M.A. WRIGHT FUND EQUITY RESEARCH

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Industrial Sector Analysis & Holdings Review

October 3, 2001 **Equal-Weighting Recommendation**

OVERVIEW

We recommend a market weight for the industrials sector. Although the global economic slowdown is continuing and was recently accelerated by the World Trade Center attacks, we do not want to be under-weight in this sector and miss the cyclical upswing when the economy recovers. The cyclical industrial stocks typically anticipate an economic recovery and begin to move up before their earnings show an increase.

Industry Groups	Industries
Capital Goods:	Aerospace and Defense
	Building Products
	Construction and Engineering
	Electrical Equipment
	Industrial Conglomerates
	Machinery
	Trading Firms and Distributors
Commercial Services and Supplies:	Commercial Printing
	Data Processing
	Diversified Services
	Employment Services
	Environmental Services
	Office Services and Supplies
Transportation:	Air Freight and Carriers
	Airlines
	Road and Rail

ECONOMIC OUTLOOK (AUGUST DATA)

- Initial Jobless Claims Increasing: The weekly initial jobless claims jumped 58,000 to 450,000, the highest level since 1992.
- Economic Activity Slowing: Orders for durable goods fell 0.3%, in the third consecutive month of decline. Orders for transportation related goods fell 2.1%, while those for motor vehicles and parts fell 0.6%, and orders for aircraft and parts fell 5.5%.
- Housing Remains Strong: Sales of new homes rose 0.6% to the highest level in four months.

Sources: Financial Reports (10K's and 10Q's), *The Wall Street Journal, The Airline Monitor*, Bloomberg, BigCharts.com, Morningstar Principa Pro, Bloomberg.com, *Money*, *Forbes*

Overview By Indstry Group

Capital Goods

Holding	Shares	Cost per Share	Current Share Price
General Electric	500	$40.70	$37.38
Tyco International	150	$46.80	$45.66
American Standard	150	$66.30	$54.85

Capital Goods companies continue to suffer from the slowdown. Aerospace companies will be the hardest hit due to World Trade Center attack. Defense spending, however, will increase as a result of the World Trade Center attack.

Commercial Services & Supplies

Holding	Shares	Cost per Share	Current Share Price
Concord EFT	250	$26.70	$25.09

Commercial Services and Supplies companies are more insulated from the effects of the economic slowdown. These companies often provide essential services which cannot be eliminated in a downturn and could also reap the benefits of increased outsourcing coming from increased cost controls.

Transportation

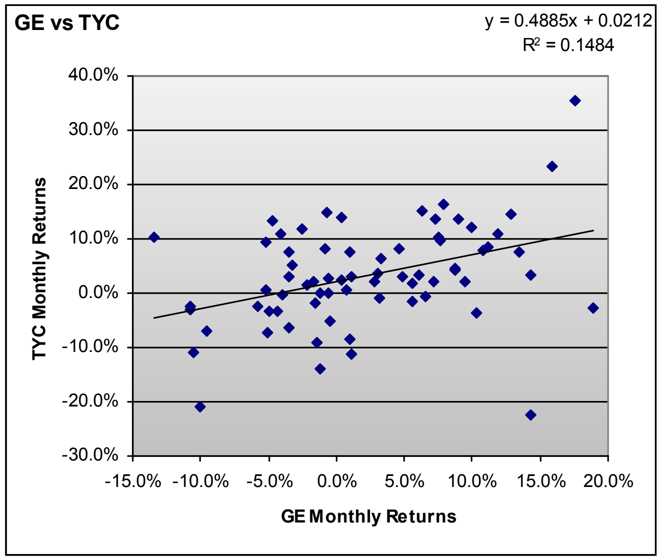
Holding	Shares	Cost per Share	Current Share Price
None	n.a.	n.a.	n.a.

Transportation companies' prospects have been drastically reduced by the World Trade Center attacks. We are currently avoiding all airline stocks as we feel the market is still underestimating the effect of the World Trade Center attacks. While some air travel will continue, we feel that the overall level of travel will be reduced significantly. Non-essential business travel such as conferences and conventions are likely be reduced significantly due to employee discretion and a desire to cut costs in a tough economic environment. Not everyone will stop personal travel, but enough people will cut back to cause a steep reduction in airlines travel. Although it is difficult to estimate, there should be at least a 20% reduction in traffic (Continental recently announced a 20% cutback in the number of flights). Rail / Trucking transporters might see some benefit from increased freight due to the reduction in air traffic, but increased security has increased their costs as well.

