

Entrepreneurial Confidence Index (ECI)

Fourth Quarter 2003
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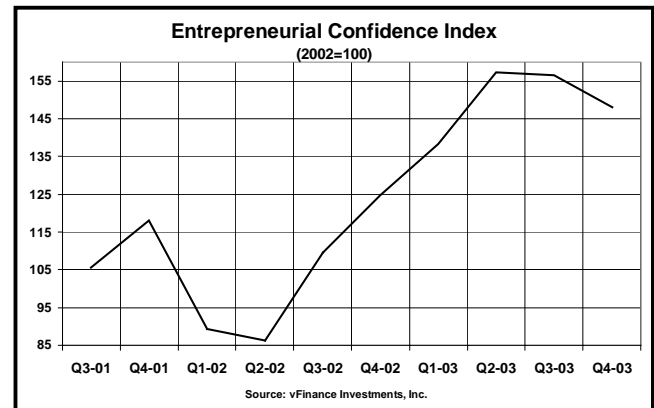
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Executive Summary

Entrepreneurial confidence declined slightly in the fourth quarter compared to the third as the number of entrepreneurs seeking financing and business plan assistance at the vFinance.com web site fell for the second consecutive quarter. In the fourth quarter the Entrepreneurial Confidence Index (ECI) was 148.1 (2000=100), down 5.4% from 156.6 in the third quarter. However, **the fourth quarter ECI was 18.7% above the level of a year ago**. The total number of visitors to the vFinance website who expressed an interest obtaining funding or seeking assistance with a business plan (respondents) fell 19.5% in the fourth quarter; the first time we have seen consecutive declines in the number of respondents. This decline mirrors the unemployment rate in the second half of 2003. There is a high correlation between the unemployment rate and the number of respondents, probably because unemployed persons are more likely to consider starting a new business.



The high level of confidence has occurred despite a decline in venture capital funding. According to the National Venture Capital Association, 2003 saw the lowest number of new venture deals since 1996. Nevertheless, the current high level of confidence indicates that **large numbers of entrepreneurs remain fundamentally committed to starting new business ventures and highly confident that the industries that they are interested in are going to be strong enough to support their start ups**. Since entrepreneurship is a catalyst to economic growth, *the high level of entrepreneurial confidence suggests that economic growth will remain healthy in 2004*.

Other important findings include:

- We note that this quarter did not see any major sectors record a rating higher than 0.705, compared with the average high rating of 0.887 in the previous five quarters. This relatively modest “high” ranking indicates there are no sectors that stand out. Instead, interest is spread more evenly among sectors.
- The lowest ranked major industry sectors also included some surprises. **Computer Software & Services** was ranked 24th, after experiencing a steep drop in total interest and seeing its share of all responses fall to an all time low of 11.24% compared with 21% two years earlier.
- The **Automotive & Transport Equipment** sector is particularly interesting because it has long experienced a steady middle of the road rating. Its sudden surge in the fourth quarter may point to some impending developments particularly in the engine parts or small engine sub-sectors.

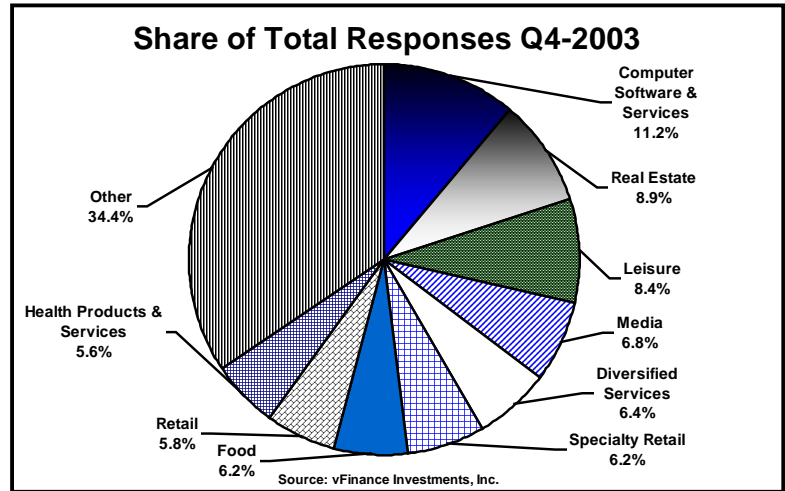
The following table summarizes the sectors and sub-sectors that experienced the largest changes in growth and interest. These are early indications of potential major changes in trends that investors should monitor closely.

