Brookstreet Securities Corporation

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Tuesday, May 8, 2001

REVIEW & OUTLOOK

INSIDE THIS ISSUE:

INDEXES

(Close as of: 5/4/01)

DJIA:	10951.24
S&P 500:	1266.61
NASDAQ:	2191.53
S&P 400:	517.17
S&P 600:	222.05

THE ECONOMY - The Week In Review

The economic reports of the past week have generally confirmed that the economy has weakened considerably. But, a couple of the reports suggested that the economic decline may be close to bottoming.

Nonfarm payrolls declined 223,000 in April, the largest decline since 1991 when the U.S. economy was in a recession. This followed a drop of 53,000 in March. Declines were primarily in manufacturing and construction; but the service sector suffered, too. The civilian unemployment rate rose to 4.5 percent in April from 4.3 percent in March. Average hourly earnings rose 0.4 percent, sparking renewed concerns about inflation.

The weak jobs data raises concerns about the hoped-for economic recovery. All consumers, not just those recently laid-off, are likely to be concerned about the rising rate of job cuts. As consumer concern over employment mounts, consumer spending tends to drop. That would be very bad for the economy as it has been the consumer that has kept the economy going during this period of business cutbacks. Consumer spending accounts for about two-thirds of U.S. economic activity.

Two trends that particularly concern us for the near-term economic outlook are the spread of job cuts from the manufacturing sector to the service sector; and waning consumer confidence, which has been on a decline for several months now.

It was also reported last week that the White House voiced its concerns about the economy's strength, saying that the strong first-quarter growth numbers, which had cheered the financial markets, may have to be revised downward.

The beige book report, used by policy makers to determine monetary policy, also showed a slow pace of economic activity in nearly all of the 12 Federal Reserve districts during March and early April.

Some encouraging news did come from three reports last week. The National Association of Purchasing Management's (NAPM) new-order index rose to

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INVESTMENT STRATEGY

The stock market (as represented by the S&P 500) was up slightly last week over the preceding week. That's the good news! The bad news is that the stock market became even more overvalued. This occurred for three main reasons: (1) the S&P 500 index rose; (2) the trailing twelve month earnings and the earnings estimates that we use in our calculation declined; and (3) the 10-year treasury interest rate rose. Please see our discussion of the stock market's valuation on page 3.

The Price-to-earnings (P/E) ratio for the

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THE ECONOMY—THE WEEK IN REVIEW

(Continued from page 1)

43.2 in April from 43.1 in March. This was the third consecutive monthly increase, though the index still remains in the region which indicates that the manufacturing sector is contracting. It was also reported by the Commerce Department that factory orders increased 1.8 percent in March. Finally, it was reported that construction spending rose 1.3% in March, following a revised 0.9% increase in February. All three of these reports indicate that the economy may be beginning to stabilize.

There has been a lot of monetary stimulus this year in the form of rate cuts from the Fed. On the horizon are possible tax cuts and the need to rebuild inventories. As a result, some economists believe the economy may have bottomed and be ready for a recovery. We are continuing to forecast 2001 Real GDP growth of 1.9%. Our forecasts for this and a number of other important economic factors are shown below.

Looking ahead, a couple of key economic events to watch for will be the release of the University of Michigan's preliminary May consumer-confidence report on Friday of this week; and the Fed's Open Market Committee meeting on May 15th. The recent surge in unfavorable economic reports raises the odds that the Fed will again cut rates at the May 15th meeting, perhaps by as much as one-half percent.

