

COMMENTARIES, NEWS

■ Congress Refuses Tax Cuts

The markets welcomed recent news about significant tax cuts by which the president George Bush wanted to prime the pump of the American economy. However, the senate of the Congress of the United States decided to reduce the financial incentive that should reach a total of US\$ 726 billion by 2013 to a mere half, i.e. 350 billion. The main reasons for this cut are fears of an unsustainable deficit of public finance, which the American economy might find itself facing after the war in Iraq. The bill has been passed in the House of Representatives and now it must wait for the decision of a special committee acting as an intermediary between both houses, which should arrive at a compromise solution. Next year's deficit alone is assumed to reach US\$ 300 billion (approx. 3% GDP), and it does not account for the war expenses. If the war conflict lasts longer, this outlook might rise up to 400 billion. The President himself has asked Congress for 75 billion for war financing, this money having a "horizon" of five to six months. Yet it is the state of the economy that will probably be the crucial factor in the 2004 election.

■ German Companies Remain Skeptical

The German IFO, an index of entrepreneur confidence, has dropped unexpectedly to 88.1 points following its growth in January and February. The analysts hoped that this carefully watched indicator would at least stagnate in March. Its fall has however proved that there had been no improvement in the entrepreneurial environment. Although it was one of the first major indicators to be issued after the outbreak of the war in Iraq, the institute received 80% of responses before the start of the war. Jan Egbert Sturm, the IFO economist, said that he does not believe that the start of the war itself had any significant effect on the mood in companies. In his opinion, the entrepreneurs are puzzled by the ups and downs of the oil prices as well as by the overall uncertainty regarding the Iraqi situation. The fall in their confidence indicates further liberalization of the ECB monetary policy. The ECB's Chief Economist Issing warned against exaggerated expectations of further cuts of interest rates, which are now at 2.5%. Given the current state of the European economy, one can expect fighting deflation rather than inflation. According to most sources, the European capital markets will be able to recover only on condition that there are major structural reforms.



WAR AND THE MARKETS IN MARCH

Events that dominated financial markets in March could not be labeled otherwise than "pre-war" and "war-time", to be more specific, things that were going on before 20th March and after that date. Starting in the middle of the month, the equities rebounded towards a more than week's growth, which was strong enough to be able to influence the annual data. First half of the month was rather gloomy in the equity markets all over the world. As uncertainty continued to grow, the market failed to show any major reactions to mostly negative macroeconomic indicators.



The European stock exchanges in particular dropped down to their long-term lows celebrating thus "with dignity" the third anniversary of the NASDAQ Index being at its maximum. It was due to the European accounting scandal of Ahold and to a large extent to the ongoing negative sentiment and lowering of the investors' exposure to equity markets awaiting the upcoming conflict in Iraq. Sharp decline was replaced by a no less sharp growth as early as a week before the war started and it lasted until Friday 21st March. Notably the first days of this revival were so robust that the British FTSE 100 Index, for instance, have not recorded such growth in the last 19 years. The stock exchanges continu-

ed to grow as the certainty increased following the outbreak of the war, and the indexes could erase all their March losses. However, when the investors realized that the war was not going to be as easy as expected, a significant correction took place. While most of the European equity markets continued to go down in the following days until the end of the month (German DAX - 4.8%, British FTSE100 - 1.16%, PanEuropean DJ Stoxx50 Index - 3.07%), the American markets recorded moderate profits, when, for instance, the Dow Jones Industrials Index went up 1.28%. The government bonds, gold and oil went in the opposite direction, at first benefiting from the uncertainty and then plunging again.

Macroeconomic indicators were somewhat pushed back, but it is worth noting that despite certain positive data, disappointment prevailed. The uncertainty nourished by the war and the situation in the labor market led to a sharp decline in consumer confidence in the USA. Another important event was the review of the American GDP growth for the fourth quarter of the last year from the original 0.7% to 1.4%. The equities went up for a while thanks to the upsurge of consumer durables, which, however, went down again at the end of the month. The market was also negatively influenced by the growing number of applications for unemployment benefit,

weak retail sales, deficit growth in the USA and a lessening of activities in the real estate market. The news of higher industrial orders had but a slight positive effect. ECB cut interest rates from 2.75% to 2.5% and was criticized for being overcautious, while Fed let its rates remain unchanged due to prevailing uncertainty. The following weeks are going to decide. The war is a multi-alternative process, and the alternative that will prevail will influence the economy and the market. In the last week of March, the allied forces gained the advantage on the Iraqi war fields developing more efficient tactics against the guerilla methods of the defenders, and it became clear that the strength of the so-called Republican Guards might have been somewhat exaggerated. There were also some positive moments in the ongoing PR war, where the experience of the British forces that applied some of their well tried methods proved useful. All this contributed to the improving sentiment in the markets. However, the key events are yet to come. These are the issues regarding the tactics of the Baghdad occupation, or the dangers of the Iraqi drastic maneuvers. Among political risks there is for instance the development of the Euro-Atlantic relations and the danger of the development of a single platform of the Near East Arab countries. We can but wait and see what effect the above-stated alternatives are going to have in reality.

