: *Second Quarter, 2002*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow	Technical	Size
5 (high)	-6.2%	-7.7%	-8.4%	-14.1%	-11.5%	-2.8%	-11.4%
4	-9.5%	-9.5%	-8.1%	-8.2%	-7.4%	-5.9%	-10.2%
3	-9.7%	-7.2%	-11.5%	-8.1%	-6.7%	-5.9%	-10.4%
2	-11.1%	-12.8%	-8.1%	-7.2%	-8.7%	-15.4%	-9.6%
1 (low)	-13.5%	-17.8%	-11.1%	-15.0%	-16.3%	-20.0%	-8.1%
Spread	7.4%	10.1%	2.7%	0.9%	4.8%	17.2%	-3.3%

Note: "Spread" is the difference between the returns of the high (5) and low (1) quintiles by each model/measure.

The Shenandoah models once again posted solid results during the quarter, led by Technical and Earnings. Given the uncertainty of the fundamental picture, it is not surprising that investors appeared to shift their focus to technical measures. The emphasis on price momentum during this period is demonstrated in the exception return of the technical model. However, we also saw a return to strong performance in the earnings model. Given the general lack of earnings visibility, it appears that the absolute level of earnings of our earnings model was more important than earnings model acceleration.

We believe that sector moves continue to drive the performance of fundamentals, rather than fundamentals driving performance. Our Insider and value models (Cashflow and DDM) exhibited random returns (no monotonic pattern) while the performance of the Earnings, Technical and Size measures illustrate the focus on smaller cap stocks with strong earnings and price momentum.

- The Cashflow model was the best of our value models returning a 4.8% spread between the best and worst quintiles.
- The Earnings model, spread 10.1%, continued to gain traction. Companies with strong current earnings or clear ties to the consumer driven economic upturn were rewarded at the expense of companies more reliant on the uncertain pickup in corporate growth, in our opinion.
- Although down from last quarters' double-digit positive spread, the Insider Trading model continues to perform well, although quintile returns were mixed. Clearly, the recent corporate scandals have investors more closely focused on the trading of stock by corporate insiders.
- The OPT E/I model (Earnings and Insider Trading) performed well due to the strong performance of both the Earnings and Insider Trading measures.
- Price momentum (our Technical model) was again a significant a factor during the period. (Note: We do not use price momentum in our investment process.)
- Size continued to be a factor in determining performance this quarter. The smallest stocks outperformed the largest by 3.3% for the quarter.

YTD, our models have all performed well. The improved performance of our portfolios has been driven by the strong return exhibited by our Earnings model, +7.2% spread (the most heavily weighted factor in our process). As we look forward to the second quarter earnings reports, we expect investors to be less willing to accept optimistic outlooks that lack fundamental evidence. However, given that many companies are facing easier year over year earnings comparisons we would not be surprised to see a general positive trend to Q2 earnings announcements. Technology remains a wild card as investors search for signs of earnings growth.

A review of our market neutral and midcap strategies is included on the next two pages.

Model Attribution: *Year to Date, 2002*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow	Technical	Size
5 (high)	-1.1%	-5.3%	-1.5%	-4.0%	-5.2%	1.9%	-9.5%
4	-5.7%	-3.9%	-1.9%	-0.6%	-0.3%	-2.8%	-4.8%
3	-5.8%	-1.7%	-5.7%	-3.1%	-0.3%	0.1%	-6.5%
2	-5.5%	-6.8%	-5.1%	-2.9%	-4.2%	-9.8%	-4.0%
1 (low)	-8.5%	-12.5%	-9.4%	-16.7%	-16.9%	-16.3%	-1.3%
Spread	7.4%	7.2%	7.9%	12.7%	11.7%	18.2%	-8.2%