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SUMMARY

- Risk in equity markets remains high.
- Bond yields down from peaks.
- Federal Reserve has raised interest rates five times in a row.
- U.S. economy continues to defy efforts to slow it down.

FIRST QUARTER 2000 REVIEW

Equity markets in the first quarter of 2000 gave investors a serious case of whiplash. The New Year's celebrations ended with a big bang as stocks sold off sharply in the first week of the year. The temptation for profit taking after the huge run-up in the fourth quarter was too much for the institutions and mutual funds to resist. The profit taking proved momentary as investors piled back on and rallied the markets to new highs within weeks.

After that it was all technology stocks as the NASDAQ zoomed and the Dow swooned. Through mid-March the Dow and the NASDAQ were mirror images of each other. When profit taking hit toward quarter-end, the decline in the NASDAQ showed up as gain in the Dow with the so-called "old economy" stocks rallying sharply on their strength as a safer haven from overextended tech issues. The

First Quarter 2000 Stock Market Performance

S & P 500	+2%
Dow Jones Industrial Average	-5%
NASDAQ Composite	+12%

quarter ended much as it began with another furious round of institutional profit taking and quarter-end window dressing.

For the first quarter, it was no surprise that the tech-heavy NASDAQ outperformed again, finishing up 12%. At its peak the index was up 24% from the beginning of the year and endured four corrections of at least 10%, a wild ride by any standard. The Dow Jones Industrials finished the quarter down 5%, staging a respectable recovery after suffering a sharp

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First Quarter 2000 Review (continued)

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16% decline. The S&P 500, which represents a happy medium between the frenetic NASDAQ and the languid Dow, turned in a middling 2% performance. Technology investing has become such a dominant force in the markets that recent studies show the performance of each major index is in proportion to the weighting of technology issues in it.

Bond markets saw considerable improvement during the quarter as yields peaked and prices recovered from the multi-year lows reached early in the quarter. With a surplus in the Federal budget, it appears that the government will reduce the supply of Treasury bonds, creating unusual demand for the long bond. Anticipating the

government's reduced borrowing needs and future scarcity of the

The current economic expansion has set the record as the longest in history.

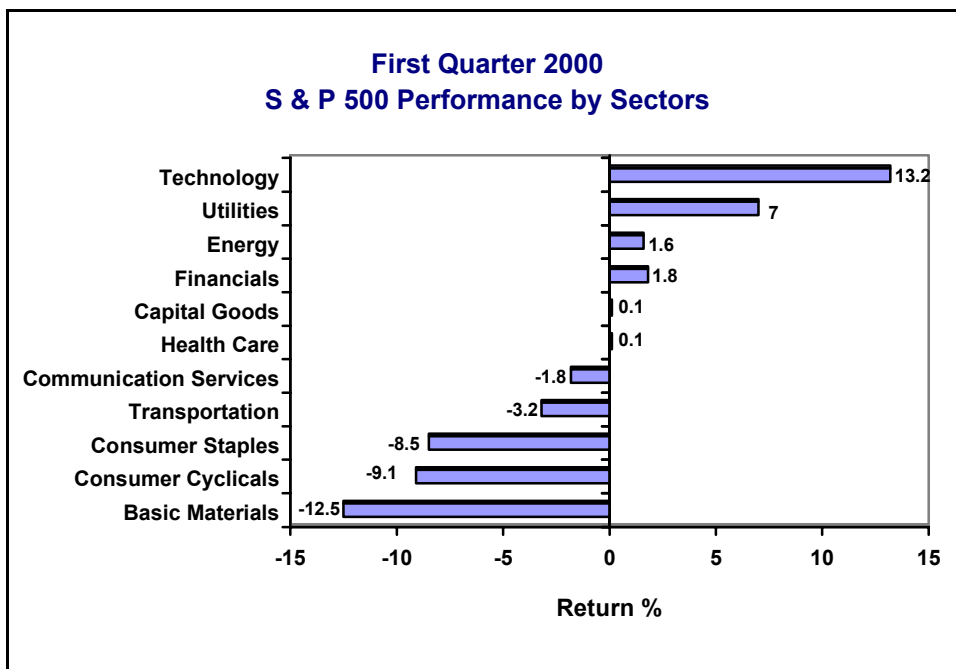
long bond, a number of analysts have substituted the 10-year for the 30-year Treasury bond as the benchmark for bond yields. The 30-year bond finished the quarter at a yield of 5.84% down from 6.48%. The 10-year bond finished at 6.01% down from 6.44%. While the Fed continues to raise interest rates, it appears that the bond markets are not anticipating higher inflation and higher interest rates over the

