Miller / Howard
INVESTMENTS, INC

MARKET OVERVIEW

THE STRATEGIES

BETTER THAN BONDS / UTILITIES

A bond alternative and moderate equity approach focusing on opportunities in the broad utilities sector: electric, gas, telephone, sanitation and water.
A conservative socially responsible strategy offering growth and income for total return investors.

BETTER THAN BONDS / INCOME

A fixed income alternative which utilizes reliable companies from across the broad market. Stocks are conservative, high quality, high yield, and are projected to have a rising stream of income.

THE SBI PORTFOLIO

A mid-cap strategy combining value with moderate growth that utilizes stable, moderate growth stocks from all sectors and emphasizes companies with strong dividend growth as well as unique fundamental characteristics. Based on the strategy detailed in Lowell Miller's book, *"The Single Best Investment."*

ALPHA-BASED STRATEGY

An aggressive strategy focusing on small and micro-cap stocks using both value and momentum analysis. Seeks high returns and protects against high volatility with strategic use of cash.

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Appearances can be deceiving. Let's do some arithmetic:

Various institutions including Wilshire, Russell, Dow Jones, and Standard & Poor's carve up the sectors in the market in slightly different ways, but no matter how you carve it up the technology sector rose about 70% for 1999 (the tech-heavy Nasdaq 100 was up even more). Technology stocks have grown in price to the point where indices that are capitalization-weighted, such as the S&P 500, contain nearly 30% by weight in technology stocks. That means technology accounted for 30(weight) x .70 (70% return) = 21% or twenty-one percentage points of the index return for the year. These numbers are a bit on the rough side, but pretty close. If the S&P 500 total return (including reinvested dividends) was 21.04% for 1999 and the tech sector accounted for a 21% return, that means the rest of the market was basically negative—in this "bull" market year!

How tough was it apart from tech stocks? Energy performed well, supported by rising oil prices which rebounded early in the year from panic lows which were nothing if not an object lesson in investor psychology. Heavy industry stocks were mixed, with electrical components and heavy machinery offering double-digit gains (though these items have almost no weight in the indices) and railroads and building materials losing about 20%, on average (never mind that building was booming throughout the year!). Banks were down. Southern Banks were down 30%. Money Center banks were down 16%, Savings and Loans were down almost 30%. Insurance stocks ranged from down 12% to down 25%, depending on the line of business. Electric utilities were down in the teens. Consumer non-durables, the best performing sector for the 25 years since 1974, were down about 10%, and included groups such as food down 20%, medical supplies down 22%, major drugs down 11%, and food retailers down a rousing 34%!

On the New York Stock Exchange, the majority of stocks declined for the year. The market was really narrow in 1998, with 1,586 gainers versus 2,165 losers on the New York Stock Exchange, but it was really, really, really narrow in 1999, with only 1,182 gainers against 2,557 losers. The raw odds of landing on a loser were not pretty.

We think it's important to keep 1999's market in perspective (and 1998 wasn't so different), and perspective here means, in the old adage, a "market of stocks" rather than a stock market. In truth, the stock market sucked wind last year—no matter what the "average" numbers say—and any investor needs to be acutely aware of the "real" situation in which he or she is participating.

However, all these negative performances hiding underneath record-breaking index levels don't induce negativity in us when we consider the potentials going forward. On the contrary, the last thing one would want to do when confronted with negative numbers would be to assume a trend or continuation. Down periods should be perceived as times to accumulate holdings in companies with reliable earnings growth and solid assets—no matter how shabbily the market

continued on next page

"Many investors are throwing in the towel on value. It seems just about time for a reversal."

may have treated them in the recent past. We're dealing with an outlier here, a quirk, one that's lasted just long enough to cause traditional investors to doubt their principles and long enough to permit "new economy" partisans to enter a state of hubris. We're not here to argue that there isn't a new economy. In some sense there's always a new economy, and it's the investor's job to identify the opportunities change may present. But there's always an old economy too. And it is bigger, more pervasive, more deeply rooted, more tenacious, and frankly more important than the "virtual" activities that would seek to usurp it. Let's face it: you'll never drink a coke made of electrons.

The bond market has made life difficult for investors in traditional stocks, because traditional stocks are traditionally analyzed and valued based on some form of dividend discount model. Discount models require interest rates and a projection of future rates as a key input. The higher the interest rate, the lower the valuation of the equity. And it doesn't matter if you use fancy terms like dividend discount model. From time immemorial investors have found that high safe rates will compete for their dollars with riskier assets. Investors pay more for conventional stocks—stocks with assets and earnings; you know, those old things—when rates are falling because interest becomes less interesting, and falling rates help assure confidence in continuing economic growth leading to continuing earnings growth.

But rates also have a tradition of their own, and that is to adjust their levels in relation to inflation. The long-run relationship of long-term rates has always been about 3% above the rate of inflation: a bit more if inflation is noticeably rising, a bit less if inflation is shriveling away. Right now rates are far too high relative to 2.5% inflation, meaning bonds are undervalued. But bonds won't rally, investors won't buy them, as long as the economy keeps chugging along as it has. Such chugging inspires fears of a financial mugging, when inflation is forced higher by a strong economy and a tight labor market. So we're in a kind of trap, one whose door shut mainly because the economy has remained vibrant far longer than anyone expected. However, as soon as economic slowing appears the undervaluation of bonds will become cogent. They will rally, and along with them will rally all the many kinds of stocks that are real businesses, that have earnings and assets, and that are valued traditionally—in relation to interest rates as well as their particular prospects.