PROFUMO BECOMES THE BANKER OF THE YEAR

The 20+1 Group elected Alessandro Profumo, the Chief Executive Officer of UniCredito Italiano S.p.A., the Banker of the Year 2002. The group represents the Association of International Economic and Financial Journalists. They have stated that the main reasons for their choice was the fact that such a strong and flourishing bank has developed out of a group of independent and only loosely

associated financial institutions. Under Profumo's leadership the bank improved its rating by international rating agencies. He was also praised for leading the bank towards the successful entering of the East European markets. The bank is, amongst others, the majority owner of Živnostenská banka and the Slovak Unibanka. Pioneer Investments is an investment part of UniCredito Italiano and

the group's division Pioneer Investments New Europe distributes the mutual funds through banks that are also a part of UniCredito Italiano. Among the past winners of the Banker of the Year award were major personalities in the world of finance, such as Josef Tošovský, Dr. Willem F. Duisenberg or the Board of Governors of ECB. The award is highly esteemed in Europe.

INTRODUCTION TO RISK

As far as the money is concerned, the investors tend to see the concept of risk as something utterly negative. The less they are informed about how the "world of money" works, the more defiant they seem about the issue. The risk, however, is inherent in would-be "risk-free" products as well. You can't avoid it. It is there, only in a different shape and degree of its affecting us. The only thing you can do about risk is to choose one. The risk shouldn't be viewed as something bad. Without risk there's no growth. The growth of investment value is a reward for the risk you take.



■ The Risk of Non-Investment and the Risk of a "Risk-Free" Investment

Most people use no financial planning and will probably never get one. We usually don't get to our planning until we notice first signs of a financial trouble. Yet, looking into future, everybody wants to be financially independent (pension reforms), but achieving it, given the available funds of most people, is only possible when one starts really early. The greatest risk of all in such case is not having any long-term financial plan at all. What is more, we are not aware of the fact that we need one for our own sake, and that we simply must realize it in the long term. Poverty at the old age is the only other alternative. So-called "risk-free" products are now very popular among the financial plan items. Yet, they also have risk. The **risk of inflation**, i.e. e. the risk of the loss of the money purchase power. The "safer" the product (term deposit, money market), the more liable it is to inflation, which it can hardly make up for. Therefore, those products do not offer appreciation of money; at best they can only preserve their purchase power, which, however, can also be seen as attractive in certain stages of the economic cycle.

■ Market Risk

Investing in more risky products helps us reduce the risk of inflation. The further our investment goes away from the money market and over the bonds towards equities, the lower the

inflation risk and the higher the market risk. Over time the market risk rocks the value of our investment up and down. It is the falls, which may be quite significant, that make this risk much less tolerable than the inflation risk for instance. We have to know ourselves very well to be sure about how much further down we can still go without losing control. In spite of that, in the real long-term investing, this kind of risk should be to a certain extent accepted. The market risk diminishes over time and in a long-term perspective, temporary losses, however significant they may be, are but a slight stumble on the way towards the fulfillment. The current three-year long downturn in equity markets gives rise to fears that the rules of economy have broken and from now on the economic cycle will drag the equity markets down forever and push the bond markets up forever, too. Fear paints things blacker than they are. Current development just reflects the tendency of the market economy and financial markets to keep things well balanced. A period of inadequate growth has just been replaced with a period of inadequate decline.

■ Unsystematic Risk

When investing in individual stocks, we must be aware of the **unsystematic risk**, which is extremely dangerous. So, if we buy company stocks of only one company and the company goes bankrupt, we loose everything. This kind of risk can be eliminated when you invest in equity funds. By in-

vesting in more than one company, the fund manager will relieve you of this risk, which, by the way, does not even offer a risk premium in the form of higher yields (that's why it's so dangerous). Still, you can't get away from the market risk.

■ Crowd Behavior Risk and Why We Need Realistic Portfolio

Even investors like to follow the crowd and they seem to do so without any apparent reason. Crowd crush is usually a part of the investment sentiment. The markets today tend to condemn equities and favor bonds with low market risk profile. But even investment in bonds may decline in value. They've had high yields for last 20 years, but they can have low yields in the next twenty years. They are very likely to stay popular even after they are no longer interesting. That is a **crowd risk**. Without any targets of their own and with no professional assistance investors tend to act chaotically. The Czech magazine FondShop wrote it the 20/2001 issue that every investor should have a balanced portfolio with a risk component composed of three elements: i) time horizon (the more time you have, the more risky investment you can make) ii) personal risk tolerance level (how much further down you can go without losing your nerve and selling everything after a couple of sleepless nights) iii) real need of return (the lower income you have, the higher return you need and the greater risk you must take).

