

DIXON, HUBARD & FEINOUR, INC.

INVESTMENT COUNSEL

601 S. Jefferson Street, Suite 410
Post Office Box 2768
Roanoke, Virginia 24001-2768
Telephone (540) 343-9903
Fax (540) 343-7684
www.dhfinc.com

SUMMARY

- 1Q 2001 earnings reports to be below expectations.
- Stock prices down for the quarter. Bonds up.
- Federal Reserve lowering interest rates.

FIRST QUARTER 2001 REVIEW AND OUTLOOK

The bears remained in charge during the first quarter of the year, pushing all the major market indices to new lows. While the NASDAQ took the brunt of investor pessimism again, there were very few safe havens as the ebbing tide lowered all boats. There is little argument now that the NASDAQ experienced an historic speculative bubble that burst in March 2000 and continues to deflate.

The fallout has infected the broader market, both in the U.S. and abroad. It is remarkable how the sentiment of the market has done a complete about face from the 1999-2000 climax. Then, bad news got a good spin, and buying on dips was a sure thing. Now, good news gets a bad spin, and selling into rallies is the thing to do. Surely the pervasive media coverage and broader ownership of stocks among individual investors have heightened the public awareness of the market weakness. This current bear market has been blamed on a number of issues, ranging from overly tight monetary policy to higher energy

Year 2001 Stock Market Performance

	1st Quarter
S&P 500	-12.1%
Dow Jones Industrial Average	-8.4%
NASDAQ Composite	-25.5%
Morgan Stanley EAFE	-14.0%

costs to the strong dollar. The market is cyclical by nature, and these issues are simply catalysts to ignite the opposing forces of fear and greed at their respective turns in the cycle.

The most obvious culprit in the current market miasma is corporate earnings. They aren't what they used to be or, in many cases, what the bulls hoped they would be. A slowing economy has left almost no sector of the economy immune to earnings disappointments. At a lower level of earnings, the stock price must drop to keep the price-to-earnings ratio in line. In the present situation,

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First Quarter 2001 Review and Outlook (continued)

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earnings are projected to decline further, which means that the market is undergoing a contraction of what is considered an acceptable P/E ratio. The result is declining stock prices.

Volatility has become a more prominent feature of the recent market activity and is likely to continue. The spread of communications and software technology throughout the global economy and especially the investment community allows decisions to be made faster and money to move more rapidly from one sector to another. The proliferation of media coverage of the markets, such as CNBC, CNN and countless internet and print outlets, serves to heighten the individual investor's sensitivity to market activity and compounds the problem.

On the plus side of the ledger, stock prices turn up before earnings do since the market is always looking ahead. Modern corporations enabled by technological innovation, just-in-time inventory systems and a more flexible workforce are able to adjust more rapidly to slowing economic conditions, which may hasten but also shorten the economic downtrend. Assuming the Fed continues to exercise appropriately easy monetary policy and levels of corporate and consumer debt remain manageable, corporate earnings should resume their growth later this year.

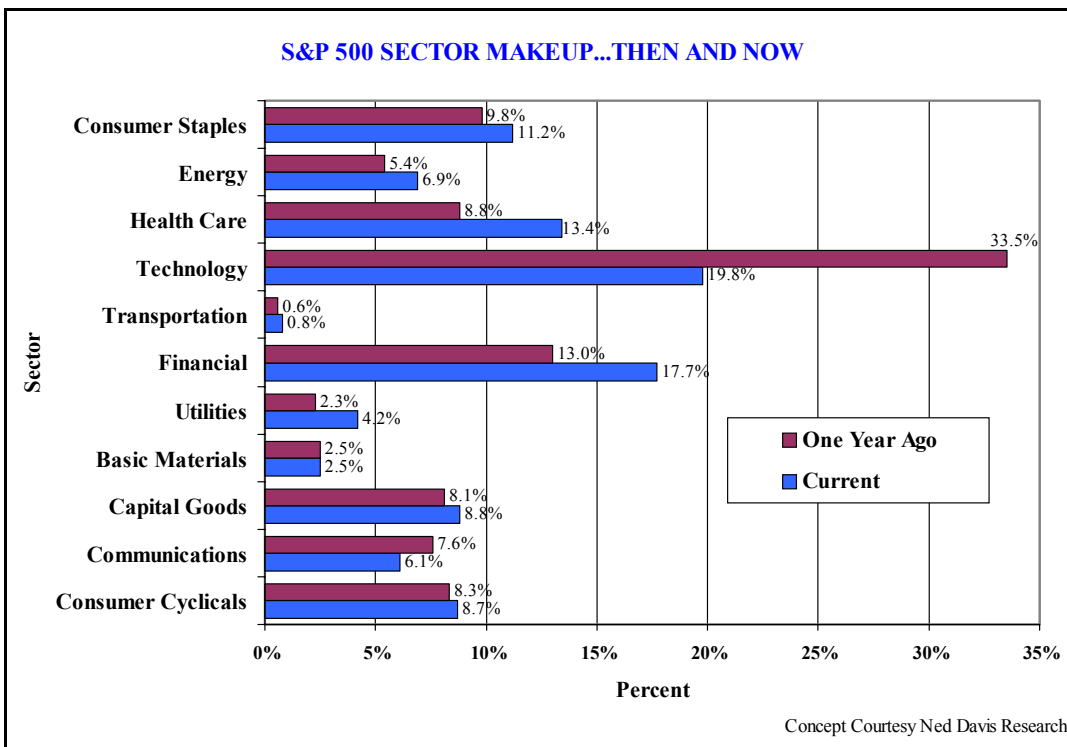
There are other positives as well. Declining interest rates have almost always had a positive effect on stock prices. Hence the old market adage, "Don't fight the Fed." Lower rates stimulate the economy and make the historically higher

return on stocks relatively more attractive than that of bonds or money market funds. Inflation remains low, which also makes equity returns attractive. Impending tax relief promises to put more money back into the consumer's pocket.

