

BLYTH FUND

Date: 1-25-00
Proposal: Vanguard Pacific Index Sell Proposal
Ticker: VPACX
Current price: 8.81 (close 1-24-00)
Analyst: Ian Lopuch, Charles Najda, and our Mentor Group
Profile: Vanguard Pacific Stock Index Fund seeks to match the performance of the MSCI Pacific Free index. The fund seeks to replicate performance of the MSCI Pacific index, a cap-weighted index of more than 400 stocks in Australia, Japan, Hong Kong, New Zealand, and Singapore, through portfolio optimization, a statistical sampling technique. Its policy is to remain fully invested in common stocks. The fund charges a \$10 annual account-maintenance fee for accounts worth less than \$10,000. Prior to Oct. 27, 1998, the fund was named Vanguard International Equity Index Fund Pacific Fund. (From *Yahoo! Finance*)

The Numbers:

Category:	Japan Stock	Net Assets:	\$1.91 bln
Morningstar Rating	Two Stars	1 Year Return	-21.32%
Morningstar Risk Rating / Return Rating	Above Average Below Average	3 Year Return	4.39%
Last Dividend	\$0.12 (27-Dec-00)	5 Year Return	-3.67%
Inception	18-Jun-90	Turnover	6%

Comparison to similar funds:	<ul style="list-style-type: none"> • The Vanguard Pacific Index fund has been a poor performer the last year and last five years. In fact, when compared to the S&P 500 index, the Vanguard Pacific Index fund has performed poorly. Over the last year the difference in returns between the Vanguard Pacific Index fund and S&P 500 was -16.79%, over five years -9.50%. • Compared to similar funds that invest in Japan and Eastern Asia, the Vanguard Pacific Index fund has not done well. For example: <ul style="list-style-type: none"> ○ Fidelity's Japan Smaller Companies fund has an annualized return of 26.12%. ○ T Rowe Price's Japan fund is up 11.04% for the year. ○ Matthews Asian Growth & Income fund is up 3.73% for the last year. ○ Liberty Newport Tiger fund is down 15.75%. • The fund is quite diversified with over 400 stocks; however, except for Hutchison Whampoa, which is based in Hong Kong the funds top holdings are in Japanese stocks. Top equity holdings include Toyota, NTT, Sony, Canon, and Nomura Securities. Sony has seen its margins in its consumer electronics division plunge and with the introduction of Microsoft's X-box its margins from the PlayStation will suffer. Likewise, the quickly weakening demand for automobiles in the United States will likely dampen Toyota's earnings in the same way as it has for GM and Chrysler. • In general, the Vanguard Pacific Index fund seems to gravitate towards large cap equities, which haven't done as well as small-cap stocks, like those in the Fidelity fund noted above. The current uncertainty and lack of any recovery in Japan's economy raises the risk level of the fund. Until Japan's economy rebounds this fund and similar funds will have difficulty purchasing companies that can grow earnings. This is especially concerning because the Vanguard fund is an index fund, which means they cannot remove poor performing companies from the fund, as long as it tries to mimic the MSCI Pacific index.
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Economic Outlook:

- VPACX follows the MSCI Pacific index, a cap-weighted index with holdings in Australia, Japan, Hong Kong, New Zealand, and Singapore. Most of the holdings of this fund are Japanese companies and, hence, the economic outlook for Japan is most important.
- Japan has been in a phase of economic recovery since mid-1999. The statistics supporting this recovery are in conflict, however.
- Expenditure-based GDP showed two quarters of negative growth in the second half of the year.
- In opposition, indicators of production activity have continued to improve. In the second quarter of 2000, the index of aggregate activity increased 7.5%. The upturn has been

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driven by increased business profits and increased business investment.

- Growth is too slow into 2001 and 2002.
- Analysts are skeptical whether the recovery will continue because there is a great deal of restructuring pressures (especially in the real estate and construction sectors). The OECD predicts that restructuring will continue to be a drag on the economy.
- The current economic package is expected to stimulate growth in the first half of 2001, but growth is expected to slow to around 2% in 2002.
- In general, there is a lot of uncertainty and skepticism, two factors which generally create turmoil in the markets.

(The above information is based on a 2000-2001 economic report downloaded from OECD.org.)

Vanguard Pacific Stock Index Fund
as of 20-Jan-2001



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Technical:

- VPACX has a very predictable and foretelling chart. (I have included the long-term chart above, as long term trends are generally more valid and stable than short-term ones.)
- VPACX is in a strong downtrend after completing a "rounding top" formation. Based on this formation (and the fact that VPACX had a similar formation between 1992 and 1998, I expect to see the downward pressure escalate, pushing VPACX back to \$6/share.
- VPACX trades in a specific range: \$12/share being the top and \$6/share being the bottom. The upper and lower boundaries of this range have been tested many times and the stock looks to be headed back to the lower end.
- According to this chart, the downside risk is far greater than the upside potential (if any) at this point.