From this point of view, investors should feel enthusiastic about investing in a range of issues that have actually been in a bear market for two years. Rather than be frightened by the apparent high P/E's of the indices, which are greatly influenced by overblown tech stocks, investors need to remember that the history of real wealth accumulation in the market is a history of buying valuable assets cheaply when the attention of the crowd has been diverted.

The emotional difficulty of swimming against a broader and more potent speculative bubble than anyone alive has ever seen shouldn't dissuade investors from recognizing true reality. We own some stocks that have global brands, have been growing at double-digit rates, have been turning in new record quarters with each new report, and are selling at P/E multiples of 6 and 7. This circumstance will not last indefinitely. If public market investors don't awaken to the values then private market (corporate) investors will.

Indeed, we think 2000 will be marked by an incredibly vast number of takeovers, going privates, and transactions of all kinds whose goal is to exploit the low valuations affecting many industries. Utility convergence and consolidation will continue unabated. With the fall of Glass Steagall there will be many transactions in the financial industries. With the end of GAAP pooling of interests accounting for mergers in June, there will be a mad rush to do pooling deals while it's still possible, in any and every industry. As the global economy continues to recover, "our" companies will be attractive to companies of other countries, and foreign companies will be attractive to us. Wedding bells are in the air, and these bells will remind investors of what any company, marrying or not, is really worth.

The dichotomy between growth and value has become deeper and of greater duration than at any time since records of these two conceptualizations of stocks have been kept. Many investors are throwing in the towel on value. It seems just about time for a reversal.❑

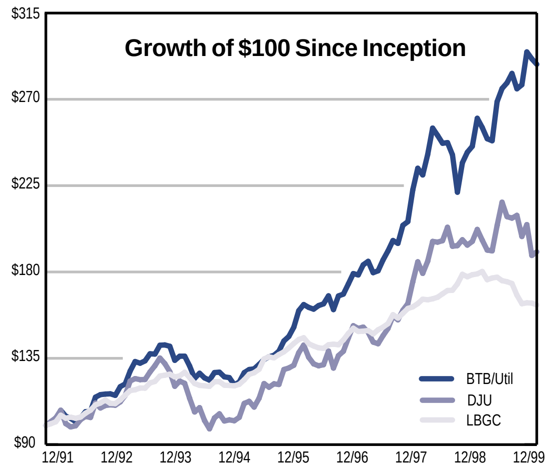
SELECTED INDICES

	4th Qtr'99	12 Mo
S&P 500	14.88	21.04
Equity Inc	3.17	2.74
Util Fund	10.70	14.60
DJUA	-4.03	-5.78
LB Treas	-2.10	-8.74
LBGC	-0.41	-2.15
S&P 400	17.19	14.72
Val Line	3.20	-1.40
Rus 2000	18.45	21.26

S&P 500 = Standard & Poor's Index
Equity Inc = Ave Equity Income Fund (Lipper)
Util Fund = Ave Utility Fund (Morning Star)
DJUA = Dow Jones Utilities Ave
LB TREAS = Lehman Long Treasury
LBGC = Lehman Bros. Gov/Corp Bonds
S&P 400 - S&P Mid Cap Index
Val Line - Value Line Price Index
Rus 2000 = Russell 2000

Last quarter we noted that "we continue to find this an attractive period for our utility stocks." We probably should have italicized the "our" in that suggestion, since it was an extremely difficult period for *other* utility stocks—though BTB/U performance was solid and in line with our general expectations. Indeed, this has been a wretched year for traditional utilities (though fine for telecoms) generally, the worst since 1994. Yet the benefits of industry diversification in our portfolio really shone throughout the year, permitting us to present double-digit *gains* in a year when the large-cap electric utilities offered double-digit *losses* (approaching 20%), and the Dow Jones Utilities Index, helped by gas issues, was still down nearly -6%. We've been saying for some years that the distribution of returns in the utility sector was widening, and that deregulation would produce a notable dichotomy between winners and losers: this year stamped a seal of approval on that view.

We also once again overcame a negative interest-rate environment, providing yet another reminder that **a yield-oriented portfolio does not have to go down when interest rates rise,** unlike bonds, which are doomed to move inversely to rates. On a valuation basis, looking at the conventional relationship between bonds and inflation, bonds have rarely offered value as compelling. However, as we've pointed out before, the obvious appeal of long-dated bonds in the current inflation environment is neutralized by the almost unthinkable ebullience of the real economy, whose persistent strength continues to defy all predictions—and which strength is naggingly accompanied by clearly tight labor conditions. This strength has kept bond buyers on the sidelines and it will continue to do so until the picture changes. But the linkage between rates and utility equity pricing has weakened in recent years, affirming the importance of our basic discipline, which is to seek individual stocks offering sustainable and reliable growth.



