

PIONEER News

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Newsletter for Investors

NEWS, COMMENTS

■ Euro's Second Start

May 2002 was an important month for the Euro. The Eurozone's common currency strengthened compared to the USD and exceeded the level at which it started in 1999. The psychological limit of USD 1.20 per Euro has not as yet been reached but the rate of growth was nevertheless impressive. The Euro broke its minimum values at 0.83 USD per Euro in 2000 and 2001. Official European authorities held no celebrations, however, as they are aware of the burden brought about by the strong currency. This overload is particularly burdensome at a time of overall economic recession. That is one of the reasons why a lot of criticism was raised against the ECB. Critics objected that the ECB did not lower its interest rates in May, which did not really boost the stumbling economies. Although the rates were lowered in June, criticism did not quieten down.

The USD is falling because the USA has to cope with huge deficits - current-account deficit for the balance of payments and a deficit of public funds. External and internal imbalance is reflected in the weakening of the USD to offset these imbalances. The falling USD is unofficially appreciated in the USA, while the strong Euro is highly unwelcome in Europe. It is now much easier for US export firms to penetrate foreign markets, whilst higher import prices cut the risk of deflation. That is why John Snow, Secretary of the Treasury, described the weakening of the USD as "mild", causing only a slight bout of panic on the financial and monetary markets.



The growth of the Euro is also propped up by investors, looking for higher interest revenues. They are finding it in the Eurozone now. The rate cuts by the ECB would therefore contradict the strengthening of the Euro. But what's next? Looking at the pace of growth of both economies (American and European), it looks like the Euro should be rather weakening. The influence of the mentioned factors persists, however, and will only diminish after some time when the monetary markets again see a change of trend. Obviously it is not possible to forecast the time and magnitude of the change.



SUMMER STOCK

Following their strong growth starting in mid-March, stock markets were quite relaxed again. In the end, however, May was a good month for stockholders, especially because of the second half of the month. Taking into account the very strong growth in April, it is good that stock markets managed to retain their profits. As usual, the markets had to cope with a series of negative occurrences, but also enjoyed some positive news. One of the biggest obstacles, especially for European markets, is the rapid strengthening of the Euro compared to the USD. A certain correction of stock is desirable, as shown, amongst other things, the fact that the Volatility Index dropped to a record low, which points at a too optimistic investment approach, as it usually implied a pending correction in the past. In the first half of the month, the US Central Bank (Fed) decided to leave its interest rates unchanged at a level of 1.25%. In its opinion, the risks are well balanced, but there is a danger of further inflation decrease. The market explanation is that the Fed is concerned about deflation and therefore expects a continued fall of interest rates before the central bank starts increasing them. The Consumer Price Index (CPI) and the Production Price Index (PPI) in the USA really confirmed this low-inflation trend and the cheerless news coming from the labor market do not give the central bank many reasons to rejoice. On the other hand, the comments made by some companies (especially Intel) and some macroeconomic data, especially the growth of the ISM service index above 50, were positive highlights in the flood of joyless indicators (growth in the number of applications for unemployment benefits, high trade deficit and a higher-than-expected decrease in retail sales). In spite of these obstacles, the stock market managed to revive and the growth of consumer confidence has aroused hope for better future.



The second half of the month was much better for the stock markets, although at the beginning of that period investors had to cope with a considerable correction, caused by comments made by John Snow, the US Secretary of the Treasury, on the weakening of the USD. He admitted, between the lines, that the current development (compared to the USD, the Euro broke the level at which it was introduced on the market in 1999!) was convenient because the US economy ga-

ined some relief. It showed up on stock markets, when Europe actually did not digress from the direction dictated by the USA but the corrections were bigger and the month-on-month increase lower. Following John Snow's comments, however, stock markets started growing again, being propelled by the approved tax relief in the USA (even though they were lower than required by the President), good corporate results, a very good growth in consumer confidence and posi-

tive news from the new-buildings sales market. The unexpected decline in the volume of purchase orders for durables did not have any distinct influence on stock; conversely the revision of the GDP growth in the first quarter from 1.6% to 1.9% helped stock-exchange indices close with a rather good gain, especially in the USA. Noticeable events in Europe include a higher-than-expected growth in the IFO index, which measures business confidence in Germany. The growth of this closely watched forecast indicator, which has already lasted for two months, is encouraging for the rather desperate situation in the biggest economy in the Eurozone. The bond market does not so far respond to the growth of stock negatively because it exploits expectations of decreases in interests and low inflation.

