2004 ANNUAL MARKET OUTLOOK

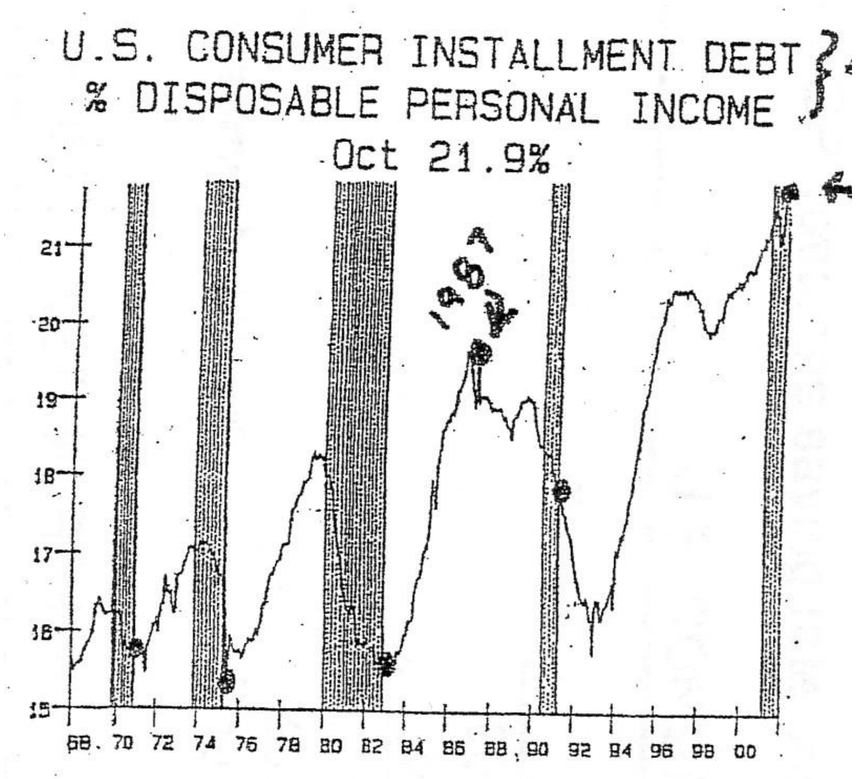
CORNERSTONE INVESTORS' NETWORK

Dec. 6, 2003
Harper College, Palatine, IL

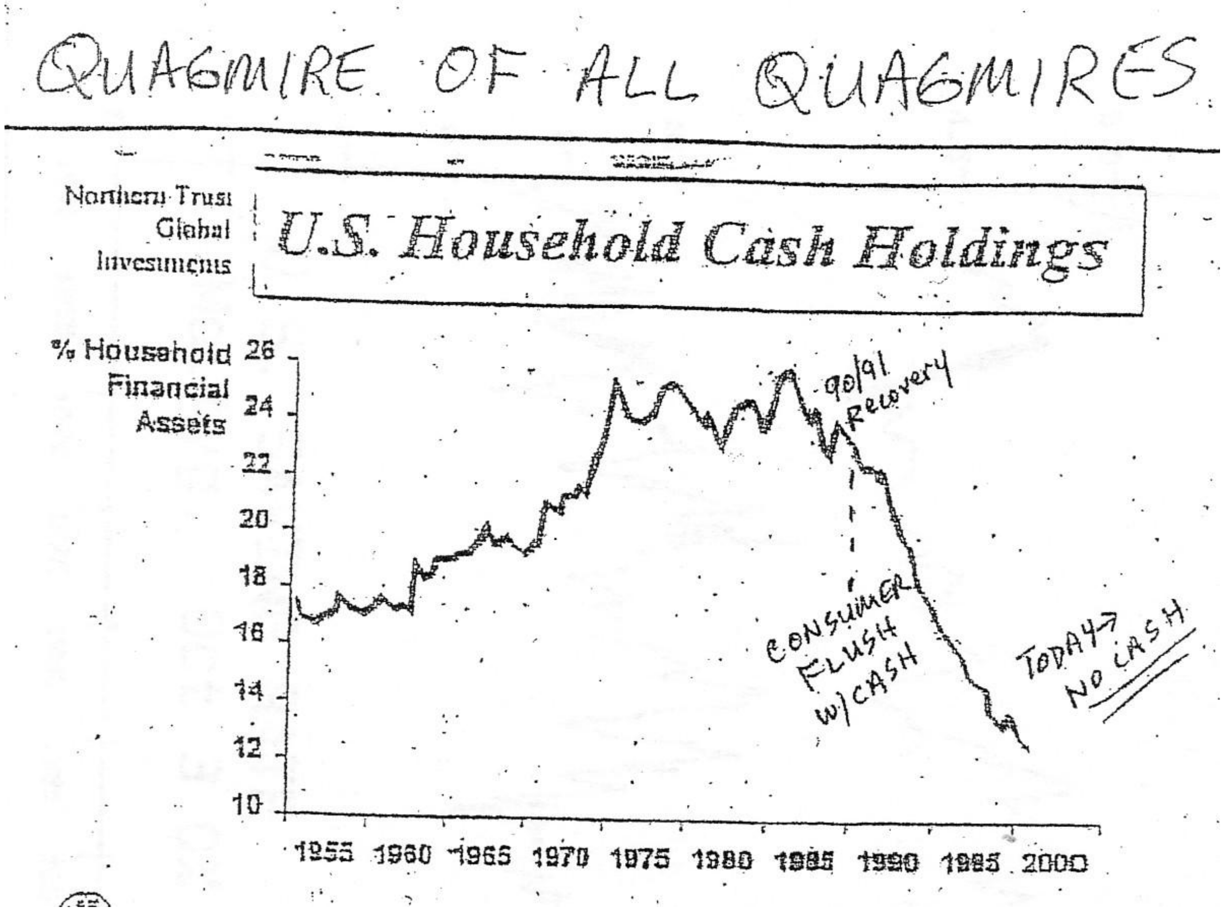
Stewart M. Bishop, Publisher

Bishop's Full House Trader

DEBT AT VERY HIGH LEVELS: THE ECONOMY HAS NEVER STRONGLY REBOUNDED FROM THESE LEVELS



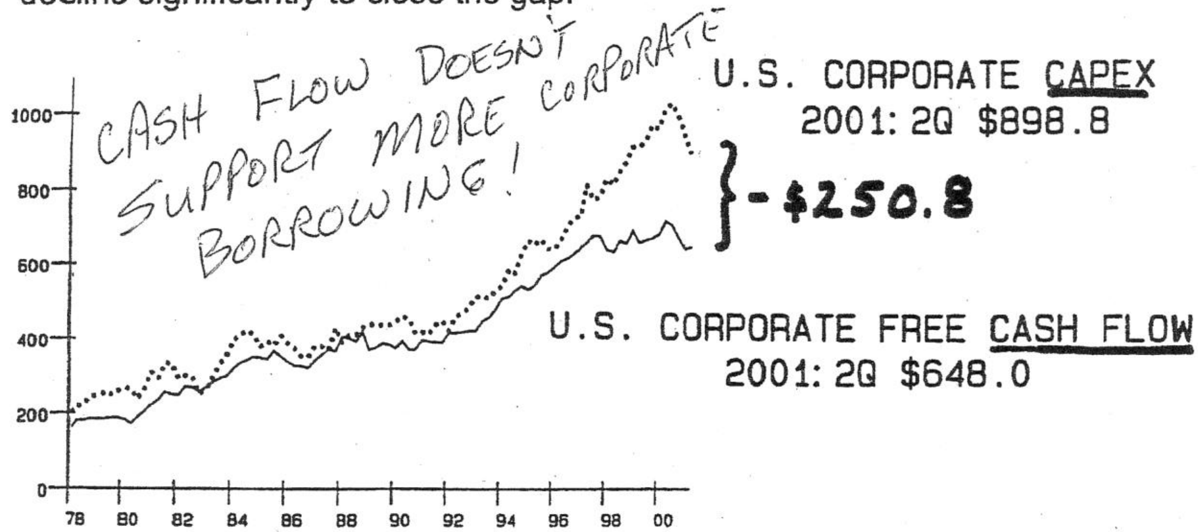
AVG. HOUSEHOLD HAS LOW CASH RESERVES



CORPORATIONS OVER-BORROWED IN BOOMING '90s

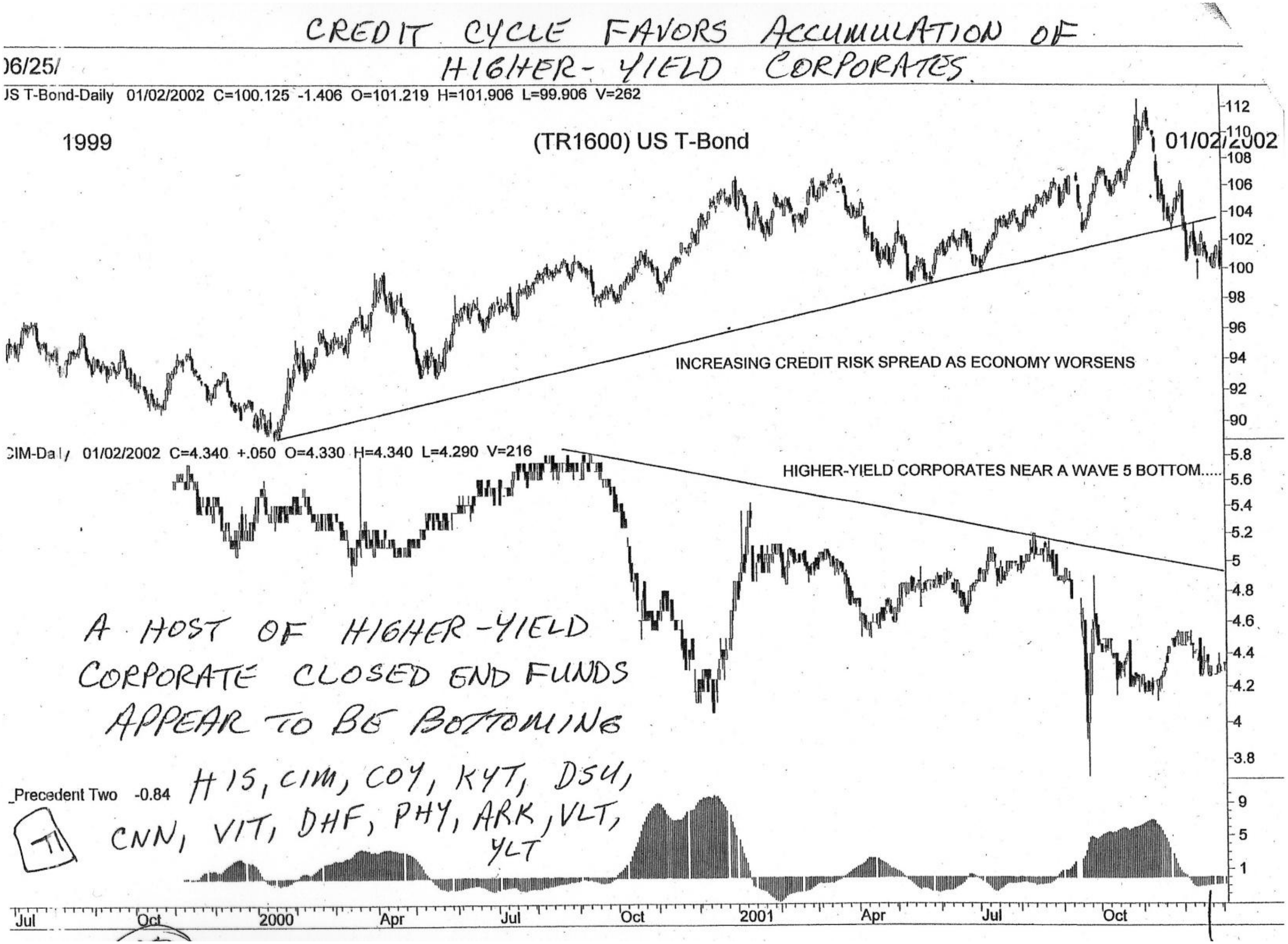
EXTENDED CORPORATE FINANCING GAP MAY MUTE CAPEX IN 2002

