

Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Quarter	YTD 2002
S&P 500	-10.9	-17.3	-28.2
Dow Jones Industrials	-12.3	-17.5	-23.2
NASDAQ	-10.9	-19.9	-39.9
S&P/BARRA Value	-11.4	-20.5	-27.7
S&P/BARRA Growth	-10.4	-14.1	-28.7
S&P 500 Equal-Weighted	-11.6	-20.3	-27.0
S&P 400 Midcap	-8.1	-16.5	-19.2
Russell 2000	-7.2	-21.4	-25.0

	2002Q3	YTD 2002
Basic Materials	-21.3%	-14.7%
Capital Goods	-16.9%	-16.1%
Communication Services	-24.0%	-53.1%
Consumer Cyclical	-16.4%	-12.3%
Consumer Staples	-12.1%	-7.4%
Energy	-10.7%	-5.5%
Financial	-14.0%	-10.5%
Health Care	-4.7%	-19.1%
Technology	-27.7%	-48.6%
Transportation	-15.6%	-11.4%
Utilities	-14.0%	-20.0%

The third quarter finished with the U.S. stock markets recording their worst quarterly performance in 15 years, since late 1987. For the quarter, the major U.S. indices all recorded negative results. The S&P 500, Dow Jones Industrial, and NASDAQ posted losses of -17.3%, -17.5% and -19.9%, respectively. Continued economic uncertainty, the threat of further terrorist activity leading up to the 9/11 anniversary and increased tension between the U.S. and IRAQ, negatively impacted investor sentiment. More specifically, a number of underlying factors drove the markets performance during the quarter:

- Fed holds firm on interest rates, risks now to the downside. Although the FOMC did not make a move on interest rates, by the September meeting the bias has changed from Neutral to Negative. By the end of the quarter, the price of December Fed fund futures had factored in a rate cut prior to year-end 2002, instead of the rate increase that had previously been expected.
- Growth dominated value across all market capitalization levels during the quarter. In a reversal of recent trends, the S&P/BARRA Growth index out-performed its Value counterpart, returning -14.1% vs. -20.5%, respectively. Mid-cap Growth also outperformed Mid-cap Value -14.6% vs. -18.5%.
- Large cap. stocks outperformed Small cap. stocks. The cap weighted S&P 500 index out-performed the equal weighted version by 300 bps in the quarter. During the quarter, it appears that investors shifted their focus from pure value situations to search companies with a relatively positive earnings outlook. However, for the latest 12 months, the equal weighted index has out-performed the cap-weighted index by +658 bps. Also, the equal weighted index continues to lead the cap-weighted index over the 1, 2, 3, 4, 5 and 10-year time periods.
- Earnings estimates continue to be lowered. After some signs earlier in the year of a possible turnaround in corporate earnings, the recent Q3 pre-announcement season saw an increase in the number of negative EPS pre-announcements. In particular, economic sensitive sectors, such as transportation and retailers, where analyst estimates had included some leverage to a pickup in economic activity by Q3, were lowered.
- Current environment limits visibility and increases volatility. Although a case can be made that we are closer to a turnaround in corporate earnings, the uncertain economic and geopolitical environment has investors hopping in and out of positions based on the latest story to cross the news wire, in our opinion. We also believe that this shoot first, ask questions later environment is likely to remain in place at least in the near-term.

This was the second consecutive quarter in which no sector registered a positive performance. As was the case in Q2, the Technology and Telecom sectors were the worst performers down -27.7% and -24.0%, respectively. Both sectors continue to be battered by weaker than expected and, in the case of the Communication Sector, liquidity and fraud concerns. Healthcare, where EPS estimates have been trending higher, was the best performing sector, down -4.7%.

Model Attribution: *Third Quarter, 2002*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow	Technical	Size
5 (high)	-15.1%	-14.7%	-17.6%	-25.3%	-20.1%	-15.0%	-17.4%
4	-16.4%	-17.7%	-18.3%	-19.7%	-17.3%	-15.7%	-16.8%
3	-17.8%	-16.6%	-17.8%	-16.7%	-16.9%	-19.5%	-16.2%
2	-21.2%	-20.7%	-15.5%	-16.7%	-16.5%	-19.9%	-17.8%
1 (low)	-19.4%	-23.8%	-15.5%	-15.3%	-20.9%	-17.7%	-19.0%
Spread	4.2%	9.1%	-2.0%	-10.0%	0.8%	2.7%	1.6%

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

The Shenandoah models posted mixed results during the quarter. During this period of extremely weak market performance, larger capitalization growth companies were stronger performers (without consideration to valuation). Our Valuation models produced perverse performance despite the market down draft.

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

- The Earnings model, spread 9.1%, continued on from its strong Q2 performance. After beginning the quarter focused primarily on current earnings, in September, investors turned their attention to companies with improving earnings prospects (earnings acceleration).
- The Insider Transaction model spread was -2.0%. Given the recent high profile cases of corporate manipulation and fraud, we believe that investors will continue to focus on Insider transactions as a guide in their choice of stock purchases and sales.
- The OPT E/I model (Earnings and Insider Trading) performed well, although the strong performance of the Earnings model was partly offset by the negative Insider Transaction model performance.
- The DDM model was the worst performing model -10.0% spread between the best and worst quintiles, which was surprising given the overall weakness in the market.
- Our Cashflow model posted breakeven returns for the quarter, further illustrating investors' puzzling lack of focus on value.
- Price momentum (our Technical model) continues to be a significant a factor during this this volatile market period. (Note: We do not use price momentum in our investment process.)
- In a reversal of recent periods, the largest stocks out-performed the smallest by 1.6% for the quarter.

YTD, our models have all performed well. The Earnings model, +14.1% spread (the most heavily weighted factor in our process) has been the primary driver of portfolio performance. Insider Transactions remain a source of added value. The positive spread of our DDM valuation model was negatively impacted by this quarter's perverse performance, while Cashflow has generated significantly positive returns overall.

Model Attribution: *Year to Date, 2002*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow	Technical	Size
5 (high)	-16.1%	-19.2%	-18.9%	-28.3%	-24.3%	-13.4%	-25.3%
4	-21.2%	-20.9%	-19.9%	-20.1%	-17.5%	-18.1%	-20.8%
3	-22.6%	-18.0%	-22.6%	-19.3%	-17.1%	-19.4%	-21.7%
2	-25.6%	-26.1%	-19.9%	-19.1%	-20.0%	-27.7%	-21.1%
1 (low)	-26.2%	-33.4%	-23.5%	-29.5%	-34.3%	-31.2%	-20.1%
Spread	10.1%	14.1%	4.6%	1.2%	10.0%	17.8%	-5.2%