Financial INSIGHT

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INVESTORS SHOULD EXPECT MARKET RECOVERY

The people of the Davidson Companies, along with all Americans and much of the world are shocked and grieve for the thousands who died in the terrorist attacks of September 11th. Our sympathy goes out to all the families and friends of those lost. Our heartfelt thanks extend to the many who have arisen as heroes. The impact of September 11th will ripple through our daily lives for a long time.

Prior to the date of the tragedy, the nation's economy was very weak. The extraordinary growth of the late '90s produced a lingering hangover that was not confined to our coasts but was experienced throughout Europe, Asia and Latin America. If the U.S. did not enter a recession in the first half of 2001, it most surely has tipped into a recession today. The unanswered question is the length of the economic downturn, and the shape and timing of the recovery. It most certainly is not a question of if our economy recovers, but rather when. America is robust. We are blessed with enormous resources, a strong financial system, steadfast leadership and an indefatigable spirit.

The stock market is a great predictor of the economy. The market is a reflection of the collective wisdom of all its participants whose investment choices, to buy or sell, are determined by expectations of future events. Yes, in the short run, markets are ruled by fear and greed, but in the longer term, market levels are determined by rational valuations of future earnings of publicly traded companies. In the beginning of the 2000s,

greed held sway. Federal Reserve Chairman Alan Greenspan's warning of "irrational exuberance" was dismissed lightly. Those who were caught up in the technology "bubble" rue their inability to heed his caution. Today the market reflects the fear of severe dislocations caused by the terrorists. The darkness of the hour and the uncertainty of the future hold sway. Our vulnerability, acknowledged but untested, has been exposed. Freedom is never safe, but is earned and held by our daily efforts.

continued on page 2

INVESTORS SHOULD EXPECT MARKET RECOVERY

continued from page 1

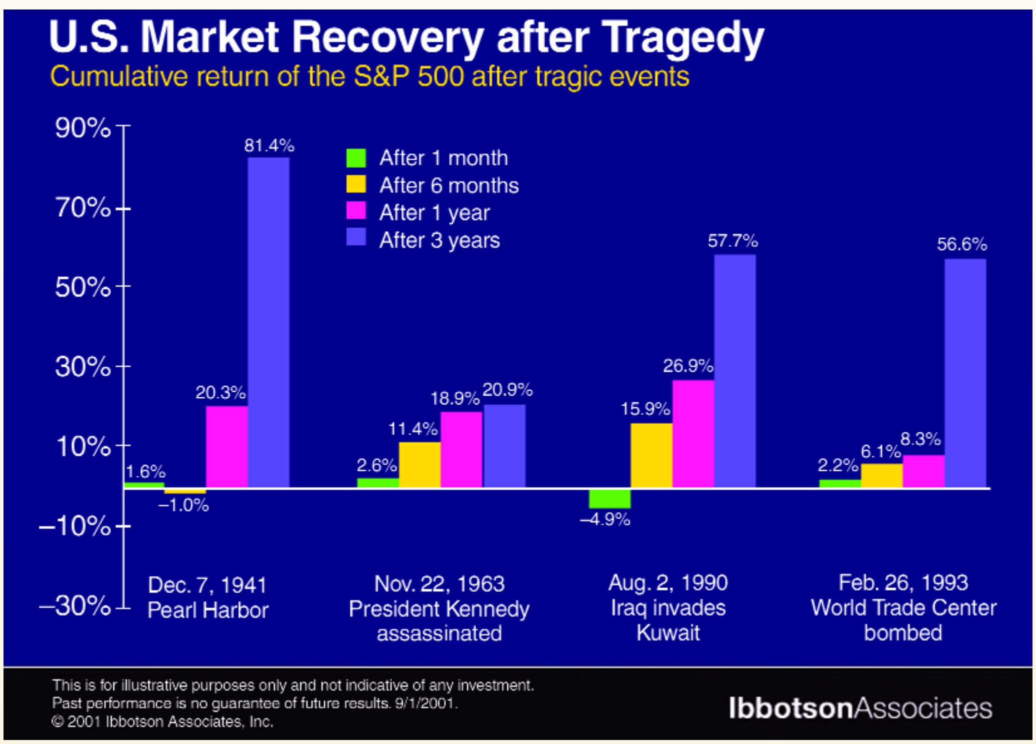
The history of crisis events shows that market downturns accompanying these events are followed rapidly by market recoveries. President John F. Kennedy's assassination in November 1963 caused a 3% decline in the Dow Jones Industrial Average. 126 days later, the DJIA rallied 15%. 1973 brought us the Arab oil embargo, a truly significant economic event. In two months, the market declined 18%. As great an economic shock as this was, only two months later the market rebounded 10%. On the heels of the oil crisis, the nation's political stability was challenged in 1974 by Richard Nixon's resignation of the presidency. Twenty days later, the DJIA was down by 15%. After 126 days, the market had rallied over 12%.

