



KAVILCO NEWS

MARCH 2002



Dividend Declaration

I am pleased to announce that on March 8, 2002, the Board of Directors declared a cash dividend of \$23.00 per share. This dividend will be paid to shareholders of record as of March 11, 2002. The dividend is payable on March 26, 2002. Enclosed is payment or information reflecting the number of shares you own.

This dividend represents undistributed earnings from 2001. As you know a Registered Investment Company (RIC) must distribute at least 90% of their earnings to avoid being subject to a 40% Federal Income Tax rate. For shareholders with 100 shares your dividend is \$2,300. If Kavilco was not a RIC and had to pay income tax, your dividend after tax would be \$1,380. Therefore, you receive an additional \$920 because Kavilco does not have to pay Federal Income Tax. This is another testimony to the advantages of being a registered investment company.



PORTFOLIO



A ROUGH YEAR IN STORE FOR THE BOND PORTFOLIO

There are two major challenges inherent in the management of a bond portfolio. The first is re-investment risk. As bonds mature or are sold, at what interest rate are the

proceeds going to be re-invested? As you know interest rates fluctuate wildly when either the economy is in an expansionary phase or recession. This year we had \$2 million of Ford Motor Credit Corp. bonds mature that were yielding 7.5%. By contrast, our money market funds are yielding 1.97%. As the economy improves this year, interest rates will climb back from their forty-year low. Our goal is finding an investment vehicle that will give us a return north of our money market rate for one year with the expectation of investing in bonds that will have a substantial yield over the current market.

The second challenge we face is credit quality. In any economic slowdown, corporations have a harder time making interest payments because their profits decline. The worst case scenario is that corporations default on their principal and interest payments which ultimately leads to bankruptcy. When we perceive a company is under severe financial stress we sell their bonds. However, accounting irregularities can have a negative impact on a corporation's securities.

In the post Enron debacle where accounting issues were the primary cause of that company's downfall, there is a shoot-first, ask-questions-later mentality. We discovered this with Qwest Communications International. By way of background, we purchased US West Communications in 1995 which, in 1999, was acquired by Qwest Communications International. Qwest became one the strongest telecommunication companies in the

America. Recently, the Security and Exchange Commission requested documentation relative to sales that took place in the years 2000 and 2001. What the SEC is attempting to learn is if Qwest improperly recorded income in the years in question. This is not even close to the Enron scandal. Nevertheless, the impact of the SEC investigation resulted in the bonds being temporarily non-tradable.

Our bond strategy has always centered on high-quality household name companies with above average yields. With all the potential accounting landmines the Board is now concerned about preservation of principal. We have targeted various bonds that will be sold during the course of the year (Qwest was going to be sold after we re-invested the proceeds from the Ford bond discussed above). It is still too early in our investment cycle to determine what impact this will have on future dividends.

As far as the stock market strategy is concerned, we feel there is a major problem in evaluation. Based on the past four quarterly earnings, the S&P 500 is now trading at a Price Earnings (P/E) ratio of 41, an historical high. By way of comparison, the 50-year average P/E is 16.17. Also, by virtually every measure all stock indices (Dow, S&P 500, and NASDAQ) are extremely overvalued. How the bear market takes stocks back from an overvalued extreme is a great mystery and an adventure that lies before us. Granted, the Dow Jones Industrial average has rallied this year. However, it is hard to believe we're witnessing the birth of a new bull market. It should be noted that bear market rallies can occur at any valuation. At this stage of the bear market, we will concentrate on dividend yielding stocks.

LAND USE PLAN

Over the past couple of years Kavilco has worked with Forest and Land Management Inc. (FLM) to develop a timber and land use plan. The Board will meet with FLM's Claire Doig during the July Board meeting to review the plan, which will include a fly-over of Kavilco property during the time normally reserved for cemetery clean-up.

IN KASAAN

CEMETARY CLEAN-UP CHANGES

This year the second day of the July meeting will include a fly-over of land owned by Kavilco, weather permitting, to view and assess the harvested timber areas. Kavilco will employ local individuals to perform the annual maintenance.

GRAVEL DISPUTE

The City of Kasaan paid Kavilco \$2,500 recompense for gravel removed from Kavilco property.

As always, please feel free to call me at (907) 542-2214, or our Seattle office at 1-800-786-9574.

Sincerely,



Louis A. Thompson

President/CEO