GREENWOOD CAPITAL Insights

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The Stock Market

Cautious optimism was the key theme for stocks in the second quarter of 2003. The S&P 500 rallied sharply through April and into May, after bouncing off its closing low on March 11, 2003. From the first quarter close, the market (as measured by the S&P 500) rose over 11% through mid-May before taking a breather. Stocks again headed higher after the Memorial Day weekend, advancing 19.3% through June 17, 2003 (from March 31, 2003). Despite pulling back from its highs in the last several weeks, the S&P 500 ended the quarter up a solid 14.9% (15.4% including dividends). This puts the market's year-to-date performance at +10.8% (11.8% including dividends) through June 30, 2003.

470 out of 500 stocks in the S&P were positive for the quarter and all ten economic sectors were up, with 6 out of 10 outperforming the S&P 500. After falling over 15% in the first quarter, the Telecom sector rebounded and was the best performing sector, up over 20% for the quarter. Energy was the worst performing sector, up 6.4% for the quarter. Year-to-date, Information Technology, the worst performing sector in 2002, is back on top, rising 17.4% for the year. Consumer Discretionary is a close second, up 16.9%. Consumer Staples has lagged behind, rising only 0.9% through the end of the second quarter.

The equity market has risen quickly in anticipation of an economic recovery in the second half of the year. While we believe this recovery will occur, it may take longer and be less robust than the market is predicting. Given this situation, the third quarter may see some consolidation of the market's gains year-to-date.

The Bond Market

Treasury bond yields headed lower in the second quarter, despite predictions to the contrary. The 10-year Treasury closed the quarter with a yield of 3.52%, after hitting a low of 3.11% on June 13, 2003. While longer maturity bonds outperformed in the second quarter, we continue to maintain a conservative, relatively short duration bond portfolio, believing that rates have bottomed and should begin to trend upward in the second half of the year and into 2004.

Corporate bonds continued to perform well, with the credit spread between corporate and government bonds tightening substantially during the quarter. This is primarily a result of improving corporate earnings and expectations of positive economic conditions heading into 2004.

Although the returns for bonds in 2003 may not exceed those of the past three years, there continues to be a strong argument for including bonds in portfolios for clients seeking a balanced approach to investing and for those focused on preservation of capital.

Market Indicators

(Total Return Through 6/30/03)

	52-Week Change	Changes Since 12/31/02
S&P 500	0.25%	11.76%
DJIA	-0.48%	9.01%
NASDAQ	11.44%	21.82%
RUSSELL 1000	0.93%	12.34%

Source: Bloomberg

Economic Outlook

Economic conditions have not changed much over the past quarter. Sectors of the economy such as housing continue to exhibit astonishing strength while other sectors such as business spending on capital goods and inventories remain at recessionary levels. Overall, strength in the economy has been positive but very weak.

Economic growth as measured by Gross Domestic Product (GDP) was only 1.4% during the first quarter of 2003, and growth will likely remain at this same level during the second quarter. This weakness prompted the Federal Reserve to take out some additional insurance against both a recession and deflation by reducing interest rates for the 13th time in June. Currently the Federal Funds rate is a meager 1%, a 45 year low. This rate is 5.5 percentage points less than when they began lowering rates in January 2001 to fight the recent recession.

Economic weakness also shifted the attention of the Federal government from the war in Iraq to the economy, resulting in Congress passing a tax package. By lowering taxes on personal income, dividend income and capital gains, the government hopes to revitalize the economy and the labor markets.

Looking forward, we believe that the stimulus provided by both monetary and fiscal policy will result in expanding growth during the second half of 2003 and into 2004. Faster growth will set the stage for an improving market environment, and with inflation non-existent, the Federal Reserve will be very reluctant to take action that might retard either growth or inflation. In fact, the Federal Reserve would welcome some inflation as it would increase the willingness of businesses to spend on both capital goods and inventories, both of which are necessary for the future growth of the economy.

Company Update

By Philip Bell

During the latter part of May 2003, Greenwood Capital announced the completion of a voluntary verification and audit of our main performance composites. This verification process was conducted by a big four independent accounting firm in accordance with the standards set forth by the Global Investment Performance Standards (GIPS), formally known as the Association for Investment Management Research – Performance Presentation Standards (AIMR-PPS). These standards facilitate effective comparison of investment results among firms on a global basis and provide assurance to prospective clients that the performance information is both complete and fairly presented. For a firm our size, this is a major step and further demonstrates Greenwood Capital's commitment to ethical practices for our clients and prospects.