Holdings Review

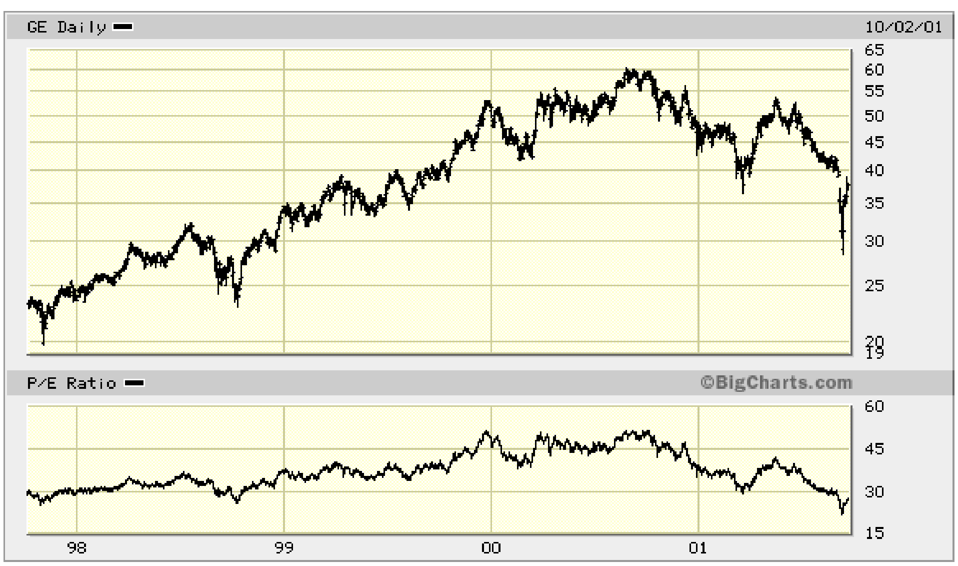
Industrial Conblomerates

Two similar firms within the Wright Fund's Industrial holdings are G.E. and Tyco International. While we are comfortable with these two firms, numerous factors have muted our enthusiasm for them and we would like to decrease and eventually eliminate these positions as other opportunities arise. The adjacent regression shows that their monthly returns over the past five years have been moderately correlated (0.39).



General Electric

As shown in the chart below, G.E.'s stock price has suffered dramatically during the last 12 months as its P/E ratio has plummeted from approximately 50 to 27. Its P/E began to increase rapidly in the fourth quarter of 1998 and continued until October 2000. While its current levels are far below its peak, they are much closer its historic level. At its current level of 27.6, GE still trades at a substantial premium compared to other industrial conglomerates and stems from a number of characteristics, such as exceptional management, a focused, driven culture that permeates its 12 divisions, and remarkable earnings predictability. While GE should trade at a premium to its peers, we have some concerns about its ability to sustain its 10% to 15% annual earnings growth rate and support is current multiple over the long term. Historically, acquisitions have played an important part of GE's growth rate. Jeanne G. Terrile, an analyst at Merrill Lynch estimates that of the 9.9% annual compounded revenue growth that GE achieved from 1985 to 2000, four percentage points came from acquisitions. Bill Fiala, an analyst at Edward Jones, has noted that the pace of GE's acquisitions will have to double over the next few years to sustain its double digit growth. At its current pace, in five years, GE will be generating $25 billion in



GENERAL ELECTRIC (CONT.)

income, with cash flows growing even faster which will naturally be more difficult to deploy effectively. The failed Honeywell merger suggests that gaining regulatory for large mergers may be more difficult than anticipated, which would require G.E. to rely on mid-sized and smaller acquisitions to support its growth. While it should certainly have the funds to make the necessary acquisitions, it may not be able to digest them as quickly as needed.