Q4/2003	Rising	Declining
Sectors	<ul style="list-style-type: none"> • Automotive & Transport Equipment • Real Estate • Materials and Construction • Aerospace and Defense 	<ul style="list-style-type: none"> • Energy • Computer Hardware • Diversified Services • Utilities
Sub-Sectors	<ul style="list-style-type: none"> • Tour Operators • TV Broadcasting • Auto Parts and Motorcycles 	<ul style="list-style-type: none"> • Airlines • Metals & Metal Processing • Diversified Utilities

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Response Shares

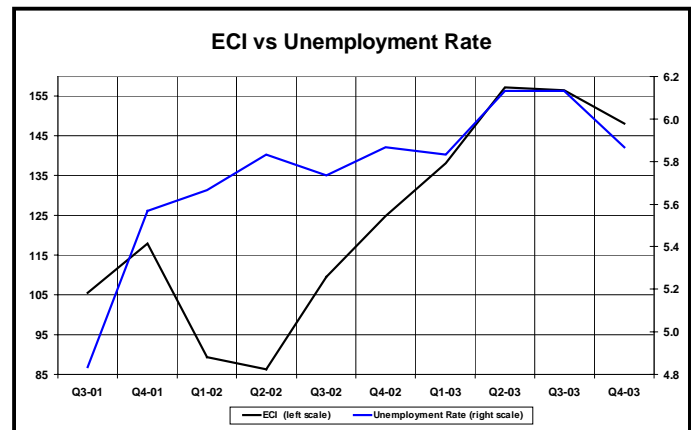
The largest number of responses during the quarter continued to be in the **Computer Software and Services** sector, which accounted for 11.2% of all responses, the smallest share ever accounted for by this major sector. The industry sub-sectors that accounted for most of the decline in this sector were **Internet and Intranet Software and Services** and **Diversified Software**. The **Real Estate** sector saw a sharp increase in interest to 8.87% of all responses led by **Miscellaneous Real Estate Services**. It was the second ranked major sector for the first time in a year. This increase in share moved up the **Real Estate** sector's ECI rating from 14th in the third quarter to 5th in the fourth. The **Retail** sector also remains a favorite of entrepreneurs. In the fourth quarter, the combined interest in the two retail-related sectors: **Retail** and **Specialty Retail** accounted for 12.02% of all responses, making retail as a whole the highest rated sector. The major sectors with the lowest interest level were **Conglomerates** (0.21%), **Utilities** (0.46%) and **Metals and Mining** (0.52%).



Industry sub-sectors with the greatest interest were **Miscellaneous Retail** (3.24%), **Internet & Intranet Software & Services** (2.40%), **Property Investment & Management** (2.36%), **Miscellaneous Entertainment** (2.35%), **Retail Clothing** (2.17%), **Specialized Health Services** (2.09%). These six sub-sectors accounted for 14.6% of all interest.