Index	Last month*	Since start of year*
S&P 500 (USD)	5.09 %	9.52 %
DJ ESTOxx 50 (EUR)	-0.13 %	-3.82 %
FTSE 100 (GBP)	3.11 %	2.73 %

*Figures applicable at 05/31/03

UPWARD REVISION OF US GDP GROWTH

In the last issue we discussed in detail the so-called forecast indicators, which help estimate the development of the economy in the near future. Looking into the past is not usually too interesting, but this time it was cheerful for investors. The upward revision of growth of the US economy in the first quarter was good news for the market, although it actually told about the past.

What lies behind these figures? Especially stronger household spendings. Conversely, investment activity and government spendings were revised downward. The lower-than-expected trade-balance deficit also contributed to the overall figure only a little. What will happen next with the economy? The Forecast Indicator Index, published in May, got back to a mild

growth, which neither encouraged nor frightened investors. The Consumer Confidence Index is another forecast indicator, and since consumption constitutes two-thirds of economic growth, it is important for economists and investors to know just how consumers feel. The May increase hints that consumers feel quite well so far, regardless of the cheerless situation on the labor market.

INVESTOR'S PERSONALITY AS RISK

Efficient money management requires cold logic, but the fundamentals of monetary relations are emotional. Emotions control money more often than we think. Those who can, manage their money rationally. There are many subtle levels between a clinically rational and a purely emotional approach, depending on the investor's personality. In general, relations with dominance of emotions are less efficient and almost harmful. The investor's personality can therefore become a separate risk, not mentioned too often until a short time ago. We are talking about the so-called psychological investment risk.

■ Psychological risk

Psychological risks are internal (unlike risks associated with the market, which are external). Internal psychological risks are able to magnify external risks. Internal psychological risks are formed by delusions, which can initiate decisive investment errors, ultimately leading to losses. They can become essential sources of loss at a time when millions of people participate in the investment process in some way. There are many types of delusions; their common feature is that they are not true, although investors consider them true and act accordingly.

■ Stress leads to delusions

An investment decision launches a process the result of which is unknown to the investor because it contains far too many variables. It is a highly sensitive decision-making situation. People in other professions are trained to cope with such stress for a long time. Only special measures can eliminate their emotionally-driven temptation to change their decision upon the first signs showing that the development is different than their expectations. Investors, however, are not trained and often succumb to this temptation; in this case they pay for violating their decision-making discipline. This is a risk that stems from insufficient mental preparation for emotional stress that goes along with investments. Reason steps aside in stressful situations and emotions prevail.

Stress and fear that investments will develop differently than expected can result in many delusions, considered real by inexperienced investors. We for example talk about false-rule delusions if no rules exist in reality. Examples include a fear that "stock will plummet in the end", "a big crisis is coming" and the like. At the time of a negative cycle, illusions of such rules are too pessimistic, while during a positive cycle, when indices are growing, they are unduly optimistic. Emotions again can get the better of reason.

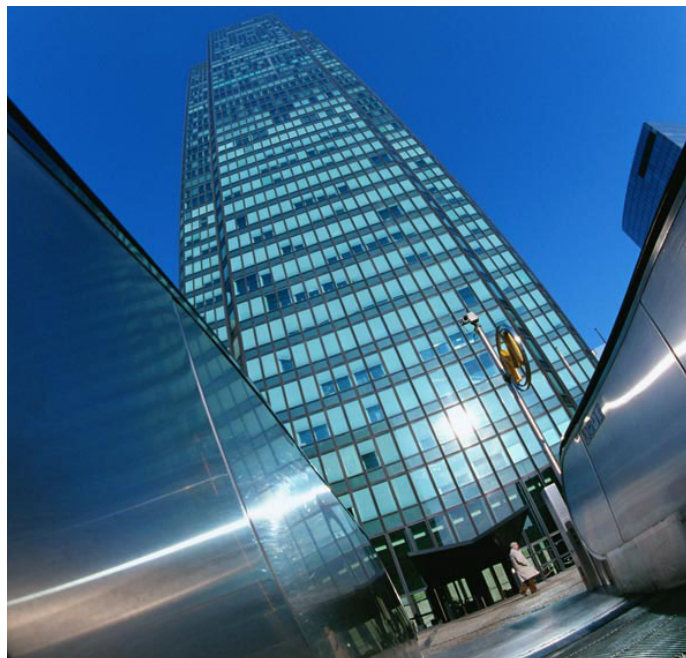
Stress can force investors to invest "along with others" (crowd-truth delusion) or on the basis of a majority sentiment, which is usually wrong. This kind of conduct brings short-term emotional

benefit, but usually spoils real revenue. Investors make their decisions on the basis of performance in the past, neighbors, newspapers, advertising and other investors. The crowd-truth delusion can be very tricky.