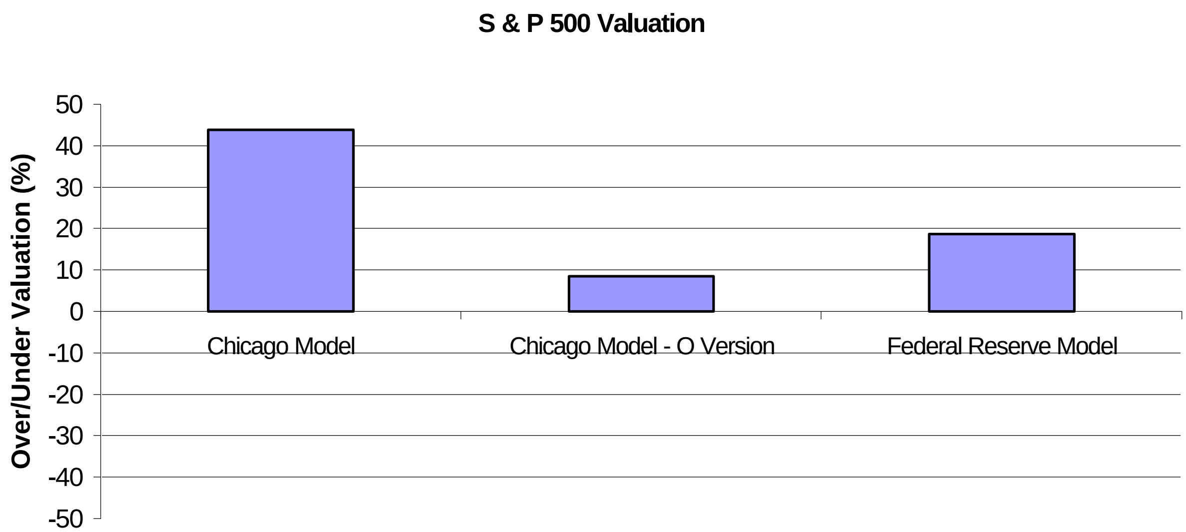
"...some economists believe the economy may have bottomed and be ready for a recovery"

ECONOMIC FORECASTS

(As of May 4, 2001)

	Actual				Forecasts	
ECONOMIC FACTOR	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Percent Change						
Real GDP	4.4	4.4	4.2	5.0	1.9	3.3
GDP Price Index	2.0	1.3	1.5	2.1	2.1	2.0
Gross Domestic Product (GDP)	6.5	5.7	5.8	7.1	4.0	5.3
Consumer Price Index (CPI)	2.3	1.5	2.2	3.4	3.0	2.5
Variables In Levels						
Unemployment Rate	5.0	4.5	4.2	4.0	4.6	4.8
3-Mo. Treasury Bill Rate	5.06	4.78	4.64	5.82	4.3	4.5
10-Yr. Treasury Bond Yield	6.35	5.26	5.64	6.03	5.0	5.3
30-Yr. Treasury Bond Yield	6.61	5.58	5.87	5.94	5.4	5.5

STOCK MARKET VALUATION



At the present time (May 4, 2001) , we believe the stock market, as represented by the S&P 500, is overvalued by nearly 19%. That's up from an overvaluation of about 15% in the preceding week.

The increased overvaluation occurred for three main reasons: (1) the S&P 500 index rose; (2) the trailing twelve month earnings and the earnings estimates that we use in our calculation declined; and (3) the 10-year treasury interest rate rose.

One of the great things about financial modeling is that it allows you to examine and analyze your assumptions. The three models charted above use different sets of assumptions for earnings growth rates, interest rates and other factors; and thus give three different perspectives on the current stock market valuation. The *Chicago Model – O Version* and the *Federal Reserve Model* show overvaluations of 8.7% and 18.8%, respectively. Both of these models use fairly aggressive assumptions for earnings growth rates. The *Chicago Model*, which uses a more conservative set of assumptions for earnings growth rates as well as past earnings and interest rates, shows an overvaluation of 43.9%. While we do not necessarily believe that the market is overvalued by 43.9%, it should be noted that many of the assumptions used in the *Chicago Model* are realistic. If the market were to accept these assumptions as representative of future conditions, there could be further significant declines in the indexes. It is important to be aware of this possibility and to monitor the variables that are inputs to the models for any signs that possibility is becoming reality.

The workings of these models will be explained in a future article in this weekly commentary. For now, let it suffice to say that we tend to favor the Federal Reserve Model and, even given its aggressive set of assumptions, believe that it is currently giving the most accurate estimate of the stock market's overvaluation at around 19%.

STOCK HIGHLIGHT:
APPLEBEE'S INTERNATIONAL, INC.