We finished this year, as well as our trailing three and five years, with returns far better than any other kind of income-oriented strategy. Our one-year composite of 10.83% net, compares to the long-term Treasury bond at -8.74, the Lehman Government/Corporate Index at -2.15, the average general long bond fund at -2.70, and the Dow Jones Utilities at -5.78%. For the three years our net composite return is 17.34%, compared to 6.04, 5.55, 4.60, and 11.26 respectively. Over the past five years our average annualized rate of return is 18.65%, compared to long government bond funds at 7.42, LBGC at 7.61, and the Dow Jones Utilities at 14.76%. This year the "average" utility fund crept past us at 14.60%. Funds that primarily invest in telephones and unseasoned competitors tend to dominate the utility fund average returns, though they're not really utility funds as we understand the concept. Also worth noting is the fact that our rather conservative portfolio has outperformed both small and mid-cap value, as well as balanced and equity-income, and the Value Line Price Index which broadly measures an equal-weighted universe of 1,600 leading stocks. We've outperformed those measures significantly for 1999 as well as for the three and five year periods.

"We once again overcame a negative interest-rate environment... a yield-oriented portfolio does not have to go down when interest rates rise, unlike bonds, which are doomed to move inversely to rates."

Quarter Composite Net of Fees*

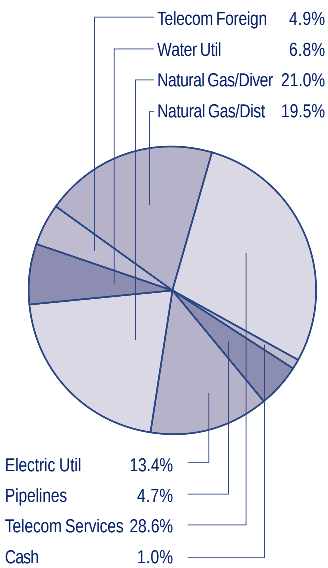
BTB/Util (Preliminary)	3.85%
DJUA (total return)*	-4.03%
LBGC*	-0.41%
Ave Util Fund*	10.70%

12 Month Composite Net of Fees*

BTB/Util (Preliminary)	10.83%
DJUA (total return)*	-5.78%
LBGC*	-2.15%
Ave Util Fund	14.60%

**Index returns are stated gross of fees, although it is not possible for an investor to purchase the index without incurring fees.*

PORTFOLIO HIGHLIGHTS



Our gains obviously did not come from having the wind in our sails, but from our special familiarity with the industry trends and stocks in our universe. After the carnage in the broader market in 1998, we bought BCE (formerly Bell Canada) as one of the cheapest of the world's telecom companies. BCE also offered hidden value in the form of its large ownership of Nortel (formerly Northern Telecom), a company which we felt was well positioned to be an important supplier to the rapidly growing global telecom equipment market. Though we trimmed our position during the quarter on a rally, the stock continued higher, finishing as one of our best performers and nearly tripling our original cost. Also in the telecom area, we held on to our shares of Global Crossing which entered the portfolio as a result of its takeover of Frontier. Though GBLX is a bit spicy for this portfolio, we felt that the combined Frontier and Global was itself a takeover candidate, with a collection of interesting assets positioned just at the front of the telecom wave: broadband, internet hosting, and competitive local access businesses are each attractive in their own right as elements of the new telecom scenario. The stock shuddered and shook as the quarter opened, prompting plenty of doubt on our part, but it finally joined the global telecom rally in a big way, nearly doubling for the quarter and reaching an equivalent of over 100 on our Frontier shares, which were first purchased in the middle of a massacre at about 17 when Frontier reported unexpectedly weak earnings. US West helped some, as the company's merger with Qwest gained credibility and regulatory approvals, and investors warmed again to Qwest stock, as they had with Global Crossing. Our "bite-sized" phones Alltel and Century Tel. also helped the cause, though relatively new positions in AT&T and Worldcom spent much of the quarter treading water. Sprint rose anemically on a bid from Worldcom and we finally sold (perhaps a bit prematurely, in retrospect) what has been one of our best performers over the years.

For quite some time we've been discussing the opportunities for investors in the gas and electric distribution industries as a result of the consolidation and convergence trends prompted by deregulation—we've even started a distribution-takeover-only portfolio with fine results, as we noted in a sidebar last quarter. Transaction activity helped us again this quarter, as it has all year. Eastern Enterprises, which we bought specifically as a transaction candidate, has received a substantial offer from our holding Keyspan, in a deal which will close this year at roughly 50% profit since we first purchased Eastern earlier this year. MCN received an offer from DTE (Detroit Edison) in the beginning of the quarter, an offer we did not consider especially lush. But it was gratifying nevertheless, since MCN was the number one item on our takeover list, and the stock was up some 38% for the quarter. We also took advantage of a moment of market softness in Columbia Gas in October to buy the stock below $60 even though there is an offer on the table from NiSource at $74 and CG has expressions of interest from other parties worth considerably more. Early last year we were able to make essentially the same move in Consolidated Natural Gas. In this sector stocks can just sit in the dating chair with more than 20% available profit based on announced transactions and not attract buyers. Go figure.