The large gap between capex and corporate free cash flow is a reminder that the capex boom was debt-financed. Even though capex has already declined significantly, the financing gap has remained a near record because simultaneously free cash flow has declined. Obviously, capex would have to decline significantly to close the gap.



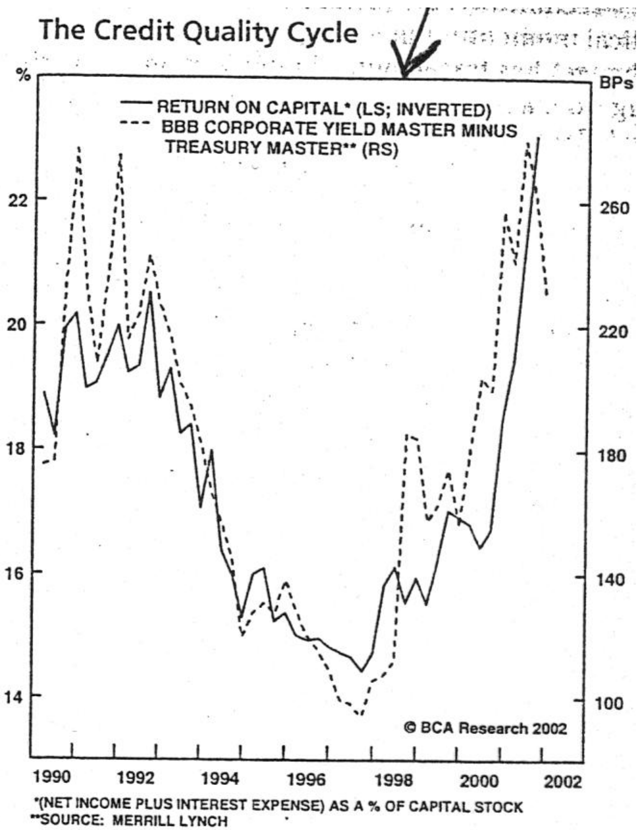
Jan '02

CORPORATE BONDS WERE ATTRACTIVE IN 2002



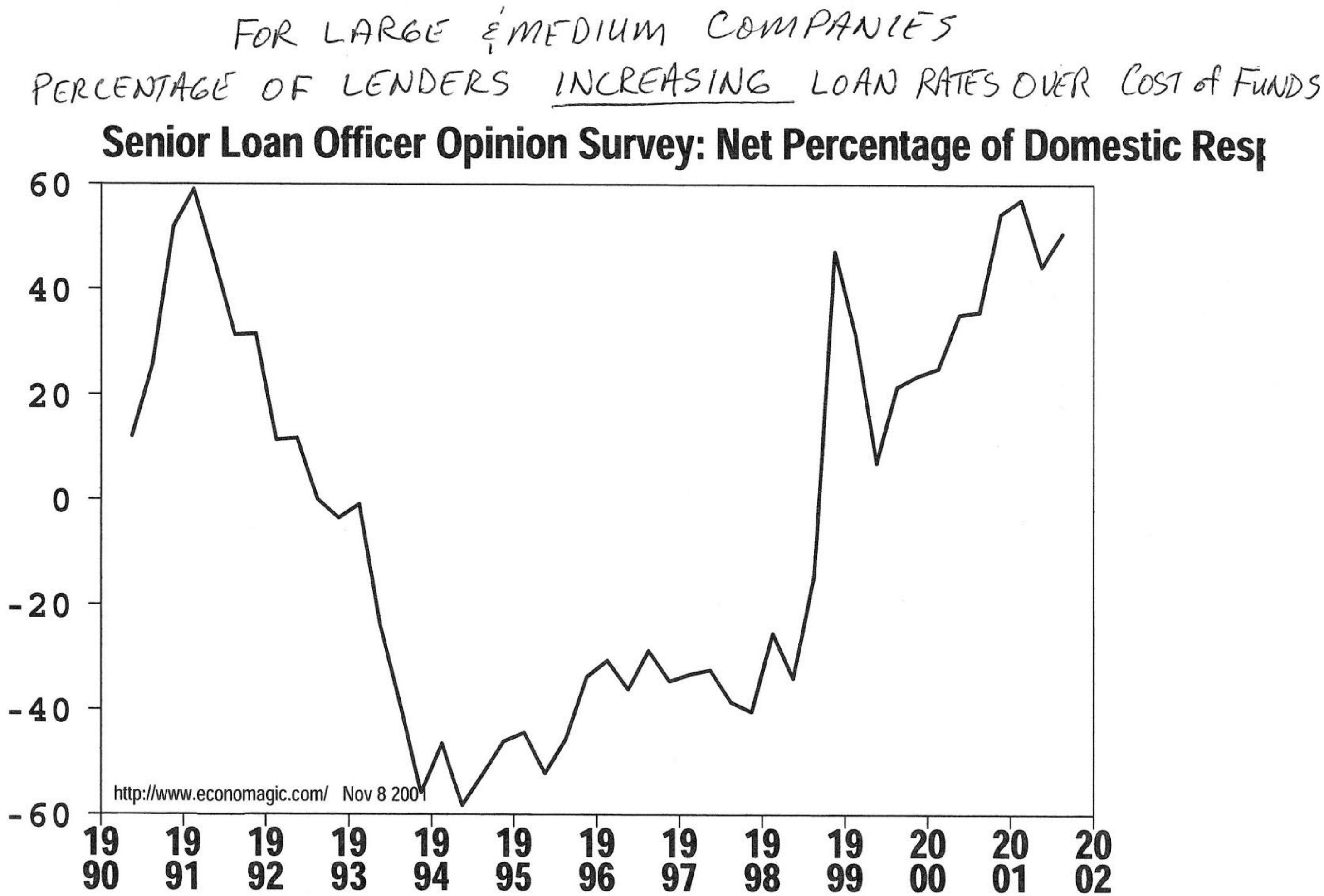
“Higher yield corporate bonds have been out of favor since ’98…as the outlook For the economy and corporate cash flow improves, the risk perception should Improve, favoring a reduction in the spread of corporates over T-Bonds…”

