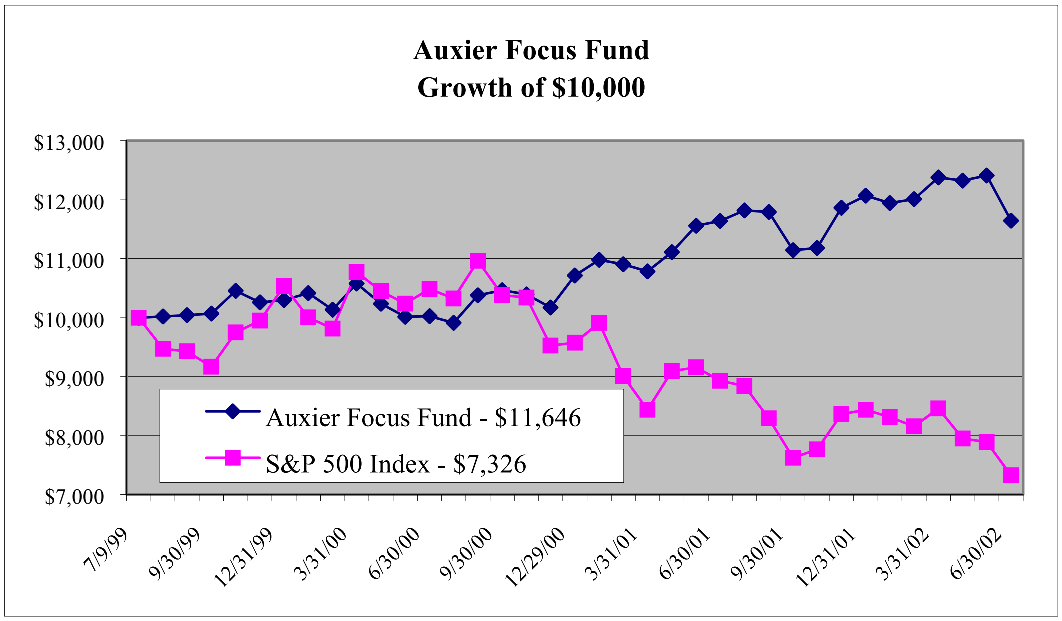
**AUXIER FOCUS FUND**
**PERFORMANCE UPDATE**
**JUNE 30, 2002**

The table below summarizes the performance for the quarter, six months, and year ended June 30, 2002.

| | 3 Months Cumulative Return | 6 Months Cumulative Return | 1 Year Average Annual Total Return | Average Annual Total Return Since Inception (July 9, 1999) |
|---|---|---|---|---|
| Auxier Focus Fund | -5.90% | -3.49% | 0.07% | 5.24% |
| S&P 500 Stock Index | -13.39% | -13.15% | -17.98% | -9.92% |




*This graph, prepared in accordance with SEC regulations, shows the value of a hypothetical initial investment of $10,000 in the Fund and the S&P 500 Index on July 9, 1999 (inception of the Fund) and held through June 30, 2002. The S&P 500 Index is a widely recognized unmanaged index of common stock prices and is representative of a broader market and range of securities than is found in the Fund portfolio. Individuals cannot invest directly in the index. Performance figures reflect the change in value of the stocks in the index, and reinvestment of dividends. The index returns do not reflect expenses, which have been deducted from the Fund's return. The performance of the Fund is computed on a total return basis, which includes reinvestment of all dividends. THE FUND'S RETURN REPRESENTS PAST PERFORMANCE AND DOES NOT PREDICT FUTURE RESULTS. Investment returns and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.*

*As of June 30, 2002, the Auxier Focus Fund held a 2.5% position in Guidant Corp. (GDT) and a 0.7% position in Philip Morris Co. (MO).*

*For a prospectus and more information, including charges and expenses, call toll free 1-877-328-9437. The prospectus should be read carefully before investing. Past performance does not guarantee future results. Shares when redeemed may be worth more or less than their original cost.*

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**AUXIER FOCUS FUND**
**SUMMER 2002 UPDATE**
**BY JEFF AUXIER**

As I write this letter, the market as measured by the S&P 500 has dropped over 42% from its high reached in 2000. This compares to a 42.4% drop in 1973-74. In 1975 the market recovered 31.5%. The good news is that after the sharpest decline in 28 years, and one of the longest bear markets on record, a number of high quality companies are finally coming down to price points that represent interesting risk/reward opportunities.

Our equity strategy for the fund is to invest when exceptional companies become available at bargain prices. This strategy requires patience, as exceptional companies do not frequently become available at these prices. When the general price level is high (like the past 3-4 years) we have put a higher percentage of money to work in bonds, cash, or “work-out” situations. A “work-out” is an arbitrage situation with a definite timetable that tends to be shorter term in nature. When prices drop, and the “margin of safety” improves, we move funds into quality undervalued common stocks. This price/value discipline drives the allocation process. I am more willing to take a time risk, than a price risk. Due to the powerful positive effect of steady compounding an investor is wise to look down first. Priority one, what can we lose? In this environment the primary objective is to identify improving fundamentals where the price is down due to irrational emotional selling that does not appear to be related to the prospects of the business.