■ Risk tolerance

This is a key psychological risk that jeopardizes hundreds of thousands of mostly small investors. Investment professionals always and under all circumstances recommend investing in line with personal risk tolerance. Investments that are in conflict with this tolerance constitute the most demanding and difficult investment situation. Most small investors would not most probably succeed and would not control stress, created by this clash. Only professional investment managers

public. It is beneficial to bear in mind, however, that this software is just an auxiliary tool. Well-designed programs can serve as a stimulus for self-scrutiny. The necessity to "know thyself" is the golden rule of investment. There was a young woman who rationally preferred aggressive strategies but deep inside she felt that she could not bear for example a 20% investment loss. She used the program (Asset Allocation Tool) rationally, judged its results in the light of her own emotions and was not sure about the recommendations. This kind of conflict of reason and emotions is typical. It could be wise to give way to emotions, whilst obeying rational voices as this is usually more efficient financially. A financial professional (advisor, personal banker) can help us make the final decision. However, the client



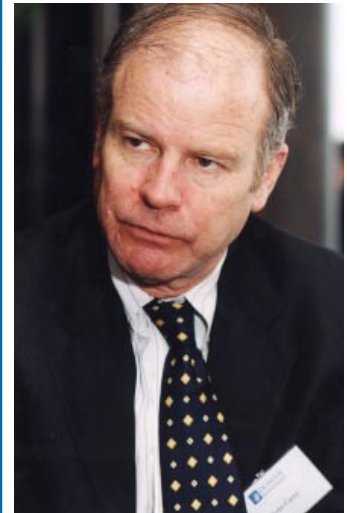
and experienced investors are able to do that – they do not let emotions cross their decisions. The thing is, however, that they receive special training.

It is possible to find a lot of software on the Internet that helps determine risk tolerance and even recommends a suitable division of investments based on this tolerance. Just like all tests, these programs are very popular among the

also has to cooperate by knowing all risks associated with his/her decision; he/she has to stand fast and never step away from the decision. No program can make this kind of decision instead of investors. It can, however, help them understand themselves. Professional aid, as far as the risk tolerance of a potential client is concerned, can spare a fledgling investor many sleepless nights and potential losses. m.d.

NEWS, COMMENTS

■ **John Carey, Portfolio Manager of the Pioneer Fund**, says that he personally has always enjoyed investing in situations similar to the present day because he likes prices that reflect almost all negatives of the given situation, but only few positives. Mr. Carey expects that



John Carey, Portfolio Manager of the Pioneer Fund

the USD is likely to stabilize and will even strengthen at a certain moment compared to the Euro. He counts on a renewal of investors' confidence in reports on business results of companies in the USA. According to Mr. Carey, tax reliefs are likely to boost economic growth, which will result in growing tax earnings in the foreseeable future. His calculations are based on the assumption that the budget will be more balanced, reserves will decrease and efficiency of production capacity utilization will grow. He reckons that unemployment will fall simultaneously with economic acceleration. He thinks that the economic pendulum, which has swung in the negative direction for a while, will get back onto the positive track in line with the rules of empiricism. As for the threat of terrorism, he says: "...We cannot say today if it'll come true. We, however, have recent historical experience from the early 1950s and 1960s, when Americans lived and worked with the omnipresent fear of a nuclear war with the Soviet Union. I know what I'm talking about because it was when I was growing up. My country, however, managed to stifle this fear and successfully went about with its everyday life. That period was historically one of the most successful periods in terms of economic growth and stock valuation. At that time the Pioneer Fund, and along with it the whole mutual-funds segment, grew significantly."

PIONEER FUNDS - EUROPEAN RESEARCH

Just like Pioneer Top European Players, introduced in the May issue, Pioneer Funds – European Research is a product where top ideas of a team of twenty analysts, which monitors European sectors, should be applied. This Fund, however, is not as venturous as Top European Players and the risk is distributed among more titles (about 100), and it does not deviate from its index, i.e. MSCI Europe, too much. At present, the healthcare sector has a rather strong position in the Fund compared to the index (13% in the Fund, 11% in the index), but there are never distinct deviations at the level of regions and sectors. The Fund can only “back the right horse” for individual stocks if the managers’ positive approach is really strong.

The Fund primarily encompasses the stock mostly of the biggest European companies, in combination with some “medium-sized” titles. The investment style is inclined neither towards growth nor towards value titles. Ideally, the Fund is trying to seek undervalued growth stock of companies steered by qualified management, with strong balance-sheet indicators and ability to generate cash. The biggest shares are corporations such as Royal Dutch Petroleum, Vodafone Group, TotalFinaElf, Novartis, HSBC Holding and Nokia.