In 1990, Iraq's invasion of Kuwait and our internal thrift and banking problems led the market into a 20% swoon. On December 24th, we issued an ultimatum to Iraq that went unheeded. The market declined. In mid-January, the shooting started and the market never looked back. Investors who had fled the market missed much of one of the greatest market climbs ever experienced.

Each crisis is different. Today's crisis is not a carbon copy of the past. Our market recovery should not be expected to be a copy either. But we believe recovery will occur and it will occur swiftly. We must be participants in the market to share in the recovery. Company stock prices currently reflect the extreme pessimism engendered by our current crisis.

The prices do not reflect the underlying strength of these companies, the viability of our economy or the strength of America itself. Market wealth is garnered by buying in the darkness before dawn. Be of stout heart. Owners of America's great companies will be handsomely rewarded.

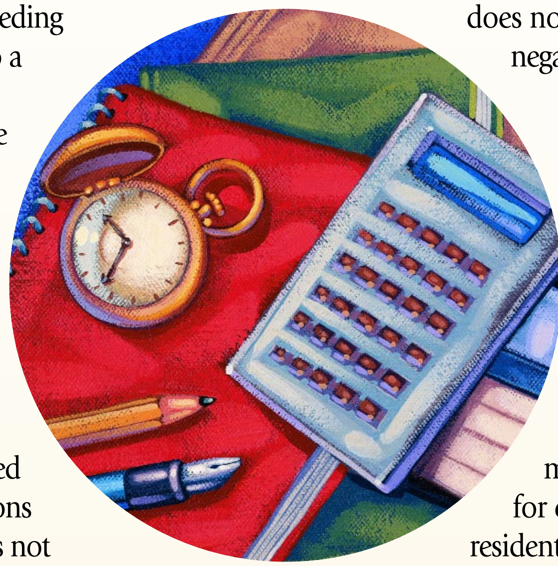
The Standard & Poor's 500 Index, another broadly based measurement of U.S. large company stocks, reacted similarly to the DJIA average, as seen in the chart below.



COLLEGE SAVINGS MADE EASIER

One of the most costly family events is paying for the higher education of our offspring. In the Northwest, annual costs of a college education are about $10,000 at a public school, and private universities double that price tag. The diploma at the end of the foray into higher education is a $40,000 to $150,000 event. In the future, these costs will rise. Educational inflation has been at about 7%, which, if the trend continues, will double these costs in 10 years.

The task of saving for college costs is daunting. Not only must we accumulate money but we must be mindful of tax implications, ceding control of hard-earned money to a minor upon the attainment of adulthood, and the impact of the savings on the student's ability to qualify for financial aid. Enter the 529 plan.



These state-sponsored plans allow individuals to fund an account for a named beneficiary. At the time of funding, the amount is considered a gift subject to the tax implications of such a gift. This gift tax issue is not onerous since any person can gift up to $10,000 annually to any other person. Although the gift to the 529 plan removes the funds from a donor's estate, the donor still retains control of the funds. If the child receiving the money does not pursue higher education, the donor can name a subsequent family member as the beneficiary for educational expenses.

Tax issues are removed because beginning in 2002, the 529 plan allows the earnings to grow tax-free. When funds are withdrawn for educational expenses, they continue the tax-free status. Hooray, we can fund education while not losing control of the assets, and we can avoid taxation on the growth of the assets.

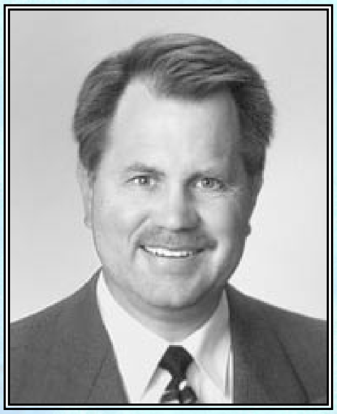
529 plans usually are not taken into consideration when a student seeks qualification for financial aid. Because the prospective student does not own or control the funds, they are not counted as the student's. If the donor is not the parent of the prospective student but rather, for example, a grandparent, the educational institution normally does not give any consideration to such an account.