G.E.'s current earnings multiple is hinged largely on its ability to fulfill investor's expectations of its future growth. While acquisitions have played a large role in this growth, G.E. also seems to be managing earnings to some degree. Having 12 divisions, as well as a large financing arm, G.E. is exceptionally well suited to manage its earnings through discretionary accruals such as increasing reserves against bad debts, as well as by timing its acquisitions and divestitures. Another important source of increasing earnings comes from G.E.'s pension fund which was 100% over funded in November of 2000. Because G.E. only marginally improves retiree benefits, a tremendous amount of pension income flows through to G.E.'s bottom line and in 1999 represented 10% of its pretax profits. Income growth arising from this source, however, is somewhat deceptive since it cannot be used for any purposes besides retiree benefits.

The company, however, denies any earnings management and maintains that the timing of offsetting gains and losses have always been coincidental. Management denies that it has ever securitized and sold off loans to improve earnings, even though six of the seven times it has done this, it has so during the last three weeks of the quarter. Equally as surprising as G.E.'s acumen smoothing its earnings is how widespread knowledge of this is. While smooth earnings growth provides great psychological value, it also creates dangers for investors since it can effectively hide financial problems for quarters before they can be detected.

While we are concerned with G.E.'s ability to sustain its current growth rate and its earnings management, they probably won't impact the company significantly for a few years. Consequently, we are comfortable holding it as a staple among our industrial holdings, reducing the position as better opportunities are found.

In the near future, G.E. will be significantly impacted by the results of the September 11th attacks. It is now expecting approximately $400 million in after tax losses at its reinsurance unit which will reduce its overall EPS for the third quarter by 4 cents per share to 33 cents per diluted share. This revised estimate represents only a 3% increase in earnings over the third quarter of FY2000. G.E.'s aircraft division is likely to be impacted by reduced air travel resulting from the attacks. Most carriers have cut capacity by 20% and United recently announced that it is cutting additional capacity for a total of 26%. As this sets back demand for new aircraft, G.E. will sell fewer new engines and as existing planes fly less frequently, G.E. will sell fewer replacement parts. United Airlines noted that it is cutting 30% of its flights, which may be a very rough proxy for the general decrease in usage and need for replacement parts among airlines. While G.E. will be impacted by this, 90% of the sidelined aircraft use Pratt & Whitney engines, not G.E.'s. Untied Airlines mentioned that it will probably retire all of its 727 and 737-200's early, but again, these all use JT8D engines made by Pratt & Whitney.

TYCO INTERNATIONAL

As shown in the adjacent chart, Tyco International, our other conglomerate holding trades at a far more reasonable earnings multiple than GE. This stems largely from widespread concerns that Tyco has used its cavalcade of acquisitions to hide suspect accounting practices. In early 1999, its stock traded at almost 50x earnings but was crushed in October 1999 when David Tice & Associates released a quality of earnings warning on Tyco in its *Behind the Numbers* publication. After this report prompted an SEC investigation, in the summer of 2000, Tyco agreed to transfer 2 cents per share from FY2002 to FY1999. Although the SEC never found Tyco guilty of outright fraud, lingering concerns over earnings management continue to depress what superficially appears to be a stellar company. For a number of reasons, we share these concerns and are planning a more complete analysis of this holding.

Tyco's acquisition strategy is driven by finding bloated companies in related lines of business where it can immediately eliminate administrative costs and realize the benefits of improved profitability. It also rapidly assimilates them by replacing existing management with those reflecting Tyco's bare-knuckled culture. Since assuming the position of CEO in 1992, Dennis Kozlowski has made over 200 major acquisitions and he has high goals for Tyco, expecting to increase earnings by 30% a year and triple the firm's size by 2010. One reason for this aggressive growth may stem from the fact that Kozlowski's options don't vest unless he can double FY2000 EPS by FY2003.

Tyco's most notable recent acquisition has been CIT Group which provides it with a financing arm with which to finance customer purchases, similar to G.E.'s GE Capital. Tyco's reputation for earnings management, however, raises the question of whether CIT Group could also serve as a tool to greatly expand its ability to manage earnings, much as G.E. Capital has done for G.E.

While Tyco's credibility has been questioned in the past, an apparently reasonable current valuation along with genuine future growth prospects has lead us to delay action on this holding until we complete a more thorough review later this semester.