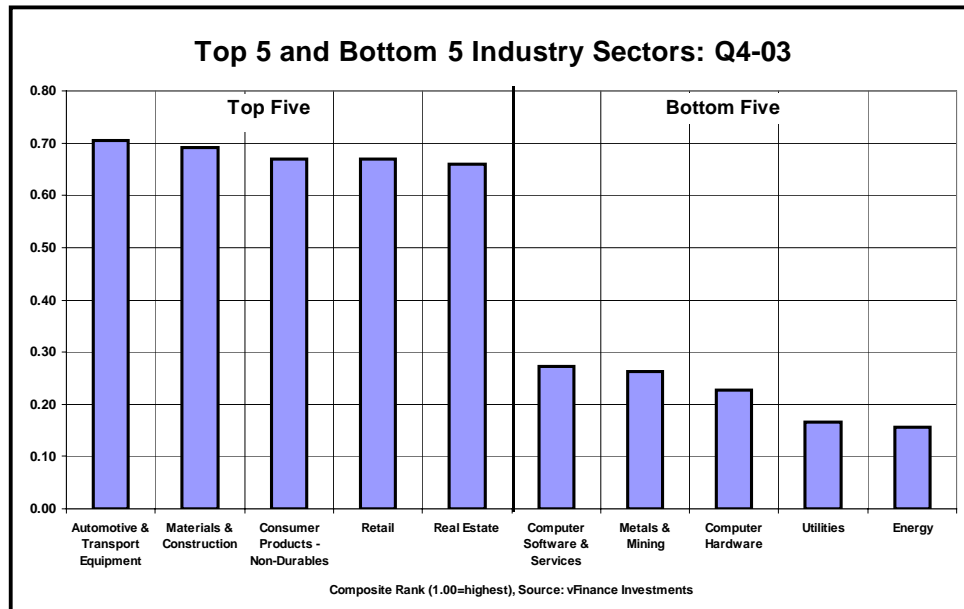
Index Performance

The total ECI fell in the fourth quarter largely because of a sharp drop in the number of individuals coming to the vFinance.com website seeking assistance in finding funding or in writing a business plan (respondents). The total number of responses received in the fourth quarter was 8,468, 19.5% below the level in the third quarter and the smallest number since the second quarter of 2002. Since reaching a peak in the second quarter of 2003, the number of individuals seeking assistance has declined 32.3%. We believe the decline in the number of individuals seeking assistance is a result of the improvement in US labor markets during the second half of 2003 as reflected most significantly in the decline in the unemployment rate. The ECI tends to mirror closely movement in the unemployment rate. When a person is unemployed and is looking for employment options, the idea of starting their own business may be attractive, leading to exploration of the vFinance web site as a part of the search for funding. It is worth noting that the highest ranked industry sub-sector in the third quarter of 2003 was management consulting, which was probably largely due to individuals who were laid off seeking to work as consultants. In the fourth quarter, as unemployment fell, interest in the consulting sector waned considerably (its rating plunged from 1 to 212).



Major Industry Sectors

The major industry sectors ranked the highest—those showing the highest combination of growth and interest—in the fourth quarter were **Automotive & Transport Equipment (0.705)**, **Materials & Construction (0.692)**, **Consumer Products - Non-Durables (0.670)**, **Retail (0.670)**, and **Real Estate (0.661)**. These five major industry sectors saw significant increases in interest compared to either the previous quarter or the same quarter a year earlier. That increase in interest occurred during a period when most sectors recorded declines and was sufficient to boost the rankings of these sectors. We note that this quarter did not see any major sectors record a rating higher than 0.705, compared with the average high rating of 0.887 in the previous five quarters. This relatively modest “high” ranking indicates that there are no sectors that



stand out in terms of entrepreneurial interest. Instead, interest is spread more evenly among sectors.

- ✓ **Automotive and Transport Equipment** was the biggest surprise among the major industry sectors. In the past quarter there was a large increase in interest in two sub-sectors: **Auto Parts** and **Motorcycles and Other Small-Engine Vehicles**. The **Auto Parts** sub-sector has seen a significant jump in interest in the past year as its share of all responses surged to 1.1% in the fourth quarter, compared with 0.67% in the third quarter. **Motorcycles and Other Small Engine Vehicles** saw a large increase in interest in the fourth quarter when it accounted for 0.4% of all responses, up from 0.16% in the third quarter. This is the second time in the past three quarters there has been an upsurge in interest in **Motorcycles and Other Small Engine Vehicles** which saw a similar jump in its ranking in the second quarter. The strength of interest in the auto parts and small engine vehicles sub-sectors may indicate some changes occurring that bear further examination.
- ✓ **Materials and Construction** was another surprise. The high ranking for this sector is a result of rising interest in two sub-sectors: **Plumbing and HVAC Equipment** and **Miscellaneous Building Materials**. Both of these sub-sectors have seen a significant increase in interest during the past year with the number of entrepreneurs expressing interest more than doubling. The **Building Materials** sub-sector saw its share of all responses rise to 0.53%, from 0.31% in the preceding quarter.
- ✓ In the **Consumer Products Non Durables** the sub-sector that had the greatest impact was **Apparel**, where interest increased from a year ago and the share of all responses increased to 0.64%, the highest share ever recorded for this sub-sector.

- ✓ Apparel also figured strongly in the strength of the **Retail** sector, the fourth of the top five sectors. There was a sharp jump in interest in **Clothing Stores**, which have always been the highest ranked retail sub-sector. In the fourth quarter, the share of all responses indicating interest in clothing stores was 2.17%, making it the fifth highest ranked sub-sector.
- ✓ **Real Estate** returned to the top five after dropping sharply in the preceding quarter. The main reason for the improvement in this sector was a sharp jump in interest in **Miscellaneous Real Estate Services**, which saw its share of all responses increase to a record 1.62%.