longer term.

The U. S. economy continues to defy the Fed's efforts to slow it down. The current economic expansion has set the record as the longest in history. GDP growth is more robust than ever. Revised estimates of fourth quarter 1999 growth are in excess of 7%. Such a figure is unheard of at this late date in an economic expansion and is all the more remarkable because inflation remains mild. Much of the credit for this period of robust growth without inflation is being given to productivity gains enabled by the technologies of the "new economy." Truly, we appear to have entered a new era with regard to the power of information and technology to drive our economy.

The Fed fears, and rightly so, that our economy is too hot. Demand continues to outstrip supply, and inflationary pressures due primarily to a tight labor market are building. A serious run-up in oil prices has not helped on the inflation front either. To ward off inflation by cooling demand, the Fed has raised rates five times in succession with two of those hikes coming this year. The Fed will probably continue to hike until it feels that economic growth has slowed to a sustainable pace. Unfortunately,

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To Catch a Falling Star

From time to time, after a precipitous price decline in some notable stock of past or present glory, we will get inquiries as to whether that stock might be a good buy at the current price. The answer is rarely yes, sometimes maybe, and usually no. Why?

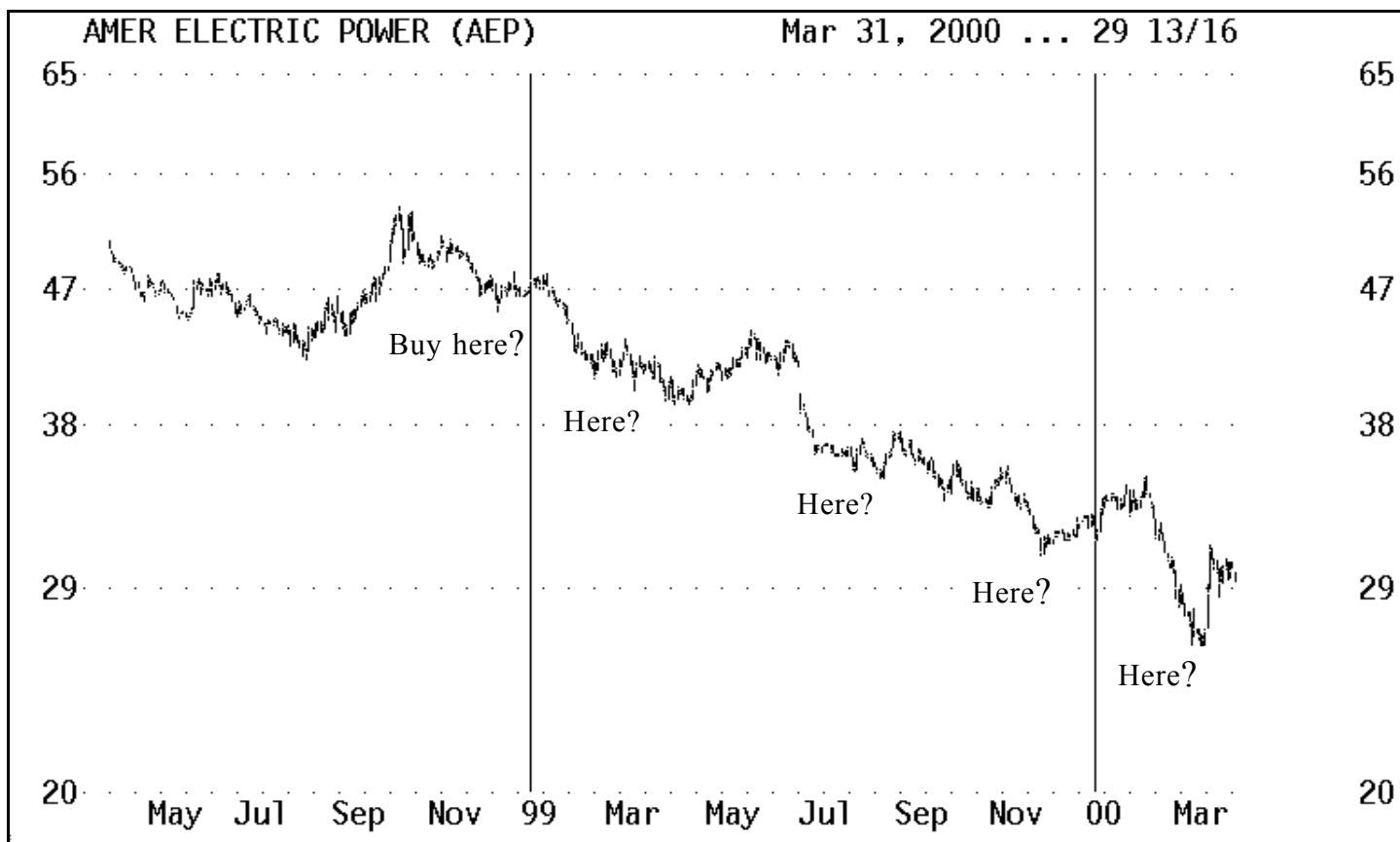
A stock's price will decline when there are more investors selling than buying. Generally, when investor sentiment turns