In other words, the 529 plan may eliminate all three of the negatives about saving for higher education: The earnings are tax-free, the donor does not give up control and they do not negatively affect financial aid.

Almost all states have a sponsored 529 plan. Each plan is different in investment options, ranging from balanced portfolios of mutual funds to Certificates of Deposit whose returns are indexed to college inflation. You may participate in the plan of any state. However, many states allow a tax deduction for contributions into their plan by residents of their states. This state income tax deduction may be very valuable and shouldn't be ignored.

529 plans are a new and exciting vehicle to help families efficiently save for the higher education costs of their children and grandchildren. Higher education is not limited to universities but includes numerous educational choices such as technical colleges. D.A. Davidson & Co.'s financial consultants can help you fully explore the most appropriate investment vehicles for education savings, including 529 plans, Educational IRAs, Roth IRAs or custodial accounts. If educational saving is among your investment needs, ask your financial consultant to guide you through the choices.

Meet a Davidson Companies Professional



Tom Nelson
Senior Vice President,
Chief Financial Officer
Davidson Companies

- Joined Davidson Companies in May 2001 as Senior Vice President, Chief Financial Officer, and works from the company's headquarters in Great Falls, Montana.
- Eighteen years of prior experience as chief financial officer, all in the Minneapolis–St. Paul area and chiefly in the securities industry.
- Most recently served for more than three years as President and CFO at Miller & Schroeder Financial, Inc., a firm focusing on investment banking and municipal bond underwriting.
- Received master's of business administration, with an emphasis on accounting, 1979, from the University of Minnesota, after earning a bachelor's degree in business from the same institution. Also holds Certified Public Accountant designation.

Tom, welcome to the Davidson Companies. You are only the second Chief Financial Officer of the company following the 30-year career of Stu Nicholson. Can you describe the role of the CFO?

The role of the CFO is to lead the financial and corporate functions of the company. The CFO is responsible for ensuring that accurate, relevant information is available on a timely basis to assist in business decision-making and resource allocations, and participates with management and the board in making those decisions.

Tell us some of your background prior to joining the Davidson Companies.

Most recently, I was President and Chief Financial Officer at Miller & Schroeder Financial in Minneapolis, a broker-dealer specializing in fixed income products. From 1990 through 1997, I was Executive Vice President, Chief Financial Officer and Chief Accounting Officer at EW Blanch Holdings, a reinsurance brokerage firm in Minneapolis. Highlights of my experience at Blanch included a 1993 initial public offering and touring the world in the establishment of an international joint venture. My experience in the securities industry began in 1983 when I joined Dougherty Dawkins and Voyageur as CFO. Dougherty Dawkins is a broker-dealer specializing in fixed-income products and Voyageur was its affiliated investment advisor.

What attracted you to this position and firm?

Given my background and interests, I believed the securities industry and the CFO position represented the best fit for my next job. I was impressed with the capabilities and character of the people I met during the recruiting process— it was a team I wanted to join! I was also attracted by Davidson's employee ownership and its size—small enough to be manageable and entrepreneurial yet large enough to provide challenge and growth. Finally, I was impressed that Stu Nicholson, as the incumbent, had been in the position for some 33 years. That's a rare thing in business these days and I thought it spoke highly of Stu as well as the character and stability of the company's management.

What do you foresee as your greatest challenge going forward?

You could say I didn't have the best timing in joining the company. Following a record year for Davidson, this year the market's been tough and has been tougher following the recent terrorist attacks. My biggest challenge as CFO, which is really an opportunity, is to provide the financial leadership and direction to help management and the board continue to steer our fine company to success. We are blessed with excellent people, a strong capital base, and a sound business plan—so I'm confident of our future.

All work and no play makes Tom a dull boy. Outside of work, what are some of your pursuits?

I was attracted to relocate to Montana because of its physical beauty and the abundant recreational opportunities. The outdoor and recreational activities I enjoy include golf, boating, fishing, hiking, skiing, tennis and gardening. I also like spectator sports, music and movies. I relish any time I get to spend with my kids: Brandon, 8, and Taylor, 4.