But these happy moments among telecom and takeover stocks had to work hard to overcome downward pricing in a number of our more traditional holdings which succumbed to the overall negativity surrounding utilities generally. The lowlights, this quarter, were every bit as extreme as the highlights. As investors turned away from the larger utilities generally and sought riches among the profitless technology issues, interest drained from many of our holdings—despite the fact that earnings have never been better, nor have prospects. In a portfolio littered with earnings and dividend increases we saw double digit losses in long-time holdings such as MDU Resources, TECO, Questar, Keyspan, NiSource—you get the picture. These are all great names, and the declines paradoxically fill us with joy—since we can buy more shares at lower prices! We also took a knock in Azurix, the water division spinoff from Enron, which we had begun last summer with a relatively small position shortly after the company began to trade publicly. Market reaction to slower than expected progress on earnings and in making new deals was

UTILITIES PORTFOLIO CHARACTERISTICS

Beta*	0.58
Dividend Payout	62.70
Sharpe Ratio	1.27
Projected Dividend Growth	4.75
Treynor Ratio*	22.90
Current Yield	3.50
Annualized STD	10.48
Market Cap (MDN)	$3 Bil
Price/Book	2.58
Quality	B++
P/E Ratio (MDN)	17.87

**Relative to DJUA, 12/31/94-12/31/99*

radical. In our view, this company has such great promise that it had attracted many growth and momentum players, who simply spat the stock out at the first sign of any blemishes in the story. But management here has a powerful track record and the stock was sold off to half of book value. We perceive the company as merely suffering a pushback in a potentially huge story, and so we tripled our shrunken holdings. We're not proud to sport a big percentage loser in the portfolio at the moment, but we think the picture will change sharply as soon as deals which are said to be in process become publicly announced. The going rate today for a conventional water company transaction is just under 3 times book value, whereas AZX sells for just 0.5 of book. Another "go figure."

LOOKING FORWARD

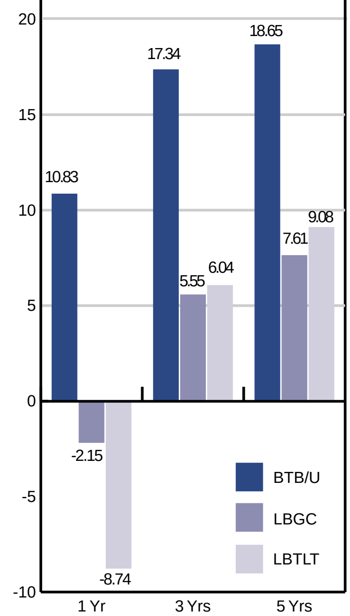
It's been over five years since we were able to have expectations for our portfolio as high as they are today. It was June of 1994, to be precise, when we sent out a "Buying Opportunity" message to clients and colleagues. Bonds were in a free fall at the time, as was the rest of the market, especially the large-cap utilities. Not only were rates horrible, but this was just at the time that deregulation became "discovered" by the press, which was filled with stories about the horrors to come for utilities, about how they would go bankrupt and that utility investors should run for the hills. The press treatment was as overblown and misinformed as it was about the oil crisis of '73-'74, or, more recently, the Y2K problem (you can give your candles to the local hippies, now, and your canned tuna to the soup kitchens). Utilities experienced a double hit from all this—rates and the press—and the idea that there would be winners and losers in the new environment was completely lost in the noise of crisis mentality. Our stocks—which we felt would be the winners—reached levels at which risk, from the long-term perspective, had become miniscule. But perhaps readers felt there was self-interest in our urging them to become involved, for we really couldn't arrest a new client at the time. We risked our credibility for naught, but at least we were right. Had you invested in Better Than Bonds/Utilities at that time you would have locked in a current yield of 5% (which was to rise about 5% per year in the intervening years to date), and obtained a total return of 16.74% average annualized. Put another way, $1 invested then would have grown to $2.33 today, assuming no reinvestment of dividends.

We have a few big winners that have been or need to be trimmed back, but overall our portfolio represents exceptional value. Our "baby bell" phones are not high priced on earnings, especially in view of recent FTC rulings which give incumbent phone operators a good deal more advantage than we would have expected. Our gas and electric distribution companies are without exception selling at steep discounts to private market values that have been established in many transactions over the past couple of years. Indeed, on a standalone basis, we believe most of our traditional utilities could sell at prices 30% higher within one year, and at 50% higher in a transaction. Too, a couple of our favorites, American Water Works and Williams, have experienced temporary earnings slowdowns but we can easily envision prices 50% higher for both, without transactions, as management recovers the elan they have so convincingly demonstrated in the past.

Needless to say, when new clients come in now we don't hesitate to get them fully invested right away. With much of the market at scary levels, we think our utilities portfolio provides as much or more potential than the "headline" stocks along with something they don't: serenity. A better bond environment would light this dry tinder quickly, but our stocks have shown they can withstand even the pressure of bearish bonds. When bonds emerge—and they will emerge strongly if inflation remains contained—we anticipate gains of an unusually large dimension.

There. We've put ourselves on the line. It just might be another five years before we do so again. ❑

Five Year Average Annualized
12/31/94 - 12/31/99
(percentage of return in years)



While the tech stocks stole the show this past quarter, this portfolio continued to bear the cross of a market apathetic to value stocks and pressured by relentlessly declining bonds. Nevertheless we did provide worthwhile positive returns and we did outperform the fixed income benchmarks, which is something of a feat for a portfolio which yields as much as long-term bonds. The truth is, we've got a secret: while the goal of Better Than Bonds/Income is to provide a high level of current income, growth of income, and growth of principal, we're not really satisfied to simply add value over our fixed-income benchmarks. We're equity managers, and while we're certainly not trying to shoot the lights out with this portfolio, we want more equity-like returns. But the equity market's turned queer against value stocks in the past two years, and it's been that long of a drought since we've seen the kinds of 20-30% returns this portfolio can at least occasionally deliver. So we're happy to have survived against terrible bonds and a difficult equity market, but as any value-oriented investor will attest, it's been a frustrating period.

