

# GREENWOOD

## CAPITAL

*Insights*

The Quarterly Publication of Greenwood Capital

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October 2003

### The Stock Market

After an impressive run in the first half of the year, the equity market (as measured by the S&P 500 Index) was more subdued in the third quarter, rising a modest 2.2% (2.6% including dividends). The market rose the first two months of the quarter, before falling in September, the first negative month since February 2003. Year-to-date, stocks have posted solid returns, up 13.2% (14.7% including dividends) through the end of the third quarter.

The breadth of performance in the market was narrower in the third quarter, with 335 out of 500 stocks in the S&P in positive territory, compared to 470 in the second quarter. Of the ten economic sectors in the S&P 500, seven were up, with four out of ten outperforming the index. The Information Technology sector was the best performing sector, up nearly 11% for the quarter. After leading in the second quarter, Telecom was the worst performing sector in the third, down over 10%. Year-to-date, Information Technology continues to be the best performing sector, rising 30% for the year. Consumer Discretionary is second, up over 19%. Telecom's performance in the third quarter pushed the sector's year-to-date return into negative territory, down 8% through September 30, 2003.

Since hitting a closing low of 800 on March 11, 2003, the S&P is up over 24% through the end of the third quarter. Over this time period, the market has appreciated in anticipation of a strong economic recovery. This recovery appears on the right track with the second quarter GDP coming in stronger than expected and consensus for the third quarter at 4-5%

growth. However, recent economic numbers have been mixed, and we look for the equity market to be "choppy" until we get further clarity on the outlook.

### The Bond Market

As anticipated, the decline in bond yields could not last forever, and the third quarter proved to be a very volatile period in the fixed income markets, as yields bounced off of multi-decade lows. July proved to be the worst performing month in bonds, especially in the longer end of the yield curve, as the yield of the 30-year Treasury bond moved from a low of 4.17% set in June to a high for the year of 5.45% in August. Since August, yields have drifted lower, but we do not anticipate testing the lows witnessed during the second quarter.

We still believe the most prudent position is to remain in shorter maturity bonds (5-6 years), as there is likely to be continued volatility in longer maturities. Our overall positioning in corporate bonds relative to government issues reflects our expectation of continued improvement in corporate profits as we enter 2004.

#### Market Indicators

(Total Return Through 9/30/03)

	52-Week Change	Changes Since 12/31/02
<b>S&amp;P 500</b>	24.40%	14.72%
<b>DJIA</b>	25.11%	13.13%
<b>NASDAQ</b>	53.17%	34.27%
<b>RUSSELL 1000</b>	25.12%	15.70%

Source: Bloomberg

## *Economic Outlook*

The economy appears to have finally achieved some traction after flirting with deflation and a return to recession earlier in the year. As measured by Gross Domestic Product (GDP), the economy grew by 3.3% during the second quarter and seems to be on track for a strong finish for the year with growth of around 5%.

The strength in the economy continues to be driven mainly by the consumer. After expanding by a respectable 3.8% in the second quarter, consumer spending entered the third quarter with a strong footing. Consumers are reaping the benefits of tax cuts, child credit refunds and low interest rates. Growth during the current quarter is also receiving a huge boost from government spending, especially on defense.

While the current recovery has been a jobless one with the loss of over 2 million jobs since the last recession, it does appear that the business sector is beginning to become more optimistic. Eventually, inventories, technology and fixed investments will need to be rebuilt, and increased output, which is currently being supported primarily by productivity gains, will need to be supplemented by hiring.

Looking forward, we expect the economy to continue to grow in 2004, and we believe that the Federal Reserve will maintain an accommodative interest rate policy throughout 2004 and into 2005. The Federal Reserve is mainly an inflation fighter and inflation is nonexistent and will not be an issue until we have confirmed and sustained growth in the economy and the labor market. We are encouraged by the economic picture that is unfolding and the implications that it will have on the market environment.

## *Management Team Profile*

### *J. William Harper*

This quarter's management team spotlight is on J. William (Bill) Harper. Bill is President and Chief Investment Officer for Greenwood



Capital. In addition to his duties as President, Bill heads up the firm's Investment committee and oversees the equity strategy.

Prior to joining Greenwood Capital in 1993, Bill was employed by Bankers Trust of South Carolina as a Senior Vice President and Trust Officer responsible for trust investments, statewide personal trust and estate administration, and the Money Management Account Center. Previously, he was Vice President and Resident Branch Manager for the regional investment firm of Interstate/Johnson Lane in Columbia. Bill is a graduate of Clemson University. He is past president of the S.C. Bankers' Association, Trust Division, and has served two terms on the Clemson University Board of Visitors. Bill also served on the inaugural S.C. Retirement System Investment Panel that was responsible for investing over \$9 billion of state assets in equities.



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