CORPORATE BOND YIELDS HAD RISEN SIGNIFICANTLY ABOVE THEIR NORMAL SPREAD OVER TREASURIES

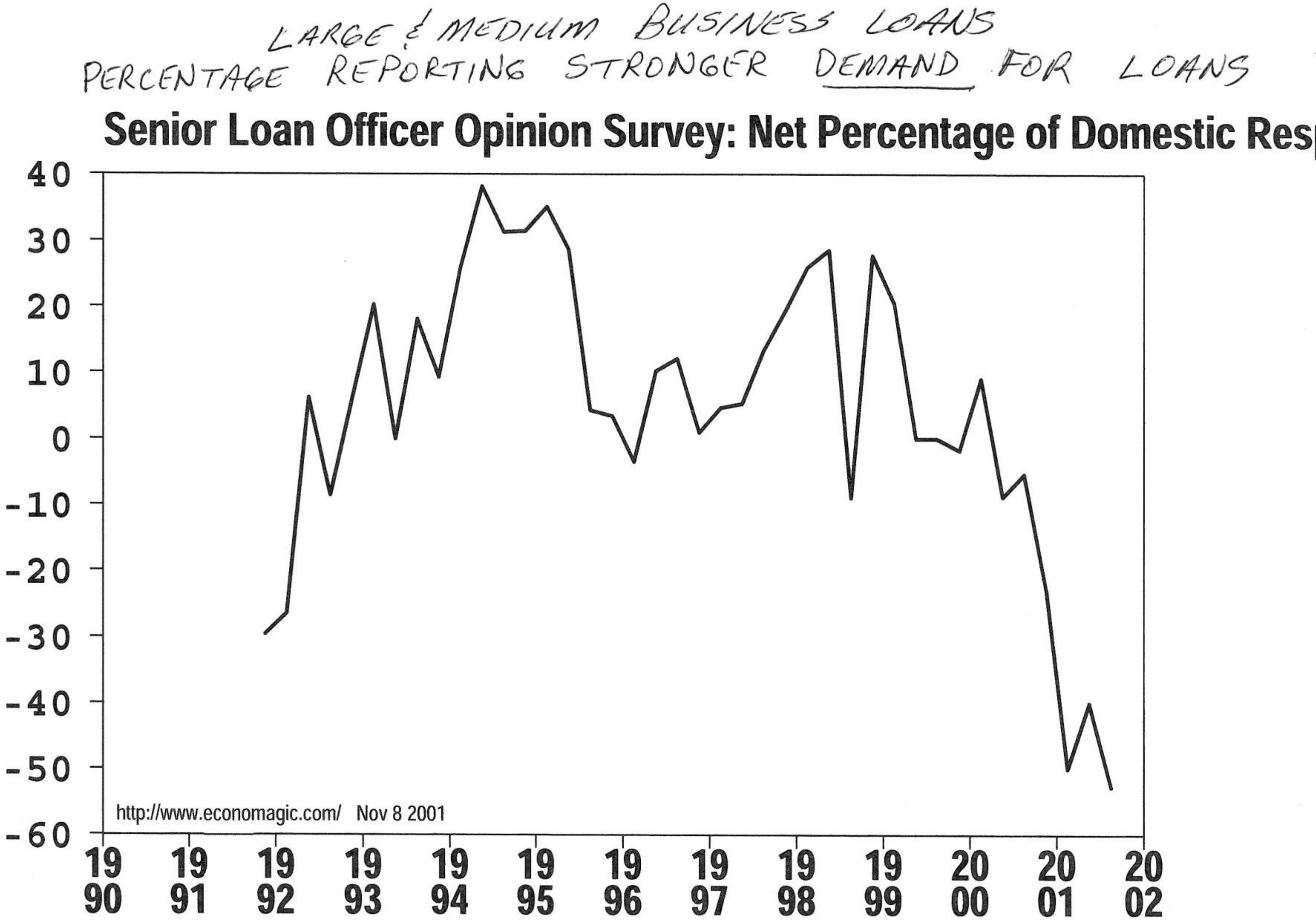


The market was fearful of lending to companies because they had taken on so much CAPEX debt in the booming '90's…for similar reasons they are also fearful of STOCKS! Fear is reflected in the spread.

In Jan '02, Fed Monetary Policy wasn't working very well because Banks were reluctant to lend to corporate customers!…. Other forms of economic stimulus were needed (I.e. Fiscal Stimulus).

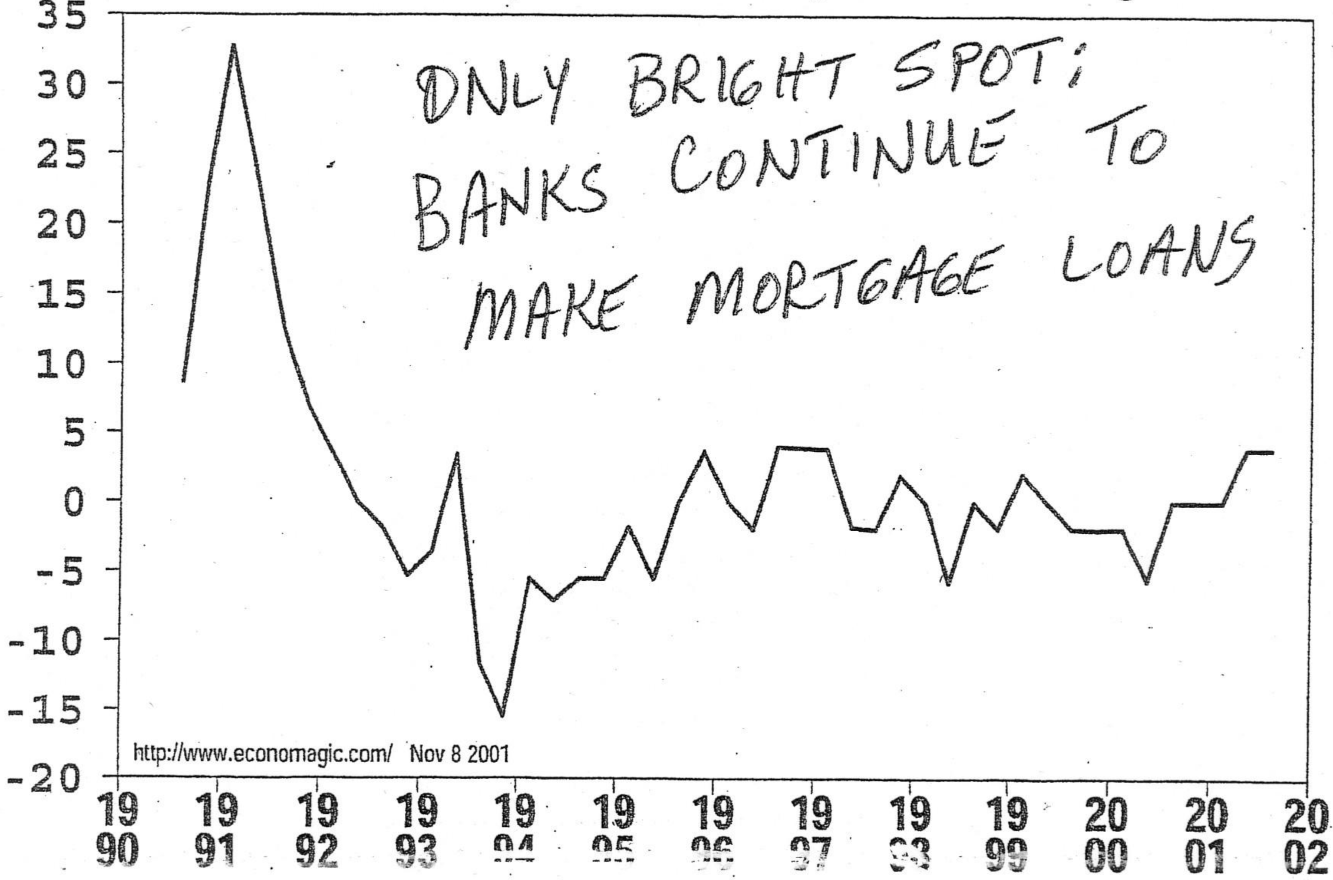


Fed Policy wasn't working not only because banks weren't Lending, but also because companies weren't borrowing!



PERCENTAGE OF LENDERS TIGHTENING LOAN STANDARDS on MORTGAGES

Senior Loan Officer Opinion Survey: Net Percentage of Domestic Resp



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The Right 'Stimulus'

We've been saying for some time that the economy could use another tax cut, so perhaps we should be pleased that Washington is suddenly talking about a fiscal "stimulus." The challenge now is getting politicians to distinguish between policies that actually "stimulate" and the equivalent of dropping hundred dollar bills from helicopters.

Marginal, immediate and permanent.

Not that this recent talk isn't progress of a sort. At least the politicians are beginning to understand that the Federal Reserve can't flip its easy-money switch and immediately end the credit crunch, forestall home foreclosures, and leap tall buildings at a single bound. Chairman Ben Bernanke implied in a speech yesterday that big interest-rate cuts may be coming, and bond markets immediately sold off. Currency traders may also have their say, especially if the European Central Bank decides to tighten. Monetary policy can't do everything, and it becomes dangerous if it tries to do too much.

Which brings us to the Beltway's new fiscal stimulus debate, such as it is. The White House is leaking trial balloons about its proposals, while the Democratic intelligentsia is already promoting its ideas. So far, nothing we've seen would stimulate much beyond campaign rhetoric.

Former Treasury Secretary Larry Summers is leading the charge for the Democrats, pushing what he calls a "timely, targeted and temporary" tax rebate of $250 per tax filer, and $500 per couple. The White House is floating its own rebate of $500 or so for families with taxable income of less than $100,000 a year. Mr. Summers says his plan would put money in the pockets of "those who would go out and spend it."

Or not. Mr. Summers is pushing a version of single-entry Keynesian bookkeeping, which holds that if the government hands out cash to workers they will spend it and "stimulate" the economy. But the money the government would thus "inject" in the economy has to come from somewhere. That is, it has to be raised in taxes or borrowed, which means it is taken from someone else in the private sector. Under more accurate double-entry bookkeeping, this stimulus is likely to be minuscule.