Longer term, continued globalization of the world economy, technological innovation, and the spread of democratic government bode well for the future. The promise of raising the standard of living for people all over the world provides almost unlimited opportunity for corporations able to identify and meet that challenge.

How should an investor try to cope with the current market? Remember that equity investing is strictly a long-term proposition. The market will turn up again, and when it does it will likely be unexpected and sharp. The strategy that works is the one we have always recommended: (1) Remain invested in high quality companies with strong earnings records, financial strength and market liquidity; (2) Diversify by investing in a variety of companies, industries and market sectors to achieve steady growth and minimize risk; (3) Invest in companies that are growing their long-term profits and revenues faster than their peers; (4) Follow long-term trends by letting strength in the market identify the best new opportunities.

-Whitney Brown



IRS Issues New Rules for IRA Required Minimum Distributions

In January the IRS released new proposed regulations governing the Minimum Required Distributions and beneficiary designations for IRA accounts. These new rules will also apply to most tax-deferred accounts such as 401(k) plans and 403(b) plans. The proposal does away with key deadlines, creates simplified distribution tables, and eliminates traps that have cost some individual taxpayers or their families millions of dollars in income taxes.

People who have made paperwork mistakes, poor beneficiary choices, or other errors now get a fresh start, effective immediately. The new distribution rules basically make the original distribution rules issued in 1987 null and void.

The new rules will change several things. Under the old rules, IRA account holders were required to choose a distribution method - Term Certain, Recalculation, or Hybrid. The new method requires that IRA owners and plan participants consult a single table to determine the required minimum withdrawals after age 70½. This new table is generous, requiring the smallest minimum distribution provided under the old system, thus allowing more of the account balance to continue to grow tax-deferred.

By lowering the required minimum distribution, the

account holder also incurs less taxable income. In a nutshell, if the IRA owner does not need money from the IRA, the new rules will allow more of the money to remain invested in the tax advantaged IRA.

A notable exception to the single table is for account holders with spouses who are more than 10 years younger. They get an even better deal, basing distributions on a longer joint life expectancy and thus stretching their IRAs over more years.

Under the new legislation, it will be much easier for account owners to change beneficiaries. Under the old system, the "irrevocable" beneficiary designation will no longer take place on April 1st of the year following the year that the account holder turns 70 ½. Under the old rules, you could change beneficiaries, but could not lengthen the payout schedule - you could only shorten it.

The beneficiary now is not finalized until December 31st of the year following death. People can now change their beneficiary until the day of their death with no repercussions. For example, if the account holder has determined that his or her current beneficiary, possibly a son or daughter, does not need the money, the beneficiary can simply be switched to the grandchildren, thus allowing the

money longer tax-deferred growth. The new IRA rules should substantially increase the ability of beneficiaries to "stretch out" IRA distributions. The "stretch out" allows a beneficiary to extend the required minimum distributions over the beneficiaries' remaining life expectancy. The new law does not look back to the status of the account as of the IRA owners "required beginning date" to determine the minimum required distribution. Under the new rules, the age of the beneficiary on December 31 of the year following the year the IRA owner died is the calculation age. Now, anyone can be named as an IRA beneficiary with no effect on the minimum required distribution.

By making the distribution rules simpler, the IRS can easily check who is not withdrawing enough from their IRA. Failure to take the minimum required distribution results in a 50% penalty on the amount that should have been distributed. This penalty is not new. However, it was rarely enforced in the past.

At Dixon, Hubard & Feinour, Inc. we are in the process of obtaining recalculated Required Minimum Distributions for all of our clients who are affected. As with all tax matters, please consult your tax advisor prior to finalizing your IRA distribution each year.

-Watt Dixon

INVESTMENT OUTLOOK

Dixon, Hubard & Feinour, Inc. Celebrates 20th Anniversary

On February 2, 2001, Dixon, Hubard & Feinour, Inc. celebrated its 20th anniversary as an independent investment counseling company. The firm is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

Walter Dixon started the firm in 1981, drawing on his sixteen years of experience with First National Exchange Bank and Virginia National Bank. Stebbins Hubard joined the firm in 1985 after nine years with Dominion Trust Company, followed by Ted Feinour in 1988 after eighteen years with Dominion Trust Company and First & Merchants National Bank.

In the twenty years since the firm's founding, assets under management have grown to over \$400 million. With the growth in assets, the firm's staff has expanded to a total of eleven, including the three principals.

The firm is located on the fourth floor of the

Coulter Business Center on the corner of Jefferson Street and Franklin Road in Downtown Roanoke.

Its professional staff combines over 100 years of investment management experience with backgrounds in law, estate planning, insurance and business management.

Dixon, Hubard & Feinour, Inc. is a sponsor of the Virginia Landscape exhibit at the **Art Museum of Western Virginia** located in the Center in the Square. The company also was a Corporate Sponsor for **Mill Mountain Theatre's** production of William Shakespeare's "Much Ado About Nothing," which ran from March 21 through April 8, 2001. Dixon, Hubard & Feinour, Inc. is proud to support numerous cultural and community organizations throughout the Roanoke Valley and Central and Southwest Virginia.

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601 S. JEFFERSON STREET, SUITE 410
POST OFFICE BOX 2768
ROANOKE, VIRGINIA 24001-2768
TELEPHONE (540) 343-9903
FAX (540) 343-7684
E-mail: *last name@dhfinc.com*