If you are prepared to take your financial future seriously, if you care about it, you should change your approach to risk. The most important thing to know is, however, that in the world of money, financial risk can never be fully eliminated. We can only choose the degree of the financial risk we are willing to take and accept its peculiarities. The sooner we do so the better. Otherwise you'll find yourself facing a risk unspoken of so far – the risk of wasting your time. And time is money, and also a major factor contributing to revenue generation as you are going to learn next time.

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■ In line with market expectations **The Committee for the Monetary Policy of the Central Bank of Poland** has cut interest rates to 6%. Accordingly, the East European bond-oriented funds can still benefit from the convergency process, which is favorable for these markets. As the current average bond yield in the Central European market is just below 5%, the convergency bonus is very low and the risk is also becoming more significant, in particular in the Polish zloty and Hungarian forint monetary markets.

■ **Czech magazine FondShop** reported on the Investment Company Institute's monitoring of investor behavior during the bear market period in 1973-74 and in the following years, which brought the following results. During the market fall, the investors withdrew about 4% of the total assets from the equity funds; however after the equity market rebound in 1976-79 even more assets were drawn from these funds, a total of 11% of the managed assets. This means that during a bear market period investors are not willing to suffer any losses, so, as soon as there is a turnaround, they start selling in order to reduce the loss or realize at least a small profit.

■ Raiffeisenbank has presented an Austrian bond fund, following the HVB bank and Česká spořitelna, one of the leading Czech banks, which have recently introduced new money market **Crown funds registered in Austria**. Why in Austria? Because in Austria the mutual fund activities, provided that they are intended exclusively for foreign (e.g. Czech or other) investors, are not subject to tax. We believe that given the low level of interest rate the investors cannot be expected to make such profits on the bond funds as they did in the previous years. It is expected that the yields will range between 3-4% this year.

■ American financial consultant **Ray Linder** wrote a book called "**What will I do with my money**" published by Northfield Publishing in Chicago. It is a very interesting and unconventional study on methods of risk tolerance assessment. While the correct determination of the risk tolerance is a key prerequisite for the selection of investment product and the right investment strategy, many investors find it very difficult to do. Ray Lidner works in the field of psychology of tolerance. Should you ever run into his book, be sure that it will open numerous opportunities for you.

WHAT ARE THE PIONEER FUNDS PRODUCTS LIKE?

In the European equity market segment, there are three very well performing Pioneer Funds products: PF-French Equity, PF-Italian Equity and PF-European Small Companies. All three of them rank among the first ten products of the compared type. PF-Core European Equity and PF-Top European Players rank high among the evaluated products, too. They both permanently rank in the first half of the comparative table. Although PF-Top European Players slightly underperformed in February, it was awarded the highest fund evaluation for its last year's performance - Standard & Poor European Fund Awards, for ha-

ving the best performance in its segment for the year. Among other products worth noting are: PF-U.S Mid Cap Value, PF-Global Technology, PF-Global Environmental & Ethical (which, however, has only 12 comparable competitors due to its narrow specialization), PF-Mix 2 and PF-Mix 3.

And now some information about the table below. In order to compare a fund with its competition we use so-called Micropal Peers overviews. The word "peer" means in general a thing or a person of the same type or rank. In our case it means other funds of the

same type as the fund, which is being compared. For the purposes of comparison, the funds are allocated into individual groups (peers) according to the type of investment. This allocation is reviewed on a regular basis. The table shows a comparison of the funds' performances in different periods of time and indicates their ranking. Quartile is one fourth of a group, the number in the quartile column (see the table) indicates the ranking of the group in which the fund has ranked (the best 25% has number 2, the worst 25% has number 4). This comparison of funds is made by the rating agency Standard & Poor's Services.

Pioneer Funds TOP subfunds (data as of 14th march 2003)