"You really can't get such yields even in junk bonds, and these stocks are not junk."

PORTFOLIO HIGHLIGHTS

Both good and not-so-good performance emerged from stocks "borrowed" from our utilities portfolio. Global Crossing, which we received for our position on Frontier, was an enormous leader. We resisted the urge to trim back this position as it rose, though we'll likely do so in this quarter. We've noted since last fall that we would look for new holdings in the opportunities presented by consolidating and convergence in the utilities industry, and three holdings got the nod this past stanza. MCN, at the top of our takeover list, received an offer from DTE Energy. Eastern Enterprises will be taken over by Keyspan (a portfolio holding which declined, though less so than Eastern rose). Tiny E'Town Water also received a cash offer. Also along the takeover lines, our position in US

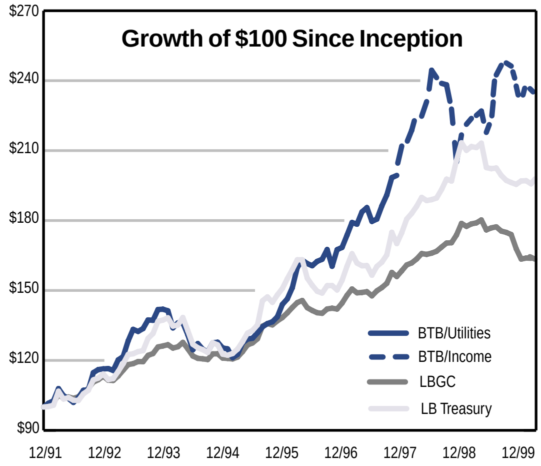
Quarter Composite Net of Fees*

BTB/Income(Preliminary)	1.22%
LBGC	-0.41%
LB Long Treasury Index*	-2.10%

12 Mo Composite Net of Fees*

BTB/Income	4.08%
LBGC	-2.15%
LB Long Treasury Index*	-8.74%

**See Performance Disclosure on page 11. Index returns are stated gross of fees, although it is not possible for an investor to purchase the index without incurring fees.*



West was a solid contributor, as its deal with Qwest seems ever more probable and draws ever closer to conclusion. On the other side of the ledger, utilities that were not the subject of takeovers were not inspired by the deals flying all around them, and we were hurt by declines in TECO, Keyspan, Equitable, LGE, and Lakehead. Also holding back performance was our handful of REITs—which have us scratching our heads since most are by now selling at well below net asset value while at the same time reporting a continuing string of positive earnings and dividend increases.

Apart from the doldrums experienced by REITs in our portfolio, there are other opportunities for head scratching. The global economies are building a synchronized recovery, right? Commodity prices have firmed across the board, right? Lumber prices have been hitting substantial highs, right? So why does an excellent operating lumber company like Crown Pacific, with both resource and manufacturing assets as well as consecutive quarterly earnings records and an enormous but safe dividend yield, fail to find buyers? It's a mystery to us. We've spoken with the company, and times have never been better there. The chairman is regularly buying stock on the open market. The stock is tantalizingly cheap, fairly ripe to be bought by another or to take itself private. And that, we believe, is exactly what will happen if the shares don't come alive in the market soon. So we'll just have to collect our dividends and be patient.

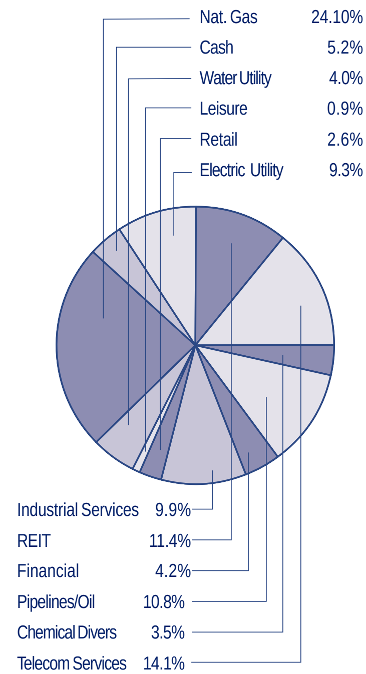
LOOKING FORWARD

The bright news is that the state of the market has brought us to a point of pendant possibility. The recovery potentials in many of our down stocks are dazzling, there are more potential takeovers we can use, and a world of higher yielding value stocks has been brought into our purview by price declines (which have raised yields) as a result of the market's shunning of value stocks. As we note in the BTB/Utilities report, traditional stocks that haven't received buyout offers have headed south, but they have reached levels of minimum risk with 30-50% appreciation potentials. And there are many other stocks similarly situated that we don't own, most of which are also takeover candidates. Our REITs and MLP's that have not performed have continued to pay and increase their dividends, making them increasingly attractive to a yield clientele. You really can't get such yields even in junk bonds, and these stocks are not junk. Ironically, in the case of REITs the rising interest rate environment may be just the ticket, since in an era of higher rates surely the fears of overbuilding that have slogged away at REITs will subside. (In fact there has been no overbuilding to speak of, only investor fears of an overbuilding cycle, inducing share selling. Actually, all the real estate entrepreneurs are out starting dotcom companies so they don't have to worry about being profitable any more.)

