



Economic News

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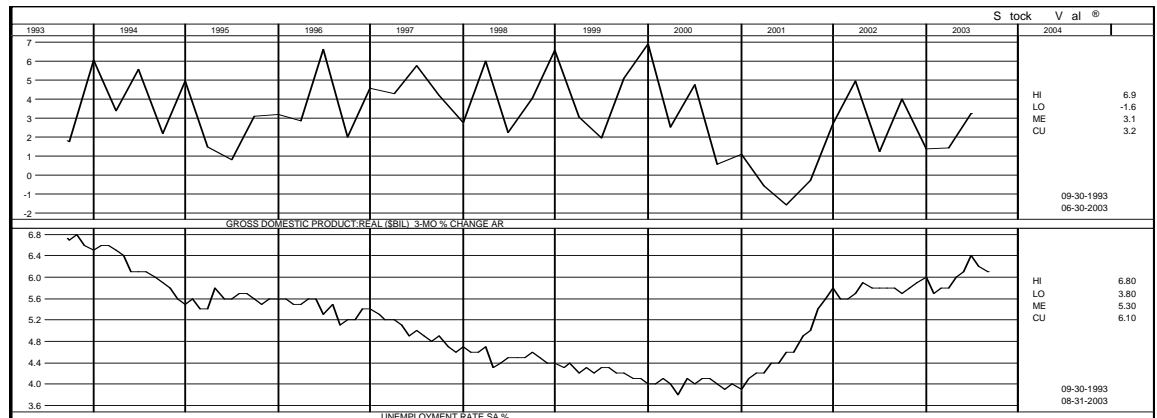
The economy seems to be waking up from its slumber. Growth is increasing at a slow, but steady pace and unemployment continues to gradually decrease.

Second quarter Gross Domestic Product (GDP) increased significantly to 3.2% from the first quarter's 1.4%. Personal consumption expenditures (PCE), federal defense spending, and nonresidential fixed investment all contributed to

this growth. Real PCE increased 3.8%, after a 2.0% increase in the first quarter. In addition, national defense spending increased by 45.8%, compared to the 3.3% decrease in the first quarter. Furthermore, real nonresidential fixed investment increased 7.3%, in contrast to a decrease of 4.4%. The unemployment rate remained relatively unchanged in the third quarter, decreasing slightly from 6.4% to 6.1%. The manufacturing, informa-

tion, and professional and business services sectors had continued job losses, while health care and construction added jobs. Economists expect employment levels to rise in the fourth quarter due to the improved economic data from quarter one and quarter two.

In summary, expectations are looking up, but we still have a ways to go.



Financial Planning: Tax Tips

Changes in the tax law enacted this year may have the following impact on your tax planning:

1. Long term gains realized after May 5 have a maximum tax rate of 15%.
2. The maximum tax rate on dividends was slashed to 15%, beginning 1/1/2003. But the definition on dividends is very specific. For example, not all preferred stock's 'dividends' qualify.

Income from Real Estate Investment Trusts is excluded, therefore subject to ordinary income tax. You also need to check the holding-period. For dividends to qualify for the new low rate, the stock must be held for "more than 60 days during the 120-day period that begins 60 days before the ex-dividend date."

3. Gifting greatly appreciated securities to low bracket individuals is even more bene-

ficial on tax savings. The long-term capital gain tax goes as low as 5% upon sale. However, the recipient of the gift has to be over age 14. Otherwise, the tax bracket of their parents is applied when gains are realized.

4. The maximum contribution to a 401K plan is now at \$12,000 for under age 50 and \$14,000 for those over age 50.

U.S. Stock Market

The equity markets continued their ascent in the third quarter. The S&P 500 Index increased 2.2%, while the Dow and the NASDAQ gained 3.2% and 10.1%, respectively. Technology continued to outperform, with solid gains also in the industrial, material and financial groups. Telecom, Healthcare and Utilities were the only sectors to end the quarter in the red.

Since the stock market started its recovery in the middle of March, speculative companies have produced outsized gains relative to more financially sound companies. This has created some cause for concern about the health of the current rally. Many of the problems in the stock market in recent years have been caused by excessive

Index	3rd Qtr Returns
Dow Jones	3.2%
S&P 500	2.2%
NASDAQ	10.1%
Russell 2000	0.8%
Year to Date	
Dow Jones	11.2%
S&P 500	13.2%
NASDAQ	33.8%
Russell 2000	27.3%

speculation and risk-taking. Through August, margin debt was up over 11% on the NYSE. The NASDAQ margin debt has increased to \$26 billion from just over \$5 billion at the beginning of the year. It would be much more comforting if the recent market gains had been led by the strongest companies with tangible assets and earnings.

Looking ahead, we are still focused on companies that can continue to perform based on sustainable growth. In the recent downturn, many companies have improved their cost structure to become more profitable. With an up tick in the economy, these companies should be able to reap the benefits of higher profit margins and more of their revenues will flow to the bottom line.

Fixed Income Markets

Treasury securities took a roller coaster ride during the third quarter. In July, the 10-year note lost 7.1%, only to rebound since the middle of August to close off 1.9% for the quarter. Its yield rose from 3.5% to 3.9%. Corporate bonds performed better than treasuries. High yield bonds gained during the quarter as a result of improving credit conditions.

Bond investors will be watching for job growth and foreign demand for treasuries as indicators on the direction of the US bond market. The lackluster jobs market reduces the probability of the Federal Reserve increasing rates anytime soon. Any significant strength in the

job market can cause interest rate to spike again. However, higher rates will slow economic growth and will eventually cause interest rates to fall once more.

Although bond prices will weaken if interest rates rise, bonds should continue to make up a portion of your portfolio based on age, retirement goals and risk tolerance. There are still uncertainties about the future of the economy and valuation of the stock market may be considered rich. For most investors, maintaining an appropriate bond allocation is still prudent to provide diversification and a higher income stream.

US Treasury Yield Table
Source: Bloomberg

	3 mo	2 yr	5 yr	10 yr	30 yr
12/31/01	1.72	3.14	4.41	5.09	5.54
12/31/02	1.19	1.56	2.7	3.78	4.74
3/31/03	1.11	1.49	2.73	3.83	4.86
9/30/03	0.94	1.47	2.84	3.95	4.90



International Equities

International and emerging markets continued to trek higher in the third quarter. The EAFE Index outpaced U.S. markets and turned in a solid 7.6% return. The weakest areas in the second quarter were the best performers this most recent quarter. With the risk of SARS abating, Hong Kong managed a 25% return. Japan also produced one of the best relative returns of 22% in U.S. dollar terms.

Emerging markets continued to show solid gains. With lower labor costs in developing countries, many companies are exporting jobs to places such as India. While this is not good news for U.S. workers, it should help to bolster emerging economies in the future.

The dollar continued to be relatively weak. Continued weakness in the dollar can be a double-edged sword. While it

can improve U.S. dollar-based returns of our multinational companies, it also hurts earnings of foreign companies and their local economies by making their exports more expensive to US consumers, reducing the demand for their goods and services. We still believe that the positives will outweigh the negatives in the years to come for international investment.