Specialization	Subfund	Date of inception	Size (EUR million)	Pioneer Funds comparison with the competition according to Micropal*					
				6 months		1 year		From inception	
				Subfund ranking/ Total number of Subfunds	Quartile	Subfund ranking/ Total number of Subfunds	Quartile	Subfund ranking/ Total number of Subfunds	Quartile
European equities	PF French Equity	27.III.98	59,80	2 / 26	1	1 / 26	1	1 / 13	1
	PF Italian Equity	20.III.98	745,75	14 / 34	2	7 / 34	1	5 / 11	2
	PF European Small Companies	5.X.01	171,49	5 / 62	1	3 / 60	1	2 / 57	1
	PF Core European Equity	20.III.98	1331,79	45 / 235	1	55 / 227	1	13 / 68	1
	PF European Research	7.VII.00	627,38	85 / 235	2	72 / 227	2	45 / 183	1
	PF Top European Players	7.VII.00	410,32	13 / 235	1	11 / 227	1	7 / 183	1
Global equities	PF Global Envir&Ethical	7.VII.00	12,65	2 / 12	1	2 / 12	1	2 / 5	2
American equities	PF US Mid Cap Value	5.X.01	26,33	75 / 150	2	12 / 142	1	9 / 135	1
Sector equities	PF Global Technology	7.VII.00	137,59	62 / 138	2	39 / 138	2	34 / 105	2
	PF Mix 2	5.XI.99	1040,38	19 / 92	1	23 / 87	2	18 / 63	2
Balanced	PF Mix 3	5.XI.99	1354,61	37 / 145	2	42 / 141	2	48 / 92	3
	PF Euro Bond	30.VI.00	8204,69	98 / 196	2	84 / 192	2	107 / 172	3
	PF Euro Corporate Bond	12.X.01	978,01	37 / 59	3	27 / 53	3	2 / 41	1
European bonds	PF Mix 1	5.XI.99	2837,00	152 / 196	4	150 / 192	4	62 / 160	2

*The above data applies only to Class E Units. All information is based on the Net Asset Value (NAV). NAV represents the value of all Units less any administration, transaction and deposit fees. NAV does not include any other fees, such as taxes or sales charges.

Specialization	Subfund	Performance of Pioneer Funds*				
		Accumulated performance as of 14/03/2003 in EUR***			Accumulated performance as of 14/03/2003 in USD***	
		6 months	1 year	From inception	6 months	1 year
European equities	Pioneer Funds - French Equity	-12.53%	-38.81%	-51.69%	-3.87%	-25.44%
	Pioneer Funds - Italian Equity	-10.61%	-28.08%	-41.32%	-1.65%	-12.30%
	Pioneer Funds - European Small Companies	-15.23%	-29.85%	-23.09%	-6.76%	-14.47%
	Pioneer Funds - Core European Equity	-16.63%	-38.20%	-50.00%	-8.39%	-24.66%
	Pioneer Funds - European Research	-17.63%	-39.70%	-49.38%	-9.03%	-26.20%
	Pioneer Funds - Top European Players	-13.07%	-30.34%	-38.02%	-4.36%	-15.01%
Global equities	Pioneer Funds - Global Envir&Ethical	-15.00%	-37.90%	-45.92%	-6.39%	-24.09%
American equities	Pioneer Funds - US Mid Cap Value	-15.21%	-35.54%	-30.20%	-6.85%	-21.39%
Sector equities	Pioneer Funds - Global Technology	-8.06%	-45.71%	-48.88%	1.65%	-33.51%
Balanced	Pioneer Funds - Mix 2	-1.36%	-4.87%	-5.93%	8.53%	16.14%
	Pioneer Funds - Mix 3	-6.85%	-17.58%	-24.44%	2.57%	0.46%
European bonds	Pioneer Funds - Euro Bond	4.07%	9.91%	13.29%	14.47%	29.45%
	Pioneer Funds - Euro Corporate Bond	3.53%	7.93%	7.51%	13.83%	**33.65%
	Pioneer Funds - Mix 1	2.91%	6.56%	11.50%	13.11%	30.18%

* The above data applies only to Class A non-distributing (i.e. dividends are not paid, returns are fully reinvested).

** This is performance as of 28/02/03.

COMMENTARY



■ Portrait of a Leading Fund

Pioneer Funds - Top European Players of the Luxembourg family has been awarded a prestigious award from the Standard & Poor's rating agency as a Subfund with the highest one-year performance in the European Equities sector. Although this is a short-term performance it points out a fund, which is able to outperform its competitors and the index in longer periods as well. The fund is very well managed and has been awarded **Fund Management Rating A**. The fund has recorded a much-lower-than-average decline in value during the falling market than its peers. Pioneer Top European Players differs significantly from the other funds focusing on European equities. It does not invest in a great number of companies. It selects shares of about 30 companies representing, in the opinion of the fund's manager, the best investment opportunities. This selection allows a sufficient risk spreading and offers the possibility to follow the index less strictly. In comparison with the competition, the team management of the fund is much more open to new ideas, which requires thorough knowledge of each company. The key factor in selecting the shares is their positive evaluation (good company is not necessarily a good investment if the price for its shares is inadequately high). The fund does not hesitate to sell shares if they become too expensive or if there is a better investment opportunity in the market. Besides the already mentioned comparison of the share price and its inner value, the fund monitors especially the quality of management, competitive standing, growth potential and financial strength coupled with the ability to generate cash. Save for minor exceptions the fund focuses on "big shares" of companies with capitalization over EUR 10 billion.