Importantly, a whole new class of stocks qualifies for this portfolio, a situation that hasn't been obtained for several years (not since our nearly 30% gain in 1997). Excellent regional banks and quality S&L's are now yielding 4% or close to it, which is high enough for us to consider. And these same stocks have sterling records of dividend increases as well. There are others newly entered into the low-price high-yield club: consumer products companies, some foreign phones, industrial companies and parts makers, even Lockheed Martin would be a candidate if we used defense companies (which we don't).

While we can't promise that investors will suddenly snap sane again and begin to buy companies where a return of and on capital is actually highly probable, we do know that our choices are more appealing than they have been since the winter of 1997. There are dominant companies, market leaders, for us to evaluate that actually qualify for this portfolio. And if the activity in the opening days of the year is any measure—a moment in which investors have been "heaving" high priced stocks and buying more solid, low-risk companies, the promise that has been ignored for the past couple of years may be fulfilled in this 2000 year.

For our part, we will be less willing to ride a difficult situation down, choosing instead to limit losses and seek new opportunities, or even hold cash if there are no opportunities. So there will be more activity in the portfolio than in the past (though we're not about to start madly trading), and the current yield may drop a notch as we add some of the items with high total return potential which we've mentioned. That will be just an incremental change, not a major one, and we'll still be the highest yielding equity portfolio around. Current yield is 6.4%.



FUNDAMENTAL CHARACTERISTICS

Yield	6.4
Proj Div Gro	3.58
Payout Ratio	67.98
Market Cap (MDN)	$1.7 Bil
Price/Book	2.36
Beta*	1.41
P/E Ratio(MDN)**	14.73
Quality	B+

**Relative to LBGC, 12/31/98-12/31/99*
***Reit's use P/FFO ratio rather than P/E Ratio*

"...but we can't help wishing we had enough money to buy entire companies in our portfolio, not just so many shares."

Quarter Composite Net of Fees*

SBI	7.88%
S&P 400Midcap	17.19%
Value Line Index	3.20%

12 Month Composite Net of Fees*

SBI	7.68%
S&P 400 Mid-cap	14.72%
Value Line Index	-1.40%

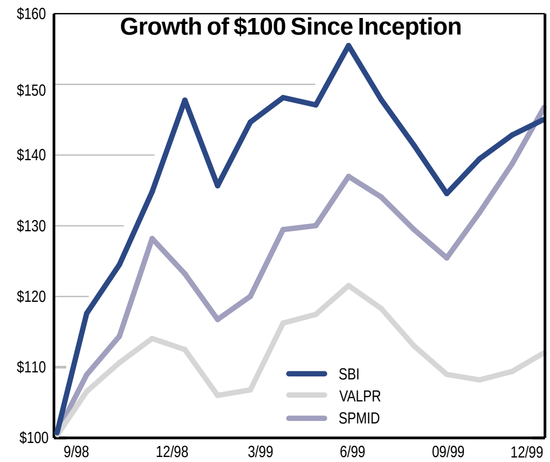
See Performance Disclosure on page 11

Our portfolio returned to much better form this past quarter, providing solid profits and outperforming most of our benchmarks and near-benchmarks, including the Mid-Cap Value, Equity Income, and Value Line Price Index. There were no real torpedoes this quarter (we were earlier plagued by stocks announcing disappointments, burdening a strategy that was already burdened by the sad advance/decline ratios in the market). Though the portfolio is light on technology compared to the headline indices, and technology clearly lead the way in the period, we had our share of winners from other areas—even in industries that were not generally in favor. As we suggested last quarter, a return to "normalcy" is inevitable when one considers the disparity between the current market darlings and the broader market of real stocks in real businesses. We're not striking up the band just yet, having already seen a false awakening in the second quarter of 1999, but we can't help wishing we had enough money to buy entire companies in our portfolio, not just so many shares. That's how good the values are.

PORTFOLIO HIGHLIGHTS

Last quarter we said we would begin to make some incremental modifications in our execution—harvesting tax losses, increasing our activity somewhat, using more of our technical skills. We did so to good effect this quarter, though the overall character of the portfolio remains as it was, focusing on steady, reliable growth stocks with selected deep value items and a few special situation issues. We've always found that "freshening" our portfolio with new stocks tends to help performance (perhaps because new additions typically have optimal technical patterns in addition to their fundamental attractions), and each of our new items rose during the quarter. This is a good thing, since the advance/decline line continued to fall in the broad market, indicating that more stocks were declining than were rising.

A couple of names "borrowed" from the utilities portfolio were a big help. Global Crossing first induced some additional graying in our portfolio manager's beard in September, then began a steady rise in early October, culminating in a nearly 90% increase. MCN offered us a 40% gain when DTE offered to buy the company for what we thought was a modest price, but apparently a price that the MCN board was willing to accept. Quietly, almost secretly, well-managed ball-bearing maker Timken worked higher by 25%, and two recovering technology stocks, Computer Associates and Network Associates (a coincidence; we have no special fondness for stocks with 'associates' in their names), added substantial gains. Warner Lambert, our only large drug stock, one which was bought primarily for its transaction appeal, received a buyout offer from American Home Products, which was quickly topped by Pfizer. Now the two latter are battling for the fair lady's hand.