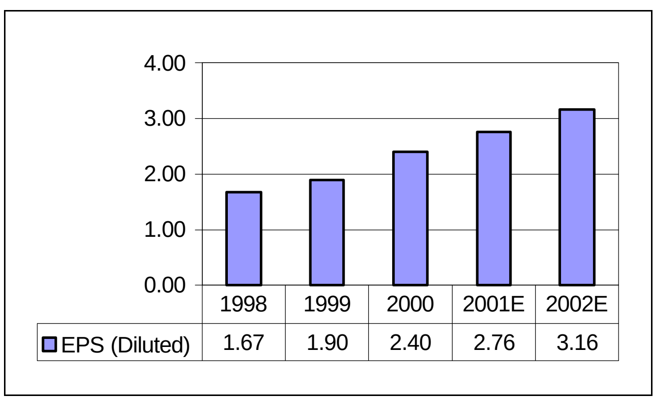
Price (5/8/01):	$43.20	Beta:	0.49
52-Week Range:	$20.4375 to $43.8600	Shares O/S (Basic):	24.6 million
Dividend:	$0.11	Market Capitalization:	$1.06 billion
Dividend Yield:	0.25%	Fiscal Year End:	December
EPS:	$2.52	Industry:	Restaurants
EPS Growth (5yr):	21.1%	Float:	16.0 million
Avg. Daily Vol.	429,545	ROA (3/01):	14.07%
P/E (Basic ttm.):	17.14	ROE (3/01):	23.66%
P/B (04/01):	3.90	P/E/G	1.14
P/S (3/01):	1.58	P/E/G (2001E EPS):	1.04
Profit Margin (3/01):	9.2%	5Yr Est EPS Growth:	15%
Current Ratio (04/01):	0.63	Symbol:	APPB
Debt/Equity (04/01):	0.39	Exchange:	Nasdaq/NM

BUSINESS

(Source: Excerpted from Applebee's International, Inc.'s Form 10-K for the Fiscal Year Ended December 31, 2000)

Applebee's International, Inc. develops, franchises and operates casual dining restaurants under the name "Applebee's Neighborhood Grill & Bar." With nearly 1,300 restaurants and $2.67 billion in annual system sales, Applebee's Neighborhood Grill and Bar is the largest casual dining concept in America, both in terms of number of restaurants and market share.

The Company opened its first restaurant in 1986. The Company initially developed and operated six restaurants as a franchisee of the Applebee's Neighborhood Grill & Bar Division (the "Applebee's Division") of an indirect subsidiary of W.R. Grace & Co. In March 1988, the company acquired substantially all the assets of its franchisor. When the Company acquired the Applebee's Division, it operated 14 restaurants and had ten franchisees, including the Company, operating 41 franchise restaurants.



As of December 31, 2000, there were 1,286 Applebee's restaurants. Franchisees operated 1,001 of these restaurants and 285 restaurants were company operated. The restaurants were located in 49 states and eight international countries. During 2000, 125 new restaurants were opened, including 100 franchise restaurants and 25 company restaurants.

Applebee's acquired the Rio Bravo Cantina chain of Mexican casual dining restaurants in March 1995. On