Today’s rising measures of investor fear and pessimism are encouraging. The bullish sentiment has recently declined below 30%. The volatility index that measures fear in the market (VIX Index) recently hit a level not seen since the 1987 crash. It is a much better time to be shopping for investments when the mood is dour and expectations are low. This is where solid research and knowing current underlying operating trends allows an investor to be able to appraise the asset better than the market. The day-to-day research effort throughout the year is vital because when prices drop you need conviction to decide whether the drop is temporary or long-term in nature. In a post-bubble environment investors tend to revisit the fundamentals of investing and seek benchmarks that were ignored in the bubble. Basics like cash flow, dividends, conservative accounting, price-to-sales, price-to-earnings etc. grow in importance over price momentum. Investors revert course from the fear/optimism sentiment and begin valuing companies based on the cash the business generates, as opposed to the “hype” or excitement behind a story.

We are currently in such a reversion to the mean where your stock purchases should be stringently researched and scrutinized top-to-bottom. Fortunately, value investors perform much better in this type of climate than in a speculative mania. Deciphering misappraisals and mistakes by the market will be a key to above-average returns going forward. There are no new eras, so one must diligently monitor market prices vs. private market values and replacement values of the companies in the portfolio to insure against the potential of permanent capital loss.

## AREAS OF CONCERN

Balance sheet analysis takes on increased importance now that corporate debt levels are hovering around historical highs, roughly 45% of GDP (and quite possibly understated due to numerous creative financing techniques). According to Moody’s, over 771 US companies have not disclosed the “ratings triggers” clauses that materially benefit the senior creditors or banks if a company’s credit rating is cut. This can seriously impact the financial health of a business in the event of a debt downgrade to junk status. Furthermore, as corporations work to clean up their debt/equity ratios, the risk of dilution to the common shareholder is magnified.

The level of personal debt as a percentage of the economy is still close to 75% vs. 63% in the last recession (SOURCE: Financial Times). Excessive debt levels here can negatively impact growth as at some point consumers need to stop spending beyond their means and start saving. This could remove potential buying power from the economy. Deregulation is another worry – it is great for consumers but terrible for shareholders. As an investor you ideally want a de facto monopoly or at least a company whose industry has formidable barriers - not hundreds of competitors bankrolled by the bubble’s incessant stock offerings.

For example, Philip Morris has consistently enriched shareholders over the past 50 years. One reason: the company was so maligned by critics of smoking that there has never been enough excitement on Wall Street to create an oversupply of stock. Still, Philip Morris prospers with relatively constant demand, high barriers to entry, few competitors, and government mandated price increases. The $2.32 dividend today is more than the 1982 share price (adjusted for stock splits). With a projected dividend increase in August the yield approaches 6%. Contrast that with the 1996 deregulation of telecom and electric utilities, two industries that were subsequently swamped with capital and new entrants, setting the stage for some breathtaking bankruptcies.

Looking forward, we are entering a period where the good companies are being thrown out with the bad. Typically, in the latter stages of a bear market, price declines are frightening with nearly all companies subjected to tremendous selling pressure. This is the "wash out" stage and should be viewed as an opportunity to buy the world's greatest businesses "on sale." It is a time to upgrade in quality. Again, we are looking for those businesses that enjoy improving operating trends, yet their shares are being tossed out because of investors' fear and irrational behavior. This is still an environment that requires careful selectivity. The valuations of many large companies are too expensive if you properly expense stock options, use realistic pension-fund projections with normalized profit margins and sales growth. Excessive stock-option compensation has fueled the incentive to inflate earnings aggressively in order to cash out quickly on share price moves. While most proxy statements are still disappointing in this regard, more and more abusive compensation issues are being publicized.

## EXAMPLE OF A BUSINESS REPRESENTING OUR INVESTMENT CRITERIA

Guidant Corp. (ticker GDT), a top holding of the fund, represents the investment criteria we look for. For starters, the Indianapolis-based maker of medical devices for the heart has a strong balance sheet consisting of very little debt (17.4% long-term debt to stockholder's equity), a solid current ratio of 2.33 (current assets divided by current liabilities), and holds $2.25 in cash per diluted share. When Guidant released second quarter earnings on July 18th, they reported double-digit sales and earnings growth across all product groups, and projected double-digit sales and earnings growth for the second half of 2002. This marked the 33rd quarter out of the last 34 quarters Guidant has reported earnings in-line with, or greater than expectations. Despite this consistency, the company trades at a forward PE multiple of only 14.3, a far cry from its five-year low PE of 23.8. Finally, Guidant's business model does not require a high amount of capital expenditures (the investment necessary to continue daily operations). Thus the company produces a high amount of free cash flow. With the combination of a strong balance sheet, consistent earnings numbers, favorable business prospects, a cash-flow friendly business model and a purchase price representing a margin of safety, we believe Guidant has the potential to produce above-average returns for shareholders.

## IN SUMMARY

In these rough seas it is very important to have an enduring investment philosophy to rely on. In order to finish and win the race you have to first stay in the race. It has been my experience that investors need to adhere to a systematic, low-risk approach to investing while striving toward predictability in returns. Otherwise, it can be difficult to stay the course.

Thank you for your support!