New stocks performed. Both Autozone and Shared Medical Systems are companies with strong histories of above average growth selling at apathetic multiples in this time when aggressive money has flown to stocks without substance. Both companies dominate their market niche and are financially strong, and both have been rapped by Wall Street for growth which has been ever so slightly below expectations. But the growth has been, in our view, rather fine considering the valuation of the stocks, and only some invisible problem could interfere with good future gains on these. Similarly MCI Worldcom sells at a discount to its growth rate and a discount to the market (whose growth rate is much lower that WCOM's). This discrepancy apparently has resulted from investor and analyst fears over price wars in the long-distance voice business. But long-distance voice is a relatively unimportant part of Worldcom's business, and its importance shrinks further in terms of evaluating the company's future direction. For Worldcom's real growth comes from data. It is the largest internet backbone provider in the world. So, eureka(!), a key internet stock selling at a discount to its projected growth multiple! We'll take it!

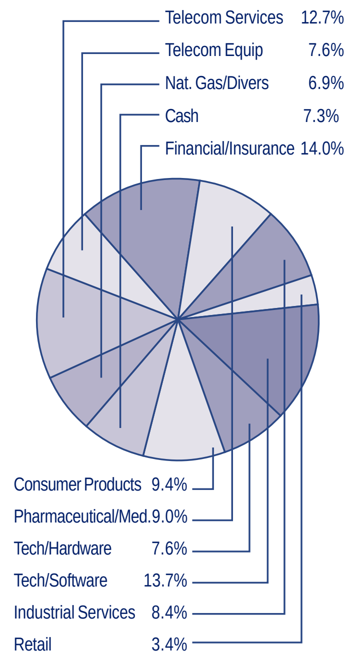
More support for the case that the market will broaden and it will begin to include stocks of real value: we had excellent returns this quarter from Bank of New York and Lehman Brothers. What's important is that these are financial issues, and they rose despite a wretched interest rate environment during the quarter. One can only surmise that their prices had already discounted rising rates, and that going forward the growth of both companies will be enough to overcome further tightenings. Lehman is a fine takeover candidate, too, and some thinking along those lines appears to be entering the stock's constituency, since trading has become noticeably more volatile.

Tyco was a drag on performance this quarter. The stock has been under a cloud, first from a newsletter writer's assertions that the company's accounting practices are deceptive with regard to its numerous acquisitions, second from an announced informal SEC investigation into same. The company and its auditors have begged to disagree, as have most Wall Street analysts (though the latter may be influenced by Tyco's frequent financing needs). Overlooked in all this is the fine operating performance of the company, performance that has been good enough to keep us as holders—though we'd stand aside right away should there be any evidence that the current noise is actually a fungible circumstance. Armstrong also declined. ACK is pretty much a poster child for the effects of the two-year bifurcated market. This company has global brands and dominance, a string of record-breaking earnings quarters, a P/E of 6 on next year's earnings and projected growth rate in the teens, fine finances, and, at this point, over a 6% yield. There are no problems, just distracted investors. New buyers have been in evidence as a new year has begun, but it wouldn't surprise us to see a corporate acquirer come in for all of the company. It is the epitome of a problem-free stock on the bargain counter, and we expect to see it help the portfolio from here.

LOOKING FORWARD

Good riddance to Y2K, that imponderable which nevertheless influenced many investment decisions. The rest of the world is now back to "normal" in terms of offering candidates for us, and we're busy looking for attractive situations overseas now, to complement our essentially domestic holdings.

Domestically, it should be obvious from our comments that we believe a change is in the wind, and that the pleasures of reward will shift from speculators to investors soon. The disparity between growth returns and value returns has not been so great, nor persisted so long, since records have been kept for these two "style" categories. Nevertheless, information and sentiment travel faster than ever before in the marketplace, and we'll need to—as we have—increase our vigilance toward sector and style changes in order to exploit them for the benefit of the portfolio. Only the Technology sector was a genuine winner in 1999. Going forward, investors will have 9 more sectors offering both low risk and good potential before them, and rotations among sectors are likely to be rapid. While we won't be running from pillar to post in this environment, the lesson of 1998-9 is to make some gestures in the direction of sector leadership, to at least make sector leadership a greater factor in decision-making. ❑



FUNDAMENTAL CHARACTERISTICS

Yield	1.20%
Proj Div Gro	9.24%
Payout Ratio	28.77%
Market Cap (MDN)	$9 Bil
Price/Book	5.01
P/E Ratio(MDN)	18.48
Quality	B++
Beta*	0.60
STD	12.39
Sharpe Ratio	0.15
Treynor Ratio*	4.42

**Relative to S&P 400 Midcap Index (12/31/98-12/31/99)*

Quarter Composite Net of Fees*

Distribution	3.40%
DJUA (total return)*	-4.03%

12 Month Composite Net of Fees*

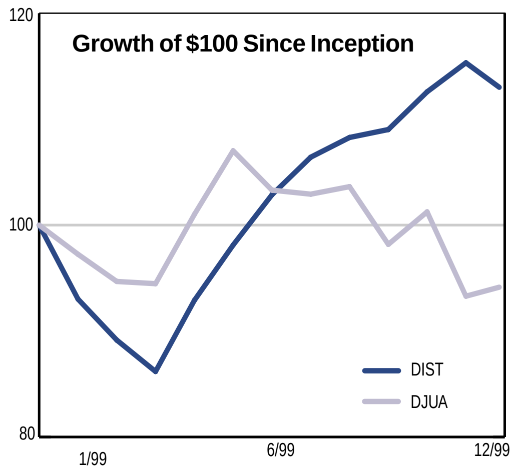
Distribution	12.73%
DJUA (total return)*	-5.78%

**Index returns are stated gross of fees, although it is not possible for an investor to purchase the index without incurring fees.*

Last quarter we mentioned our Distribution Portfolio, which was initiated in the beginning of 1999 to acquire holdings only in utility companies believed to be ripe for acquisition, and which is affected primarily by the major trend of consolidation and convergence in the various utility industries. Many of these are rather small companies, too small and illiquid to fit in our normal Better Than Bonds/Utilities portfolio—though we are always on the lookout for solid takeover candidates that can play a role in BTB.