The lowest ranked major industry sectors also included some surprises. **Computer Software & Services** was ranked 24th, after experiencing a steep drop in total interest and seeing its share of all responses fall to an all time low of 11.24%. **Metals & Mining** is a capital-intensive sector that generally does not generate much entrepreneurial interest, as is the case with **Utilities** and **Energy**. The other surprise in the low-ranked sectors in **Computer Hardware**, which has historically been a focus of entrepreneurship. But now it is more than ever a commodity business with a few major manufacturers. Within the Computer Hardware sector, the weak sub-sectors were **Computer Peripherals** and **Diversified Computer Products**.

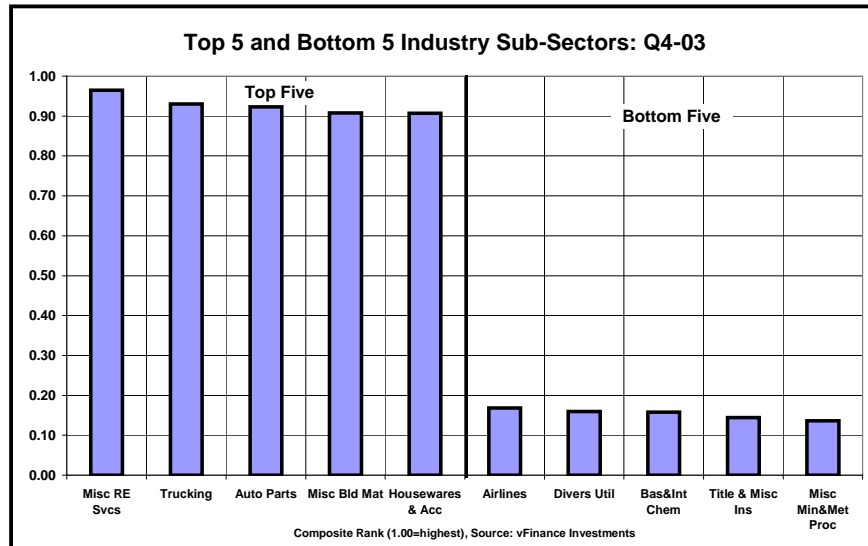
There tends to be a lot of movement in rankings from one quarter to the next, for example, the only major industry sector ranked in the top five in every quarter of the past year was **Retail**. Other major sectors have seen an increase or decline in their ratings based on changes in the level of interest. The following table shows the top ten major industry sectors for each of the past three quarters.

Major Industry Sector	Q2-03	Major Industry Sector	Q3-03	Major Industry Sector	Q4-03
Retail	0.8705	Diversified Services	0.9196	Automotive & Transport Equipment	0.7054
Food	0.8661	Health Products & Services	0.7411	Materials & Construction	0.6920
Specialty Retail	0.8661	Retail	0.7232	Consumer Products - Non-Durables	0.6696
Computer Software & Services	0.7545	Consumer Products - Non-Durables	0.7054	Retail	0.6696
Materials & Construction	0.7321	Manufacturing	0.6786	Real Estate	0.6607
Diversified Services	0.6786	Transportation	0.6696	Financial Services	0.6429
Media	0.6741	Food	0.6161	Specialty Retail	0.6250
Real Estate	0.5804	Leisure	0.6161	Food	0.6116
Drugs	0.5759	Specialty Retail	0.5804	Transportation	0.5804
Leisure	0.5714	Energy	0.5536	Banking	0.5491

- ✓ **Real Estate's** return to the top five is notable because it likely signals a turnaround in conditions in that sector where low interest rates and restrained construction have set the stage for a rebound in industry activity this year along with the general economy.
- ✓ Industry sectors that are moving up are **Materials and Construction** and **Automotive & Transport Equipment**- which may signal some changes in technology or industry structure that bear further examination. The **Automotive & Transport Equipment** sector is particularly interesting because it has long experienced a steady middle of the road rating. Its sudden surge in the fourth quarter may point to some impending developments particularly in the engine parts or small engine sub-sectors. The **Aerospace and Defense** sector is also rising, although it has not yet broken into the top five, led by the **Maintenance & Service** sub-sector.
- ✓ The sectors that are moving down are **Diversified Services, Energy and Computer Hardware**. All three saw substantial declines in interest in the latest quarter. They are also down significantly in rating from a year ago.

Industry Sub-sectors

Of the 289 industry sub-sectors tracked by vFinance, 192 saw the number of entrepreneurs expressing interest decline and only 76 saw increasing interest in the fourth quarter compared to the third quarter. It was the second consecutive quarter in which there were declines in interest for most industry sub-sectors. A year ago, the number of sub-sectors generating higher interest exceeded the number with lower interest by 158 to 117.