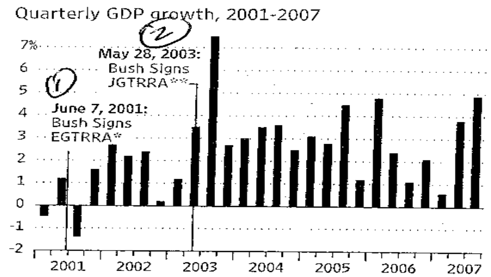
As for "spending it," we tried this a few years back and it didn't work very well. As part of the grease to pass his 2001 tax cuts, President Bush agreed to a $300 rebate ($600 per couple) urged on him by Senate Democrats. As the nearby chart shows, the economic gain was short-lived to the extent there was any at all. Several economists have also done research suggesting that the bulk of that rebate was in fact saved, not spent. That's virtuous, but it isn't a "stimulus."

More encouraging is a White House leak to allow so-called "bonus depreciation" for businesses for 2008. This would increase business cash flows, and a version of this proposal seemed to help in 2003-2004. The problem arises if such a tax cut is temporary. This would give businesses an incentive to speed up spending this year, but in part by stealing it from next year.

A real fiscal stimulus is one that immediately and permanently changes the incentives for individuals and business to work, invest and take risks. That's the comparative lesson of the two Bush tax cuts, as the chart again illuminates. The 2001 tax cuts were useful as a way of getting marginal income-tax rates down eventually. But in addition to the rebate folly, the rate cuts were phased-in and thus gave everyone an incentive to postpone investment. The stimulus came in 2003 when the marginal rate cuts were accelerated and capital gains and dividend rates were slashed immediately.

Tax Cut Timeline

Quarterly GDP growth, 2001-2007



* Economic Growth and Tax Reform Reconciliation Act

** The Jobs and Growth Tax Relief and Reconciliation Act

Source: Bureau of Economic Analysis

The irony is that these are precisely the lower tax rates that Mr. Summers and Democratic politicians want to raise. No brand of Keynesianism we've studied says you stimulate an economy by raising taxes. This promise to repeal the Bush tax cuts is already having an impact on investors as they consider what the tax on capital and business will be like next year. If Democrats really wanted to spare a President Obama from a first-year economic problem, they'd promise to make the 2003 tax cuts permanent.

As for a stimulus now, one that works would be marginal (at the next dollar of income), immediate and permanent. A proposal to bring the U.S. corporate rate into line with the rest of the world would help, and even better would be an across the board cut in income taxes to 30% from 35%. That would be real recession insurance.

NOTE THAT THE MARGINAL + CAPITAL GAIN RATE CUTS (2) SEEM MORE EFFECTIVE THAN THE TEMPORARY REBATE CHECKS (1)

STOCK MARKET BECOMES A PRIMARY DRIVING FORCE OF THE ECONOMY

From 2002 Outlook: "…Because the average American household Is very heavily in debt and low on cash, the performance of the stock market (as it ebbs and flows) will have a pronounced effect on Consumer Confidence, buying habits, etc…Thus the "linkage" between the market and the economy is more acute than ever…"

MARKET / ECONOMY LINKAGES

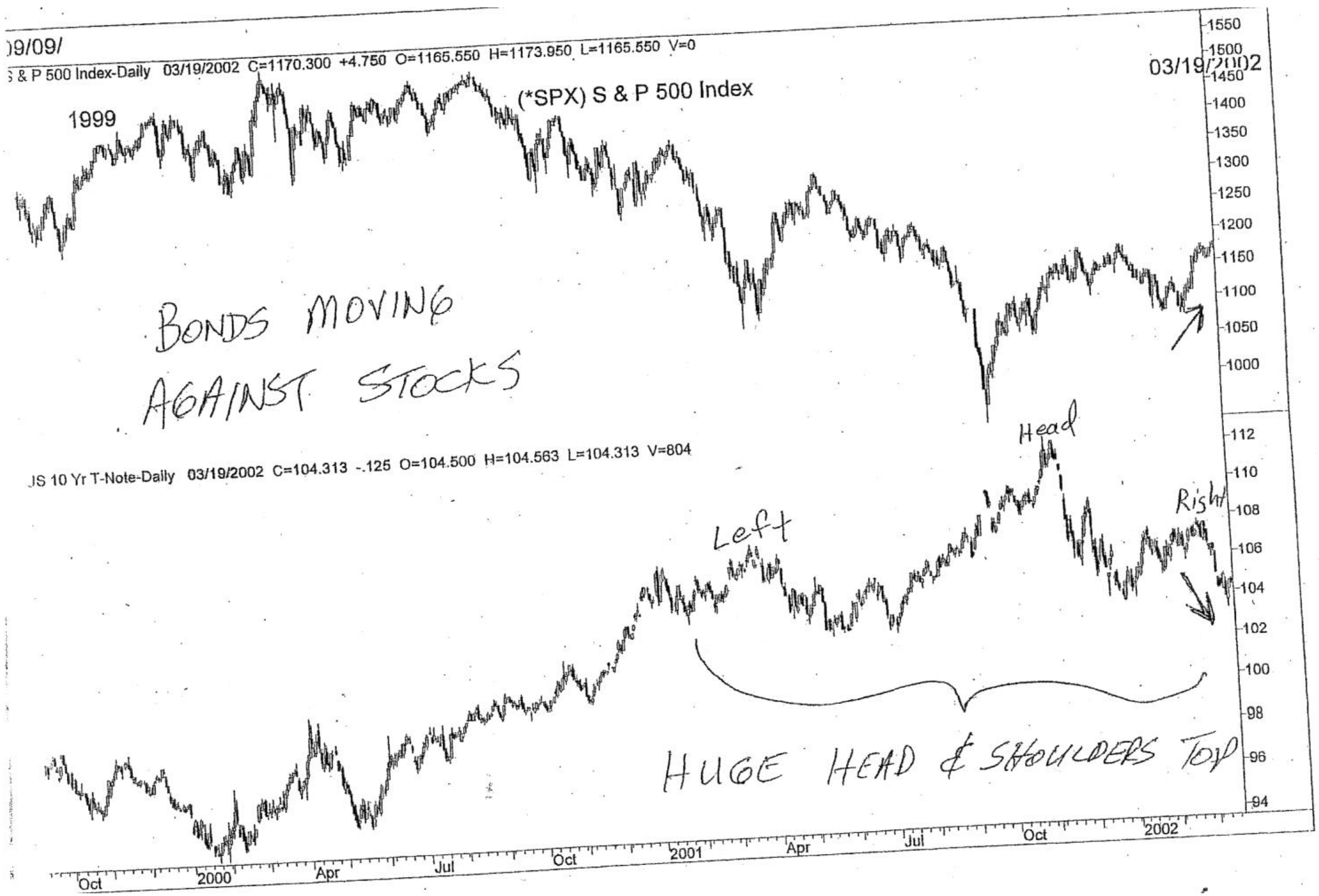
1) **Wealth Effect**
2) **Consumer Confidence**
3) **Corporate Financial Strength / Weakness**

STOCKS & BONDS NOW MOVE INVERSELY: WHEN STOCKS RALLY, INTEREST RATES INCREASE, CREATING A "HEADWIND"

From Stock Market Outlook, 1-04-02:

"Stocks and bonds decoupled in 1997, following the Asian Contagion. This situation continues today. Expect bonds to provide a 'brake' on stock market upside…consistent with a sustained period of sideways stock index choppiness…"

THE "HEADWIND":
INTEREST RATES PRESSURE P/E's & STOCK PRICES



WARREN BUFFETT DISCUSSES THE EFFECTS OF INTEREST RATES ON STOCK PRICES

The last time I tackled this subject, in 1999, I broke down the previous 34 years into two 17-year periods, which in the sense of lean years and fat were astonishingly symmetrical. Here's the first period. As you can see, over 17 years the Dow gained exactly one-tenth of one percent.

Case 1: 1 →

- DOW JONES INDUSTRIAL AVERAGE
  Dec. 31, 1964: **874.12**
  Dec. 31, 1981: **875.00**

1 Point in 17 years!!

And here's the second, marked by an incredible bull market that, as I laid out my thoughts, was about to end (though I didn't know that).

Case 2: 2 →

- DOW INDUSTRIALS
  Dec. 31, 1981: **875.00**
  Dec. 31, 1998: **9181.43**

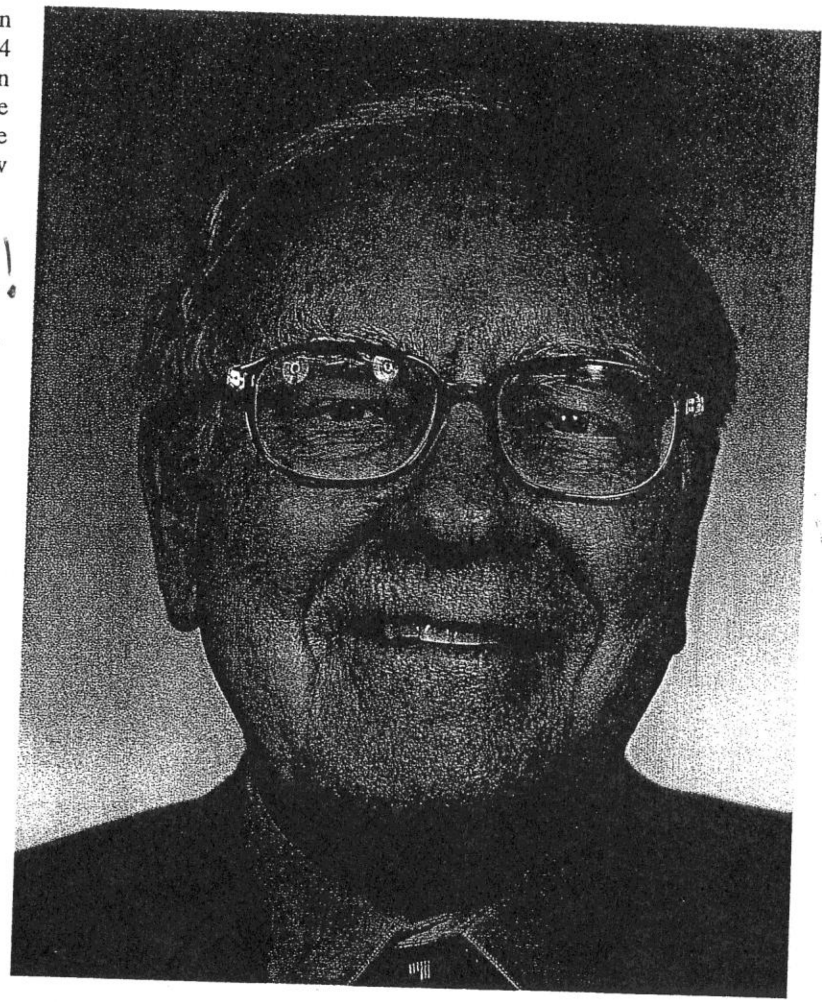
Skyrockets next 17!!