American Standard

Earlier this semester, the industrial analyst group reduced the fund's positions in G.E. and Tyco and in order to add a position in American Standard. This holding was purchased in light of a turnaround being led by new management which has focused on eliminating costs. Although the firm recently announced that it will not meet its sales objectives for the current quarter, its is likely to meet its cost reduction goals for the quarter.

Commercial Services & Supplies

Concord EFT

Concord is a leading, vertically-integrated electronic transaction processor, providing transaction authorization, data capture, settlement and fund transfer services. Its customers include financial institutions, supermarkets, gas stations, convenient stores, and other independent retailers. Concord's primary services include Network Services, providing ATM driving, online and signature debit card processing, and network access to the financial services industry. Its key product brands include STAR, MAC, Cash Station, and Payment Services.

Given the benefits and convenience of debit cards, their use continues to grow. Service for the cashless transactions at the grocery stores and gas station is experiencing a phenomenal growth rate of 30% a year. It is estimated that by 2007, 60% of all supermarket payments will be electronic.

Competitively, Concord very well good positioned. The purchase of Star System, Inc. in February 2001 added 136,000 ATM's to Concord's own stable of 52,000 and Concord now processes half of the debit-card transactions in the U.S. The firm plans to add 10,000 to 12,000 locations per year.

Several deals were made by Concord to further secure its future. The deal with Wal-mart Stores Inc. struck in January is certain to stoke further growth. Concord will process debit card point-of-sales for the retail giant and the Sam's Club units. Fast-food restaurants and movie theaters are in Concord's future revenue growth plan as well.

Debit card point-of-sales and ATM transaction are only part of Concord business. Its network services help banks keep cash flowing. Its clients include more than 6,500 banks, servicing 124 million checking accounts. Concord recently secured growth in this side of business by signing a deal with Citizens Financial Group Inc.

One key to Concord's success is customer loyalty. Banking clients normally sign three-to-five year contracts and Concord's renewal rate is impressive, near 90%.

The firm plans to move toward risk-management services with ATM's to make it harder to commit fraud. Longer future growth opportunities lie with the plan to let consumers send money via ATM to other people, not just the bank.

Concord EFT (Cont.)

Concord's revenue has grown from $39.6 millions in 1990 to $1.2 billions in 2000. Revenue for the first half of 2001 came to $796.3 million , up 24% over the same period in 2000. Excluding acquisition expenses and restructuring charges for all periods, net income for the six months ended June 30, 2001 was $131.6 million, or 52 cents per diluted share, compared to 38 cents per diluted earning per share for the same period in 2000.

Concord outperformed the S&P 500 over the 10 year period ending in 2000. Its five year average EPS growth rate is 47.7%. Another reason for Concord's positive outlook is its capital spending growth rate. The five year average capital growth rate was 67.6 %. This aggressive investment coupled with current strong performance will result in further earning growth in the future. Eighty five percent of Concord shares are owned by institutional investors. Concord outstanding record along with its focus on future growth has lead us to conclude we should at least maintain this position.

Transportation

HEICO Corporation

On September 20, the fund initiated a 400 share position in HEICO Corporation, an aftermarket manufacturer of aircraft engine replacement parts. The fund acquired these shares at $12.50, with the understanding that the airlines' current operating environment would significantly impact earnings and its stock's price could drop even further. In the following days information began to surface which suggested that our original analysis had underestimated the September 11th attacks impacts on HEICO's earnings. At the same time, however, HEICO's stock price appreciated rapidly, briefly breaking through its $16.00 target price. This, coupled with the recent news suggested that the stock was not only likely to drop to a lower position than previously anticipated, but from a higher point. These factors degraded the risk / return characteristics of the position and lead us to close the position on September 28 at $15.00 a share. Should HEICO's market price return to the low double digits, we will consider reestablishing a position in it.

Southwest Airlines

Following the September 11 attacks, the firm closed its 600 share position in Southwest Airlines. We feel that Southwest is by far the best airline stock to own, but choose to sell it because of the airlines' current operating environment. We were also concerned that Southwest might be required to adjust its strategy to accommodate additional security measures, eroding some of its operating efficiencies. We were also concerned about its sales volume since customers could conceivably substitute car travel for its service. If possible, however, we hope to reacquire it at a lower price in the future.