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FOCUS LIST - 4/2/01

Company	Symbol	Price 3/23/01	Current FY EPS Est	P/E Est Crnt FY	5 Yr. EPS g Est %	PEG Ratio	Div (Ind.)	Beta	Sector	Mkt Cap (millions)
Anadarko Petroleum Corp.	APC	62.60	5.65	11.1	15.9	0.7	0.20	0.74	Energy	15676.9
Applebee's Int'l, Inc.	APPB	34.25	2.73	12.5	15.4	0.8	0.11	0.53	Consumer Staples	864.3
Arkansas Best Corporation	ABFS	17.25	2.80	6.2	9.7	0.6	0.00	0.83	Transportation	351.4
Constellation Brands Inc.	STZ	66.50	5.19	12.8	17.4	0.7	0.00	0.88	Consumer Staples	1369.6
Energen Corporation	EGN	31.74	2.31	13.7	11.8	1.2	0.68	0.26	Utilities	974.9
Esterline Technologies	ESL	19.75	1.88	10.5	11.0	1.0	0.00	0.78	Capital Goods	407.9
Fastenal Company	FAST	54.13	2.56	21.1	24.4	0.9	0.09	0.63	Basic Materials	2053.4
Golden State Bancorp, Inc	GSB	26.85	2.68	10.0	10.3	1.0	0.40	0.91	Financial	3604.3
Henry Schein, Inc.	HSIC	33.38	1.92	17.4	15.6	1.1	0.00	0.76	Health Care	1397.9
Jones Apparel Group, Inc.	JNY	37.25	2.96	12.6	18.9	0.7	0.00	1.18	Consumer Cyclicals	4444.8
Lincare Holdings Inc.	LNCR	53.13	2.67	19.9	21.3	0.9	0.00	0.29	Health Care	2767.4
MBNA Corporation	KRB	30.21	1.85	16.3	20.1	0.8	0.36	1.61	Financial	25732.3
Philip Morris Companies	MO	43.40	4.06	10.7	12.6	0.8	2.12	0.24	Consumer Staples	96501.2
Phillips Petroleum Co.	P	54.37	6.47	8.4	10.8	0.8	1.36	0.67	Energy	13880.7
Robert Mondavi Corp.	MOND	46.25	2.96	15.6	17.9	0.9	0.00	1.05	Consumer Staples	738.3
Solectron Corporation	SLR	21.04	0.90	23.4	29.9	0.8	0.00	1.98	Technology	13582.0
Tellabs, Inc.	TLAB	46.25	2.10	22.0	28.1	0.8	0.00	1.95	Technology	18986.3
Timberland Company	TBL	51.50	3.45	14.9	18.8	0.8	0.00	1.31	Consumer Cyclicals	2044.4
Toll Brothers, Inc.	TOL	37.00	4.69	7.9	14.2	0.6	0.00	0.34	Consumer Cyclicals	1349.8
		Price 3/30/01								
Additions - 4/2/01										
Sunrise Assisted Living	SNRZ	19.69	1.89	10.4	20.8	0.5	0.00	0.43	Health Care	425.2
Deletions - 4/2/01										
AmeriSource Health Corp.	AAS	49.05	2.27	21.6	17.7	1.2	0.00	-0.03	Health Care	2579.0

MODEL PORTFOLIO
4/2/01

Company	Symbol	Price 3/30/01	# of Shares	Portfolio Value	% of Portfolio	P/E Est Crnt FY	Div (Ind.)	Beta	Sector	Mkt Cap (millions)
Anadarko Petroleum Corp.	APC	62.78	100.00	6278.00	6.79%	11.1	0.20	0.74	Energy	15676.9
Applebee's Int'l, Inc.	APPB	35.69	100.00	3568.75	3.86%	13.1	0.11	0.53	Consumer Staples	864.3
Arkansas Best Corporation	ABFS	15.75	200.00	3150.00	3.41%	5.6	0.00	0.83	Transportation	351.4
Constellation Brands Inc.	STZ	71.75	100.00	7175.00	7.76%	13.8	0.00	0.88	Consumer Staples	1369.6
Energen Corporation	EGN	35.30	200.00	7060.00	7.63%	15.3	0.68	0.26	Utilities	974.9
Esterline Technologies	ESL	21.75	100.00	2175.00	2.35%	11.6	0.00	0.78	Capital Goods	407.9
Fastenal Company	FAST	54.50	100.00	5450.00	5.89%	21.3	0.09	0.63	Basic Materials	2053.4
Golden State Bancorp, Inc	GSB	27.88	100.00	2788.00	3.01%	10.4	0.40	0.91	Financial	3604.3
Henry Schein, Inc.	HSIC	36.75	100.00	3675.00	3.97%	19.1	0.00	0.76	Health Care	1397.9
Jones Apparel Group, Inc.	JNY	37.80	100.00	3780.00	4.09%	12.8	0.00	1.18	Consumer Cyclicals	4444.8
Lincare Holdings Inc.	LNCR	52.94	100.00	5293.75	5.72%	19.8	0.00	0.29	Health Care	2767.4
MBNA Corporation	KRB	33.10	200.00	6620.00	7.16%	17.9	0.36	1.61	Financial	25732.3
Philip Morris Companies	MO	47.45	100.00	4745.00	5.13%	11.7	2.12	0.24	Consumer Staples	96501.2
Phillips Petroleum Co.	P	55.05	100.00	5505.00	5.95%	8.5	1.36	0.67	Energy	13880.7
Robert Mondavi Corp.	MOND	44.81	100.00	4481.25	4.85%	15.1	0.00	1.05	Consumer Staples	738.3
Solectron Corporation	SLR	19.01	200.00	3802.00	4.11%	21.1	0.00	1.98	Technology	13582.0
Tellabs, Inc.	TLAB	40.69	100.00	4068.75	4.40%	19.4	0.00	1.95	Technology	18986.3
Timberland Company	TBL	50.80	100.00	5080.00	5.49%	14.7	0.00	1.31	Consumer Cyclicals	2044.4
Toll Brothers, Inc.	TOL	38.50	100.00	3850.00	4.16%	8.2	0.00	0.34	Consumer Cyclicals	1349.8
Total				92483.10	100.00%					
Additions - 4/2/01										
Sunrise Assisted Living	SNRZ	19.69	200.00	3937.60	4.26%	10.4	0.00	0.43	Health Care	425.2
Deletions - 4/2/01										
AmeriSource Health Corp.	AAS	49.05	100.00	n/a	n/a	n/a	n/a	n/a	Health Care	n/a