Now, you couldn't explain this remarkable divergence in markets by, say, differences in the growth of gross national product. In the first period—that dismal time for the market—GNP actually grew more than twice as fast as it did in the second period.

- GAIN IN GROSS NATIONAL PRODUCT
  1964–1981: **373%**
  1981–1988: **177%**

So what was the explanation? I concluded that the market's contrasting moves were caused by extraordinary changes in two critical economic variables—and by a related psychological force that eventually came into play.

Here I need to remind you about the definition of "investing," which though simple is often forgotten. Investing is



The impact of Rising vs. falling Interest rates

Here I need to remind you about the definition of "investing," which though simple is often forgotten. Investing is laying out money today to receive more money tomorrow.

That gets to the first of the economic variables that affected stock prices in the two periods—interest rates. In economics, interest rates act as gravity behaves in the physical world. At all times, in all markets, in all parts of the world, the tiniest change in rates changes the value of every financial asset. You see that clearly with the fluctuating prices of bonds. But the rule applies as well to farmland, oil reserves, stocks, and every other financial asset. And the effects can be huge on values. If interest rates are, say, 13%, the present value of a dollar that you're going to receive in the future from an investment is not nearly as high as the present value of a dollar if rates are 4%.

So here's the record on interest rates at key dates in our 34-year span. They moved dramatically up—that was bad for investors—in the first half of that period and dramatically down—a boon for investors—in the second half.

• INTEREST RATES, LONG-TERM GOVERNMENT BONDS

Dec. 31, 1964: **4.20%** 1
Dec. 31, 1981: **13.65%** 2
Dec. 31, 1998: **5.09%**

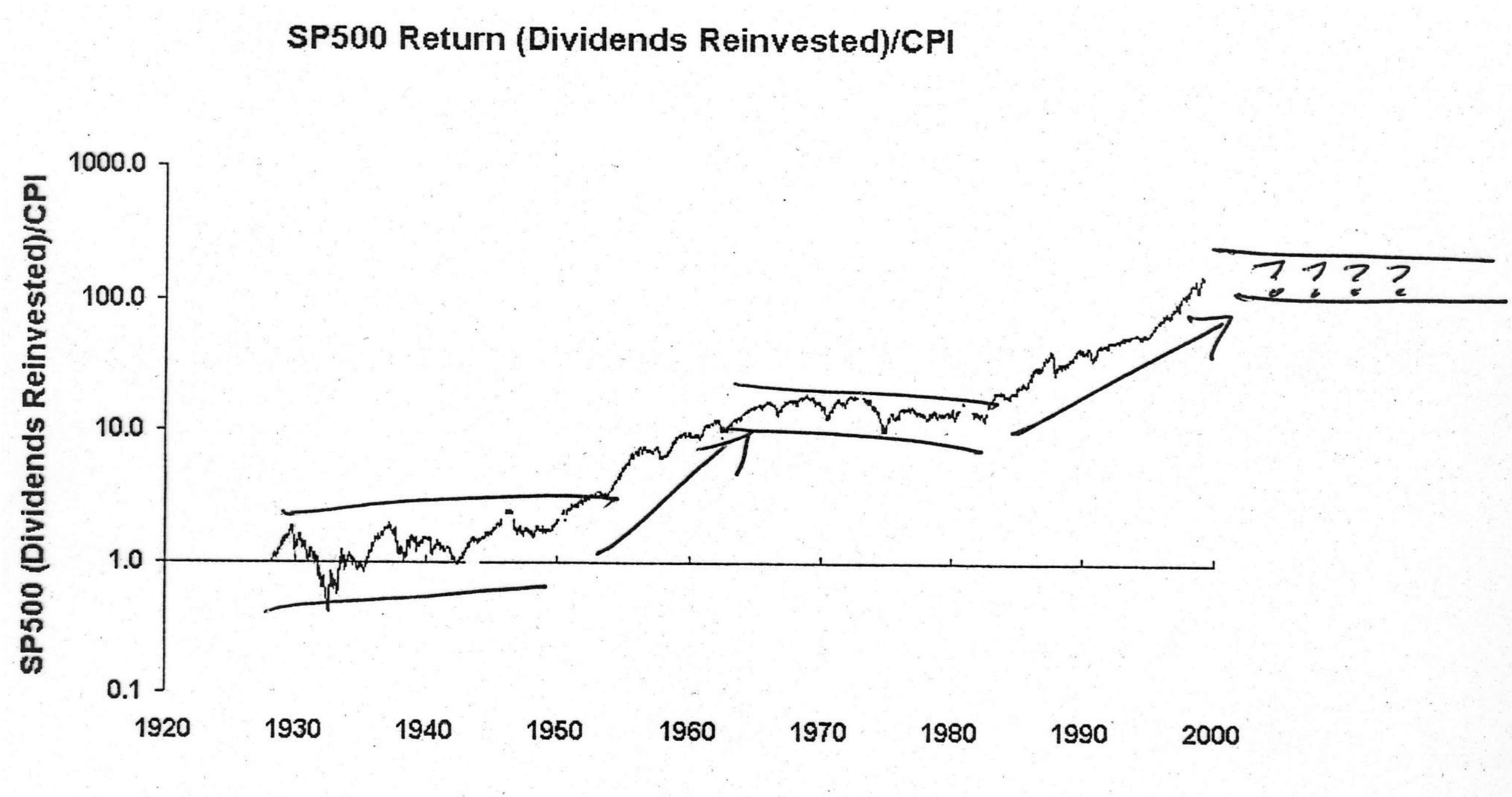
The other critical variable here is how many dollars investors expected to get from the companies in which they invested. During the first period expectations fell significantly because corporate profits weren't looking good. By the early 1980s Fed Chairman Paul Volcker's economic sledgehammer had, in fact, driven corporate profitability to a level that people hadn't seen since the 1930s.

The upshot is that investors lost their confidence in the American economy: They were looking at a future they believed would be plagued by two negatives. First, they didn't see much good coming in the way of corporate profits. Second, the sky-high interest rates prevailing caused them to discount those meager profits further. These two factors, working together, caused stagnation in the stock market from 1964 to 1981, even though those years featured huge improvements in GNP. The business of the country grew while investors' valuation of that business shrank!

And then the reversal of those factors created a period during which much lower GNP gains were accompanied by a bonanza for the market. First, you got a major increase in the rate of profitability. Second, you got an enormous drop in interest rates, which made a dollar of future profit that much more valuable. Both phenomena were real and powerful fuels for a major bull market. And in time the psychological factor I mentioned was added to the equation: Speculative trading exploded, simply because of the market action that people had seen. Later, we'll look at the pathology of this dangerous and oft-recurring malady.

