



**The
Fragasso
Group, Inc.**

Special Newsletter

Tuesday, September 18, 2001

To: Clients
From: Bob Fragasso

Subject: Markets

We were gratified by the responsible reaction of almost all of our clients to the horrible events of September 11th. With over 1100 households and institutional accounts, we were pleased that only two of those clients gave in to the emotionalism of the moment and sold investment positions. In fact, many of you sent in funds for investment. That was done, in part, for patriotic reasons heeding the call of our national leaders to do so. However, for many, it was done for commonsensical reasons. The markets present many values for investing now. Let's see if we can give you some basis for agreeing with that assumption.

While history cannot provide guarantees of the future, it does provide a reliable guide when viewing similar events. Past events that have threatened our economy should be viewed to help with insight as to what we may now be facing.

<u>Event</u>	<u>Time Period</u>	<u>Market Action in Year(s) Following (S&P 500 index)</u>
Depression	1929-1932	1933 – Up 54%. New Deal begins.
World War II Pearl Harbor Bombing Dec., 1941	1939-1945	1942 – Up 20% 1943 – Up 26% (We hadn't even turned the corner to victory yet!)
Kennedy's Assassination	Nov., 1963	1964 – Up 17% 1965 – Up 13%
Oil Embargo/Severe Recession	1973-1974	1975 – Up 37%

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SINCE 1972

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Market Crashed

26% in one day Oct., 1987

1987 – Ended year up 5%

1988 – Up 17%

1989 – Up 31%

Recession of 1990

Desert Shield

Dec., 1990

1990 – Ended year down 4%

Desert Storm

Jan., 1991

1991 – Up 31%

Also, please recall the rhetoric at the time of Desert Shield. Supposedly, we were facing the fourth largest army in the world, and that the struggle would be protracted and costly. It was neither.

Hurricane Andrew
Devastating losses
to property and
casualty insurance companies

Summer, 1992

Property and casualty insurance company
stocks – Up 32% for 1992, and
up an additional 18% in 1993

We do not pretend to know the future, and no one can. But, things usually seem worse than they eventually turn out to be.

People have often said to us that they wished they would have had the courage to buy during one of those times listed above. Well, this is one of those times. It's a strange quirk of human nature that we are more comfortable buying when prices are high, maybe because we have lots of company, than we are buying when everything is devalued.

This is an opportunity to add to your portfolio at what we believe to be, based on historic data, abnormally depressed prices. We believe that the foundations of our economy remain sound, in part, because of the liquidity that the Federal Reserve has instilled in our economy with interest rate cuts. Also, the U.S. Government committed this week \$40 billion dollars for infrastructure rebuilding and military build up. And, that's only for starters. That is on top of the advance checks for tax cuts we've just received. It is for certain that U.S. airlines will benefit from a federal support package. Go back to Economics 101. It is the amount of money in the economy and the velocity of its movement throughout the economy (that is how fast it moves from hand to hand) that determines economic activity in the economy. Please go back and re-read the historic examples to see what we mean.

Again, we compliment our clients for understanding the validity of asset allocation, time in the markets (vs. market timing) and all of the other sound investment principles that we have shared together over the years. We will keep working toward your continued economic success. While we cannot control events, we can help to interpret them so that you can make solid judgements.

Please do not hesitate to contact your financial consultant or me if you have any questions concerning this information or concerning your accounts.

We close with an expression of pride in being your fellow American.

Sincerely,
Bob