SECTOR ALLOCATION

March 22, 2001

Sector	**% of S&P 1500 ***	**Portfolio Weight**
Basic Materials	2.74%	Underweight
Capital Goods	8.78%	Neutral
Communication Services	5.60%	Underweight
Consumer Cyclicals	9.26%	Neutral
Consumer Staples	12.66%	Neutral
Energy	7.09%	Overweight
Financial	17.14%	Neutral
Health Care	12.76%	Overweight
Technology	18.76%	Neutral
Transportation	0.85%	Neutral
Utilities	4.37%	Neutral
Total S&P 1500	100.0%	

* Data as of March 16, 2001

Our **sector allocation strategy** is based on a quantitative analysis of over 100 industries in the 11 economic sectors listed above.

Many years of experience has taught us that over the long-term, most investors should maintain some investment exposure to each of these 11 sectors. However, in the short-run, some sectors can be expected to perform better than others. Accordingly, the ratings of **Overweight**, **Neutral** and **Underweight** that we have assigned to each of the sectors above represent our assessment of the expected relative market performance of each of the sectors over the next year.

When constructing a portfolio, it is suggested that an investor invest in each of the sectors, but *overweight* those sectors that have the best prospects and *underweight* those sectors that have the least favorable prospects.

It should be noted that these ratings are for broad sector groupings which are composed of many different industries and thousands of individual stocks. Therefore, a careful analysis should be made of such factors as valuation, financial strength and growth characteristics for each industry and individual stock in which the investor plans to invest. In other words, not every industry or stock in a chosen sector has the same expected attributes as the sector as a whole might have. It is important to be selective in choosing individual investments.

Investment Strategy

(Continued from page 1)

S&P 500 was 25.33 at the end of last week; and the P/E ratio for the Dow Jones Industrial Average was 23.45. Those P/E ratios are high by historical standards and are not justified by the current economic outlook.

The U.S. economy has been sliding in recent months, barely staying out of recession. Corporate profits have been negatively impacted by the weakening economy. The economy and the stock market could see further deterioration going forward. We don't expect to see an economic recession, though.

In our opinion, it is usually best to stay with fundamentally sound companies that can be bought at reasonable valuations. In this economic and stock market environment, we believe it is absolutely critical to follow this path.

Diversification is a good investment strategy to use in any stock market environment. But investors should note that the old rule of using 15 to 20 stocks to diversify may not be true any longer. According to a recent study by John Campbell, Martin Lettau, Burton Malkiel and Yexiao Xu, the number of stocks needed to achieve a given level of diversification has increased from what it used to be. Some experts believe that the number of stocks needed for diversification could now be around 40 stocks.

Stock Highlight: Applebee's International, Inc.

(Continued from page 4)

April 12, 1999, the Company completed the sale of the Rio Bravo Cantina concept, which was comprised of 65 restaurants. Applebee's operated 40 of these restaurants and franchisees operated the remaining 25 restaurants. On April 26, 1999, the Company completed the sale of our four specialty restaurants, which the Company had also acquired in 1995.

Applebee's strategy is to focus singularly on the Applebee's concept. The Company divested the Rio Bravo Cantina concept as a part of that strategy. During 1998, the Company introduced a new "small-town" restaurant prototype developed for communities with a population of less than 25,000. Applebee's expects at least 150 restaurants to be opened long-term using the small-town prototype.

Applebee's International, Inc.

Applebee's has been successful at market penetration of the Applebee's concept, and the Company recognizes that small towns represent a market with new potential. Because of these factors, Applebee's expects that ultimately the Applebee's system will encompass at least 1,800 restaurants in the United States.

"Some experts believe that the number of stocks needed for diversification could now be around 40 stocks."

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