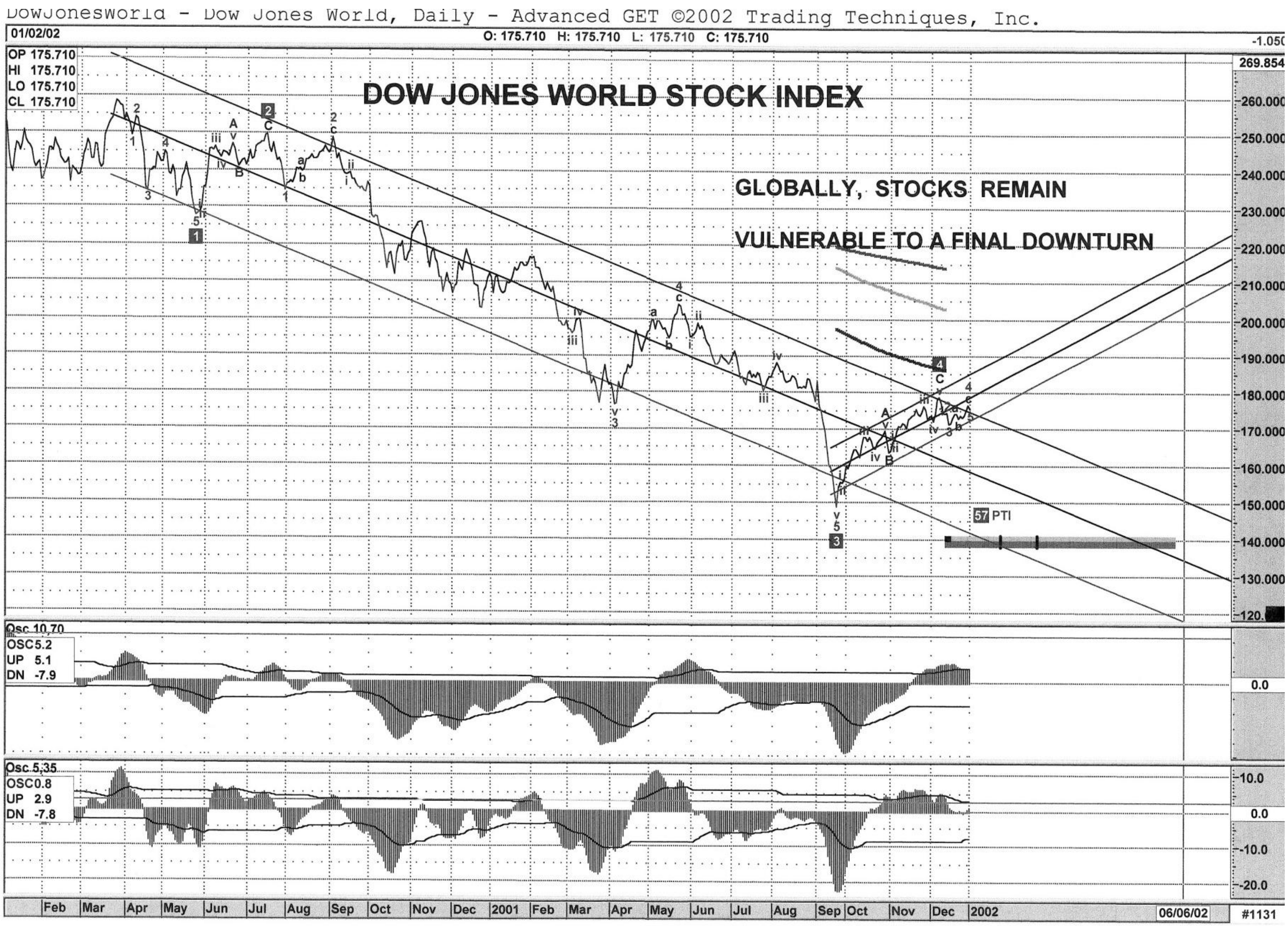
Two years ago I believed the favorable fundamental trends had largely run their course. For the market to go dramatically up from where it was then would have required long-term interest rates to drop much further (which is always possible) or for there to be a major improvement in corporate profitability (which seemed, at the time, considerably less possible). If you take a look at a 50-year chart of after-tax profits as a percent of gross domestic product, you

IF INTEREST RATES ARE FIGHTING STOCK PRICES, ARE WE HEADED FOR ANOTHER SIDEWAYS MARKET?

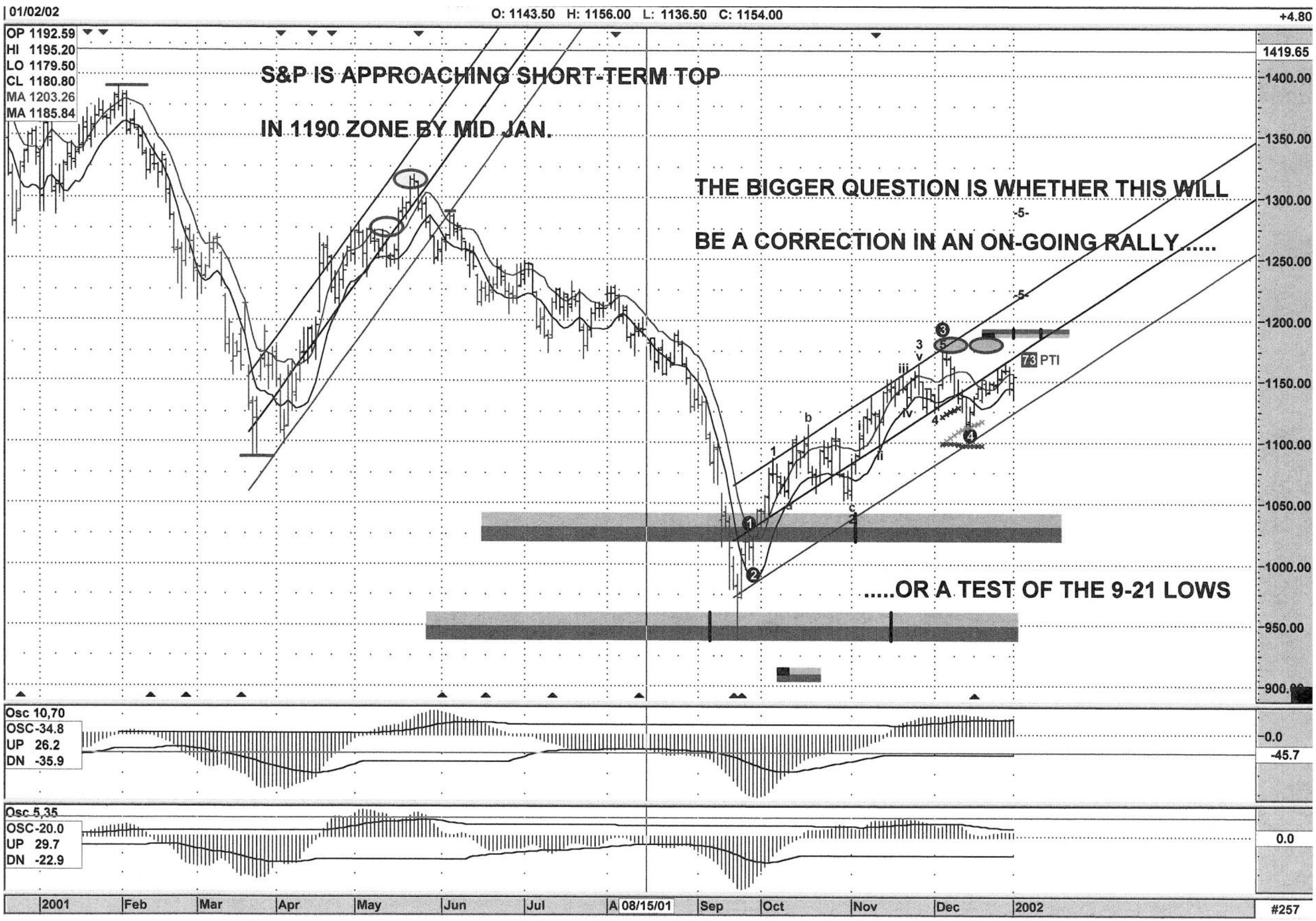


From Jan. ’02 Outlook

In Jan. '02, Global Stock Markets were Generally Weak

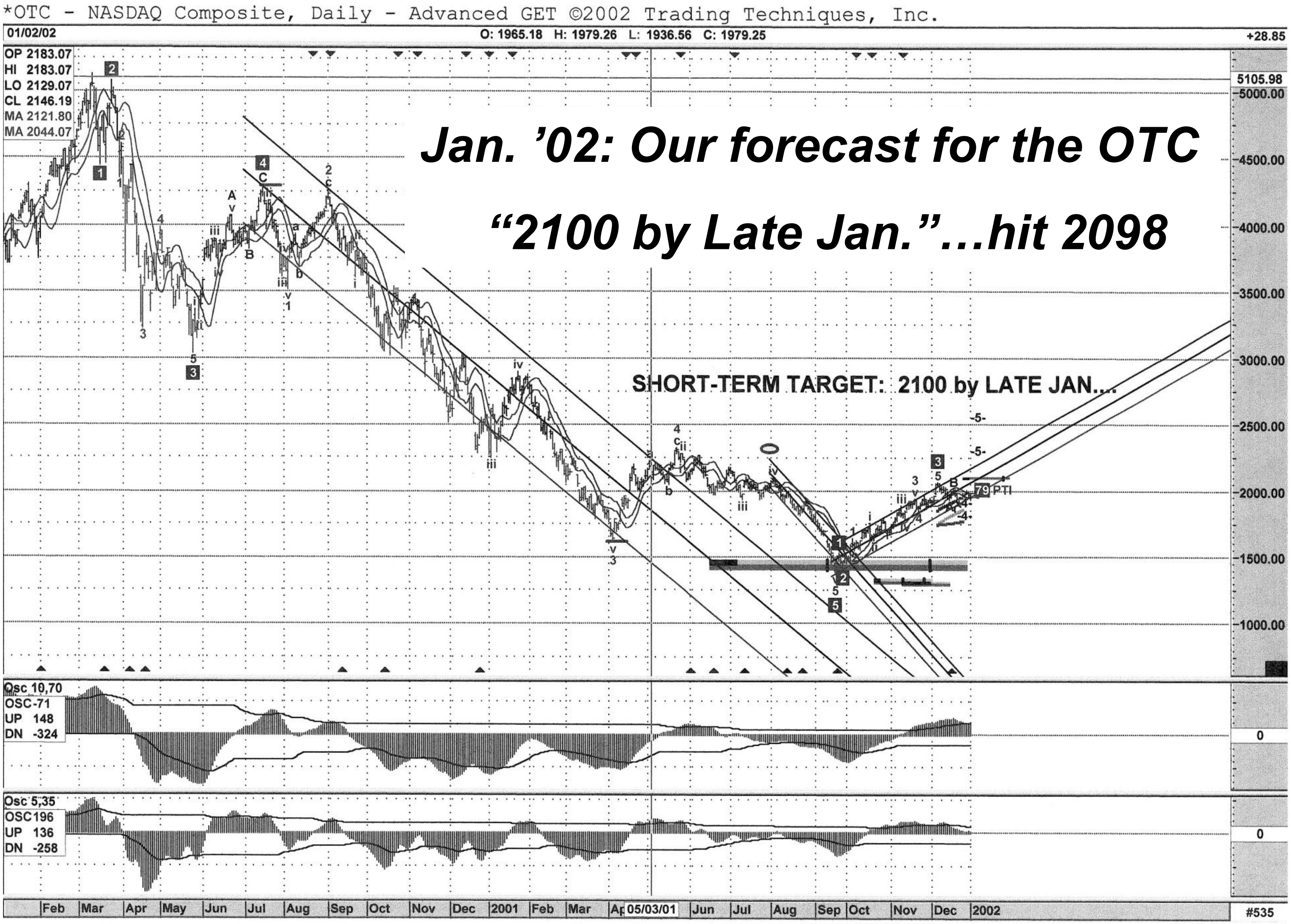


We forecast a rally to 1190 by mid Jan., ’02…thereafter the picture was unclear. This was only 3 months after 9-11.