The general utilities environment was about as bad this past quarter as it was in the first quarter of last year. Then, however, the takeover action had not really begun in full swing, and many of our issues declined along with the rest of the pack. This past quarter, however, we benefited from some new deals, stocks with pending deals didn't decline, and those that were dragged down by general conditions could not overcome our gainers. Our return of 3.40 for the quarter was quite satisfactory, as was the return of 12.73 for the full year. However, those who entered near the lows at the end of the first quarter in 1999—we always encourage clients to buy declines—saw returns of 25-30% for their 9-month "year."

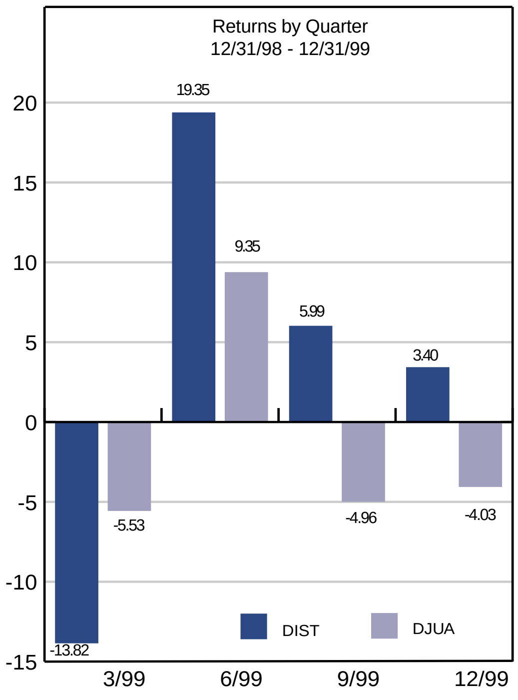
We received solid offers for MCN, Providence Energy, Eastern Enterprises, and E'Town (formerly Eatontown Water). In December the deal flow came to a halt, but we expect many more as the year unfolds. Private market values for the various types of companies have been clearly established through many announced transactions. We're merely doing the obvious thing: buying companies we'd be perfectly happy to hold anyway, and buying them at valuations substantially below the private market values.❏



FUNDAMENTAL CHARACTERISTICS

Yield	4.40%
Proj Div Gro	3.85%
Payout Ratio	69.55%
Market Cap (MDN)	$1.2 Bil
Price/Book	1.76
P/E Ratio(MDN)	14.95
Quality	B+
Beta*	0.44

**Relative to Dow Jones Utilities Index (12/31/98-12/31/99)*



Yield-Oriented Portfolios: Gross of fees performance is based on actual results according to standards set forth by the Association for Investment Management and Research (AIMR). Miller/Howard Investments has prepared all performance results. AIMR was not involved in the preparation or reporting of these results. Net of fees performance is calculated by deducting a weighted average annual fee of 75 basis points from gross of fees performance. A complete list of all the firm's composites is available. Portfolios are matched across all accounts so that each client holds substantially the same issues at the same weights. Portfolios are typically fully invested, and hold minimal cash although cash holdings may fluctuate somewhat on a residual or transitional basis. No representation is made that future returns will approximate past results, and none should be implied.

Better Than Bonds/Utilities: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 12/31/99 was 119, which represents 39% of total assets managed in this strategy with a measure of dispersion of 0.24. Inception of the composite was 9/30/91.(Note: The composite represents only 39% of assets managed in this strategy because two large clients, a mutual fund and a pooled fund, are not included due to excessive and non-regular cash flows.)

Better Than Bonds/Income: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 12/31/99 was 19, which represents 84% of total assets managed in this strategy with a measure of dispersion of 0.93. The cumulative chart contains a combination of Better Than Bonds/Utilities performance from 9/30/91 through 9/30/97 and Better Than Bonds/Income performance from 9/30/97 through 12/31/99. Better Than Bonds/Income as a stand alone strategy started in May of 1997. BTB/Income is a strategy that evolved from BTB/Utilities sharing the same philosophy and process and many of the same stocks. The essential difference between the two is that a portion of BTB/Utilities invests in Telecom stocks and a comparable portion of BTB/Income invests across the broad market.

SBI: Included in the results are all portfolios, including one non-fee paying portfolio, that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 12/31/99 was 7, which represents 100% of total assets managed in this strategy with a measure of dispersion of 1.16. Inception of the SBI composite was 9/30/98.

Distribution: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 12/31/99 was 16, which represents 87% of total assets managed in this strategy with a measure of dispersion of .51. Inception of the Distribution composite was 12/31/98.

Benchmarks: The benchmark data from which this report is prepared has been provided by sources generally considered reliable. Except for benchmark returns based on published mutual fund net asset values, and unless otherwise stated, the index performance figures contained in this report do not reflect the deduction of investment advisory fees. Mutual fund data published by Lipper and Morningstar are net results after deductions of all annual fees and expenses by the advisor. Benchmark returns are presented on a total return basis unless otherwise stated.

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