- ✓ **Miscellaneous Real Estate Services** saw interest increase sharply as the number of entrepreneurs expressing interest jumped to the highest level we have ever recorded.
- ✓ The most interesting sub-sectors are **Trucking** and **Auto Parts**. A year ago trucking accounted for only 0.45% of all responses, but in the fourth quarter of 2003, the share more than doubled to 0.92% making it the 24th ranked sub-sector in terms of share. **Auto Parts** saw a substantial rise in interest during the course of 2003 after not being very attractive to investors in 2002. This suggests some change in the environment, perhaps a new technology or a new technique that is attracting entrepreneurial interest.
- ✓ **Housewares and Accessories** is a consumer durables sub-sector that saw a jump in interest after a sharp drop in the third quarter. This growth in a generally declining environment caused its rating to increase.

The lowest-ranked sub-sectors tended to be those with weak prospects (**Airlines**) and high entry costs (**Diversified Utilities, Basic and Intermediate Chemicals & Petrochemicals** and **Miscellaneous Mining & Metals Processing**) The weakest sub-sectors tend to be ones where the ability of an individual entrepreneur to have a significant impact is very small.

The movement in rankings from one quarter to the next is shown in the following table. No industry sub-sector ranked in the top 10 in every quarter of the past year as interest among entrepreneurs has shifted.

Major Industry Sector	Sub-Sector	Q2-03	Major Industry Sector	Sub-Sector	Q3-03	Major Industry Sector	Sub-Sector	Q4-03
Retail	Health & Beauty Product Retailing	0.9239	Diversified Services	Management Consulting	0.9459	Real Estate	Miscellaneous Real Estate Services	0.9650
Diversified Services	Personal Services	0.9226	Diversified Services	Misc. Bus Services	0.9230	Transportation	Trucking	0.9299
Specialty Retail	Miscellaneous Retail	0.9157	Computer Software & Services	Professional & Financial Software	0.9170	Automotive & Transport Equipment	Auto Parts	0.9234
Retail	Shoe & Accessory Retailing & Wholesaling	0.9092	Food	Soft Drinks	0.9105	Materials & Construction	Miscellaneous Building Materials	0.9079
Media	Media - Major Diversified	0.9035	Leisure	Adult Entertainment	0.9074	Consumer Products - Durables	Housewares & Accessories	0.9074
Food	Beverages - Soft Drinks	0.8992	Consumer Products - Non-Durables	Misc. Nondurable Goods	0.9053	Leisure	Restaurants	0.8841
Food	Diversified Foods - Other	0.8953	Financial Services	Mortgage Bank	0.8975	Aerospace & Defense	Aerospace/Defense - Maintenance & Service	0.8819
Materials & Construction	Specialty Contracting & Industrial Maintenance	0.8858	Diversified Services	Outsourcing	0.8901	Leisure	Tour Operators & Other Travel Services	0.8776
Leisure	Miscellaneous Entertainment	0.8785	Computer Software & Services	Diversified Software	0.8845	Specialty Retail	Sporting Goods Retailing	0.8694
Retail	Discount & Variety Retailing	0.8776	Health Products & Services	Medical Appliances	0.8772	Automotive & Transport Equipment	Motorcycles & Other Small-Engine Vehicles	0.8534

- ✓ Two **Real Estate** sub-sectors have seen a significant increase in interest following a steep drop in the third quarter: **Miscellaneous Real Estate Services** and **Hotel/Motel REITs**. These increases pushed the entire sector back into the top five major sectors. This is consistent with our view of the industry as an attractive one for investment.
- ✓ **Tour Operators & Other Travel Services** had been in the doldrums since September 11, 2001, but two years later there are signs of life. This sub-sector increased to a rank in the top 50 in the second quarter, fell back in the third, but then rose to its highest ranking ever in the fourth. A reviving economy and higher incomes is probably behind this rise.
- ✓ **Transportation Equipment** is the biggest surprise. Two of this sectors nine sub-sectors surged into the top 10 in the fourth quarter. Auto parts has had a high ranking for a number of quarters (it was in the top 25 in the second quarter of 2003 and top 60 in the first quarter), but it shot up sharply in the fourth quarter while **Motorcycles & Other Small-Engine Vehicles** rose from a ranking of 210 in the third quarter to 10 in the fourth.

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