Jan. '02: Our forecast for the OTC

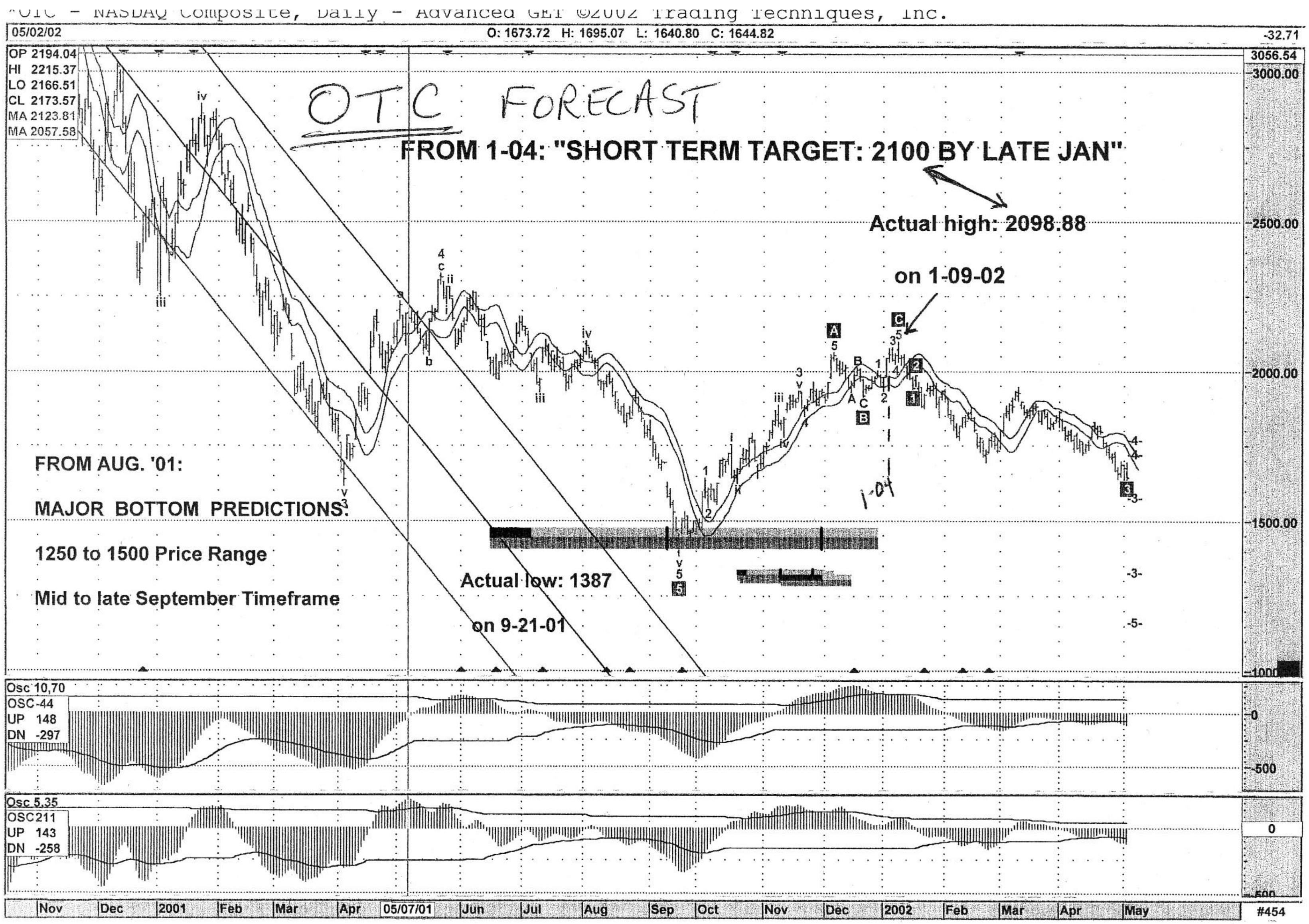
"2100 by Late Jan."…hit 2098

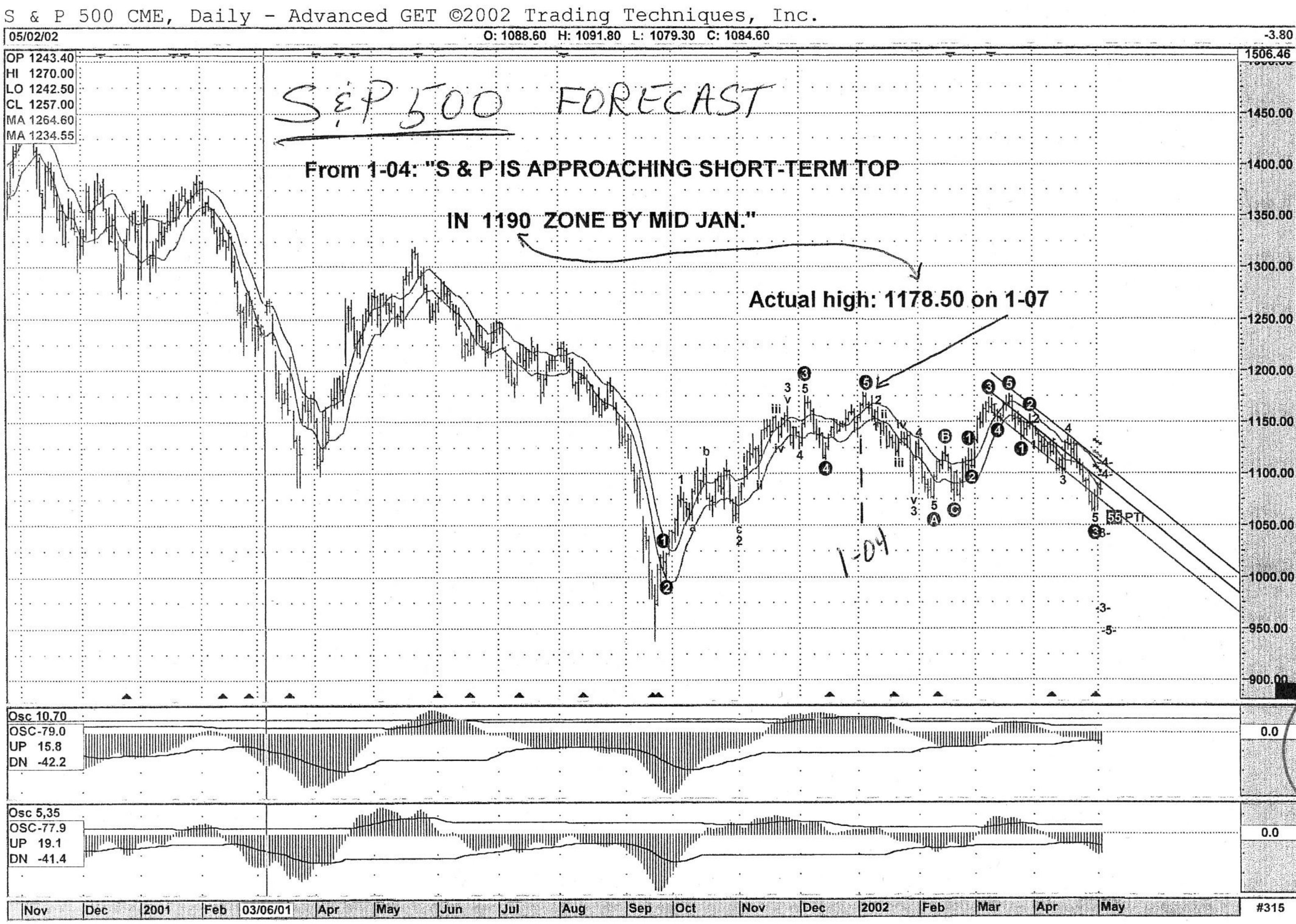


REVIEW OF TRADE FORECASTS, 1-04-02

MARKET	OUTLOOK 1-04-02	ACTUAL RESULTS
Bonds	"At a rallying point… weaker longer-term"	Rallied immediately, but failed to make new lows
S&P	"Very toppy on all timeframes, W, D, & 60 min" "Likely to top at 1190 by mid Jan"	Peaked on 1-07 at (1176.97) with classic reversal bar
OTC Index	"Short-term top of 2100 by late Jan"	Peaked at 2098.88 on Jan. 9th
Russell 2000	(At 499.30) "Further upside after wave 4 pullback"	Pullback started 4 days later, then rallied to 523
S&P Shorts	" 27 Short candidates in any pullback"	Averaged 16% gain in 115 days from 1-07 to 5-03
Nasdaq 100 Shorts	" 41 Kryptonite tech stocks" in OTC selloff	Averaged 37% gain from 1-07 to 5-03
Global stocks	Canada Russia India Australia Singapore Taiwan "Japan is nearing a major bottom"	Flat TRF rallies 38% from 1-07 to high on 4-10 IFN rallies 12% from 1-07 to high on 3-08 EWA up slightly from 9.75 on 1-07 to 9.85 on 5-01 EWS up 11% from 1-07 to high on 3-04 ROC up 10% from 1-07 to high on 4-16 EWJ puts in major bottom on 2-06
JY	"In final nosedive" (@ 7631)	Bottomed on 2-07, 1 day after Nikkei, @ 7376
Energies	"A major low between now and April… commercial buying is very bullish"	Major bottoms confirmed in all energies w/ 3-01 breakouts
Soybeans	"Heading towards a major low…"	Bottom confirmed days later. Contracts net 25 to 45 cents w/ max 4 cent drawdown
Cattle	"Short-term bullish… may only be downtrend rally"	Mild upside pop. Turns bearish on 2-15 before huge downleg
Mexican Peso	"Unbelieveably bearish…May highs will hold"	A major swan dive worth waiting for
Cocoa	"Bearish setup developing"	Never came, commercials reversed.