against a stock, selling pressure takes over, and a stock will continue in a downtrend until the selling pressure is exhausted. At this point, the investors who want to get out have done so. Unfortunately, by this time, there may not be many interested buyers, and the stock can drift sideways for months or even years until investor interest is renewed.

In most cases, we can't be sure a stock has reached

the bottom until it has already started a new uptrend. For this reason, we prefer to make commitments to stocks that are initiating new uptrends or already in established uptrends. Trying to buy at the bottom usually results in buying something that could be had later for less.

Check the stock price chart below to see if you can find the bottom.



First Quarter 2000 Review (continued)

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this will continue to put pressure on stock prices as long as the markets remain uncertain about when the Fed will think enough is enough.

Globally, recovery appears to be gaining momentum. Economic growth in Europe continues to beat forecasts, and most of Asia has come back strong. Recovery in Japan still seems tentative, but the weight of the evidence favors continued progress. Most of Latin America appears to be on track as well. The global situation bodes well for corporate profits of U.S. companies, but also creates competition for foreign investment dollars as foreign equities may be positioned to outperform U. S. equities in the near term.

All in all, the risks in the equity markets remain high as valuations in technology stocks are stretched beyond reason while the "old economy" stocks go begging at lower and lower valuations. Some unforeseeable event could prick the bubble in technology shares and bring the whole market

crashing down, but it would be nearly impossible to predict what that might be. The economic outlook is excellent, the Fed remains vigilant on the inflation front, and the world is mostly at peace. In the near term, the most likely culprit would be earnings disappointments among some of the mega-cap tech wonders, reminding investors of the unrealistic expectations implied in the current valuations.

In recent years, the fear of opportunity lost by not being invested has apparently outweighed the risks of investing at unreasonable prices, and thus, the glamorous technology stocks have thrived at the expense of most everything else. From time to time as the technology stocks plow ahead, sharp corrections and rotations give a boost to one sector or another without very much advance notice. The prudent strategy has been, and will continue to be, to give the technology stocks their due with a fair weighting and diversify among other sectors as their relative strength warrants.

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