SARA-BAY FINANCIAL CORP.

January 9, 2003

Picking up my Investor's Business Daily from the driveway on the morning of January 1st, I was greeted with the following front-page, bold print statement, **"Worst Bear in 71 Years."** Happy New Year to you too, IBD!

The emotional impact of reading this sort of headline engenders within all of us an illogical and pervasive fear that we are in the midst of a downward spiral that has no end. We tend to view our current situation myopically - as things are now, so shall they always be. This condition frequently proves especially deleterious when we apply it to our investments. It makes us willing, if not anxious, to sell at absurdly low prices in order to avoid the pain of an unknown future, which in our imagination, is a future almost certain to get worse. In reverse, it is the same passion that causes us to be consumed with an overwhelming urge to buy, as stocks scream upward at a frenzied pace; example – February 2000.

Circa 1890, there was a prognosticator who projected that New York City would be abandoned as unfit for human habitation by the late 1930's. He estimated that the population would grow from four million to over seven million by the year 1940. He proved correct in that forecast. It was obvious, he said, that the number of horses necessary to provide transportation for that many people would result in a public health hazard of incredible dimensions. There would be horse manure up to the third floor windows everywhere in Manhattan.

By any standard, 2002 was a difficult year. Four years ago Fidelity's Magellan Fund was clearly one of the most popular investments in the world, attracting a staggering sixty-three billion dollars. The fund lost 24% this year. The problem with losing 24% is this: just to get even, the fund must grow 32% this year...a difficult task in most markets.

At Sara-Bay, the performance of our managed accounts varied depending upon entry date and size. The smaller accounts frequently drop more during market declines and advance more during market advances; that is to say the volatility is greater. Including fees, our average managed account this year lost 4.7%, while the S & P 500 lost 23.4%. While losses are never good, it is much easier to recover from small losses particularly as opportunity arises.

On October 10th, I sent a letter to clients giving several reasons why I thought a significant rallying point was approaching. Within two days of writing that letter, the market had touched its five year low under 7300 on the Dow, and started an advance that carried us to over 8900 by early December (luck should never be underestimated, and I was fortunate with the timing of that letter – Don't believe for a second that I usually call 'em that close). I further stated that the advance should continue into the early months of 2003. While much of December was weak, it is still my contention that the Dow will resume the advance, reaching a short-term high sometime within the next couple of months.

I strongly believe that we will see an outstanding buying opportunity this year. Furthermore, I think we will experience some market weakness in 2003, but there is no way to know whether it will come in May, November, or any other month. We may or may not penetrate last October's low, but it doesn't matter. At this point, any drop, even of moderate

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size will naturally exacerbate the negative feelings referenced in the second paragraph of this letter.

My best judgment says that within the next few years we will look back upon 2003 as a bargain year in many stocks. To expand upon my reasons would lengthen this letter to several pages, but briefly consider the following:

1. The Federal Reserve and the Government have given several indications they will reflate the currency. They are making it clear they do not wish to see further deflation.

2. New tax legislation favorable to securities investments is being heavily supported by the President, and will likely be passed in some form.

3. Economic news will likely not improve, and may get worse. Without exception, I cannot remember a single instance where rising markets did not start while poor economic numbers were being reported.

4. Alternative investment choices are unfavorable. Stocks, particularly those which pay some dividends and have opportunity for growth, will be considered preferable to money markets paying less than 1% or CDs paying 2%. Also, contrary to popular current opinion, real estate will not always wear the white hat.

Great bull markets are like the Phoenix. They arise from the destruction and despair of a majority of investors. You have lasted this long – please, don't get caught in the emotional turmoil at this late stage in the three year-old bear market. We are fast approaching the time to seriously commit!

Esther, Barbara and I take this opportunity to thank you for both your kindness and your support, especially during these three difficult years. Please know we will continue to do our best to give you the service and investment guidance you deserve. Best wishes for the coming year to you and your family.

Sincerely,

Mike

J. Michael Hard

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