P.J. Davis, European Stock Sector Team Manager, is in charge of the everyday management. He personally specializes in food, beverages and to-

Key facts*

NAV Start Date	12/18/2000
Registration Place	Luxembourg
Fund size	EUR 822.18 million
Unit value	EUR 2.66
Initial Sales Charge	5.00%
Management Fee	1.50%
ISIN	LU0119366440

* This involves category A, Euro, non-distributed; data applicable at 05/31/2003

Cumulative performance (EUR)**

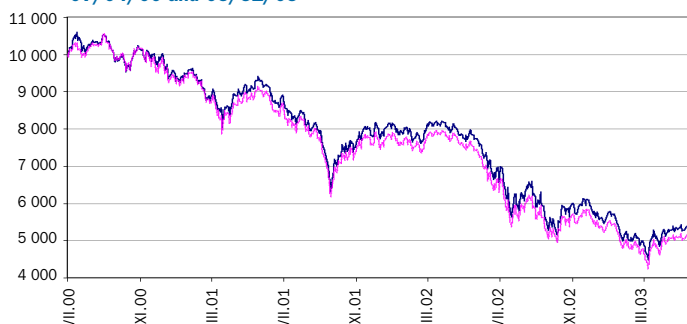
At 05/31/03	NAV	Weighed index (MSCI Europe)
1 month	1.51%	0.58%
3 months	8.03%	7.59%
6 months	-11.80%	-12.14%
Since start of year	-2.54%	-3.12%
1 year	-29.21%	-29.91%
2 years	-41.14%	-42.56%
Since start of calculation of owners' equity	-46.20%	-48.89%

** Performance data provided refers to Class E units only. All performance information is based upon net asset value (NAV). NAV refers to the value of each unit net of all management, transactional and depositary bank charges. NAV does not account for any additional charges, such as taxes or sales charge. Class E are only publicly offered for sale in Italy. For details of all other classes available, please refer to the Pioneer Funds Prospectus.

barco. Final responsibility, however, rests with Marc Pironcini, the Global Research Manager. The team's long-time experience, lucid and transparent investment processes have resulted in it being rated by S&P with the Fund Management Rating A.

— Pioneer Funds
— European Research
- - - MSCI Europe

Growth of EUR 10,000 investment in category E units between 07/04/00 and 05/31/03



TOP products Pioneer Funds - compared to competitors, source: Micropal (applicable at June 6, 2003)

Type	Subfund	Date of founding	Size (EUR mil.)	Pioneer Funds compared to competitors, source: Micropal*														
				6 months*			Since 01/01/03*			1 year*			2 years*			Since founding*		
				Performance	Subfund position/ Total number of funds	Quartile	Performance	Subfund position/ Total number of funds	Quartile	Performance	Subfund position/ Total number of funds	Quartile	Performance	Subfund position/ Total number of funds	Quartile	Performance	Subfund position/ Total number of funds	Quartile
European stock	PF Italian Equity	20.03.98	745,75	6,27	1 / 36	1	9,81	2 / 37	1	-6,61	4 / 36	1	-24,65	7 / 32	1	8,14	4 / 11	2
	PF French Equity	27.03.98	59,80	-3,07	12 / 25	2	1,61	12 / 25	2	-22,44	5 / 24	1	-40,59	4 / 24	1	20,50	2 / 13	1
	PF Core European Equity	20.03.98	1331,79	-3,32	58 / 240	1	1,53	72 / 243	2	-21,55	59 / 228	2	-37,62	51 / 208	1	-13,10	11 / 69	1
	PF European Small Companies	05.10.01	171,49	4,77	10 / 56	1	8,60	19 / 58	2	-15,41	3 / 57	1				1,00	2 / 51	1
	PF Top European Players	07.07.00	410,32	-1,05	23 / 240	1	3,29	39 / 243	1	-15,47	8 / 228	1	-22,90	5 / 208	1	-25,86	8 / 179	1
American astock	PF U.S. Mid Cap Value	05.10.01	26,33	-2,93	17 / 160	1	4,11	20 / 160	1	-18,83	19 / 151	1				-13,80	6 / 135	1
	PF U.S. Value	05.10.01	41,62	-4,76	37 / 160	1	1,88	45 / 160	2	-21,49	49 / 151	2				-24,00	36 / 135	2
Global stock	PF Global Telecoms	07.07.00	107,81	-6,67	86 / 129	3	0,60	114 / 129	4	-10,64	17 / 128	1	-49,40	14 / 122	1	-67,03	5 / 98	1
Balanced	PF Mix 2	05.11.99	1040,38	2,11	23 / 91	2	2,50	24 / 91	2	1,52	15 / 88	1	-1,30	15 / 76	1	6,60	13 / 60	1

*The specified figures are only related to category E units, denominated in EUR. All the information is based on values of net assets. Net assets comprise the value of all units, free of all administrative, transaction and deposit fees. Net assets do not include any other fees, such as taxes and sale fees. Micropal data are weekly – collected on Fridays. They can be therefore slightly different from data calculated accurately at the end of the month.