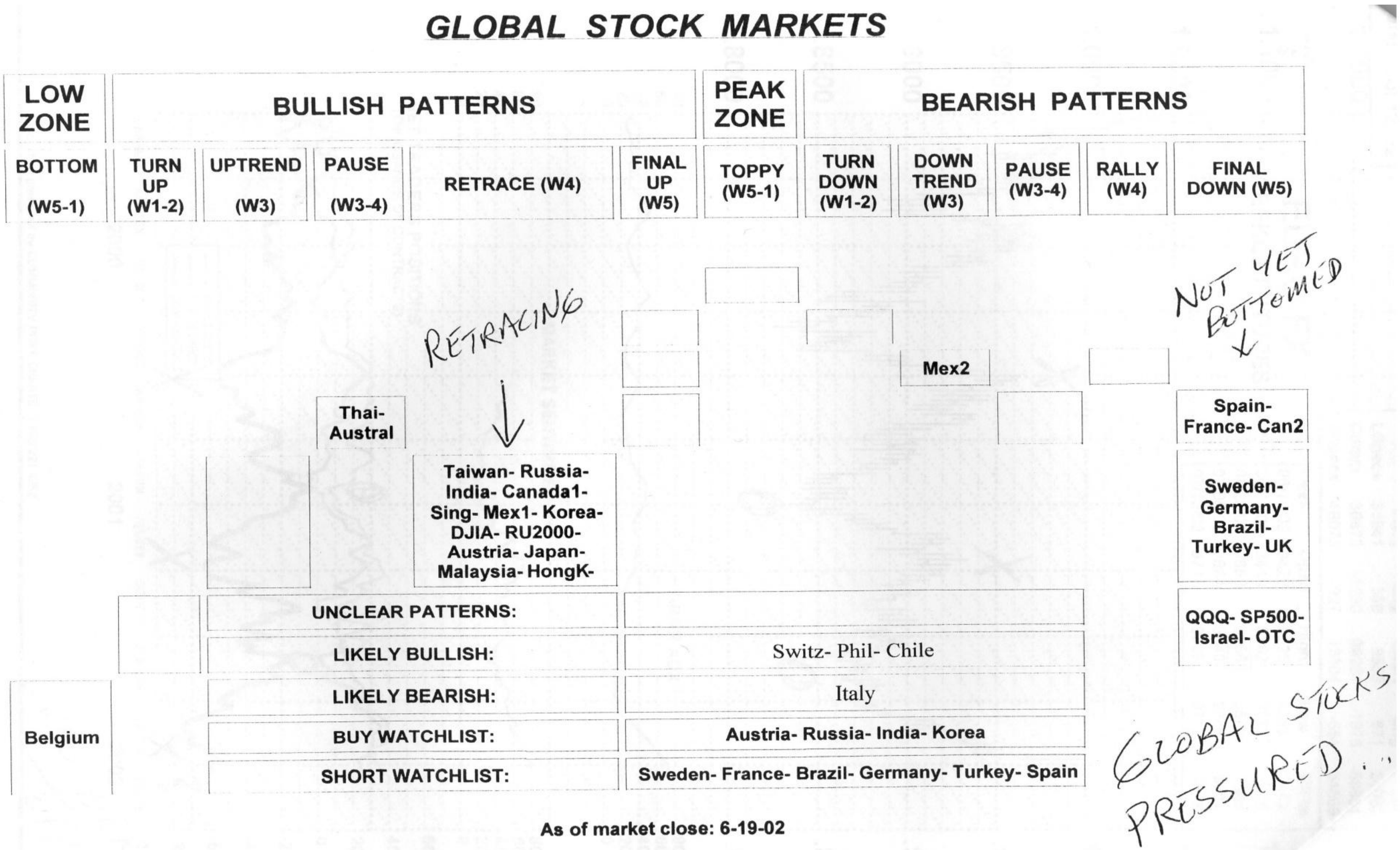
MARKETS HIT THE FORECASTS THEN COLLAPSED



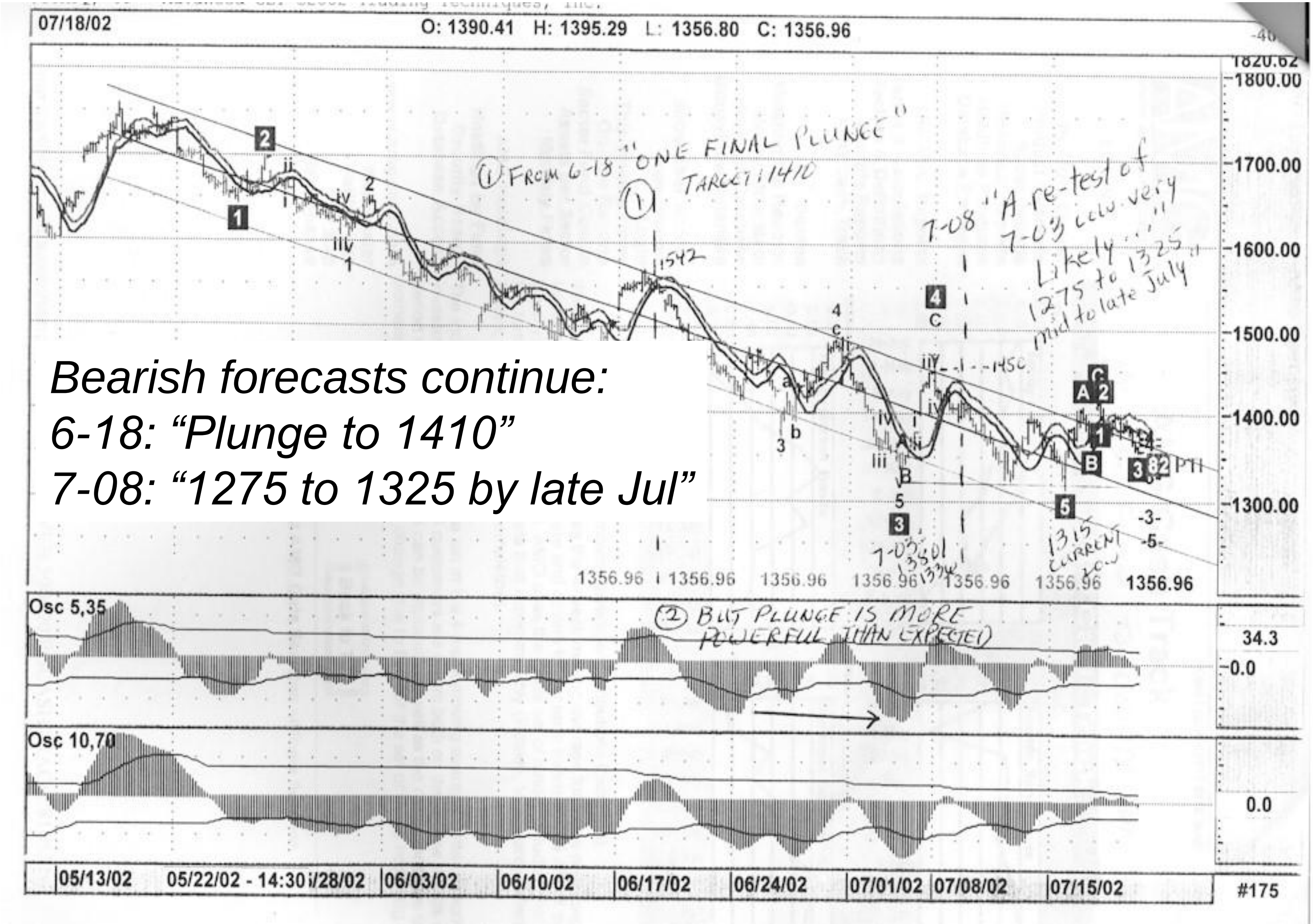


S & P 500 CME, Daily - Advanced GET ©2002 Trading Techniques, Inc.
05/02/02
O: 1088.60 H: 1091.80 L: 1079.30 C: 1084.60
-3.80
OP 1243.40
HI 1270.00
LO 1242.50
CL 1257.00
MA 1264.60
MA 1234.55
S&P 500 FORECAST
From 1-04: "S & P IS APPROACHING SHORT-TERM TOP
IN 1190 ZONE BY MID JAN."
Actual high: 1178.50 on 1-07
1-04
Osc 10.70
OSC-79.0
UP 15.8
DN -42.2
Osc 5,35
OSC-77.9
UP 19.1
DN -41.4
Nov Dec 2001 Feb 03/06/01 Apr May Jun Jul Aug Sep Oct Nov Dec 2002 Feb Mar Apr May
#315

Jun ’02: WORLD MARKETS ARE STILL FALLING:
It’s difficult for the U.S. market to rally by itself



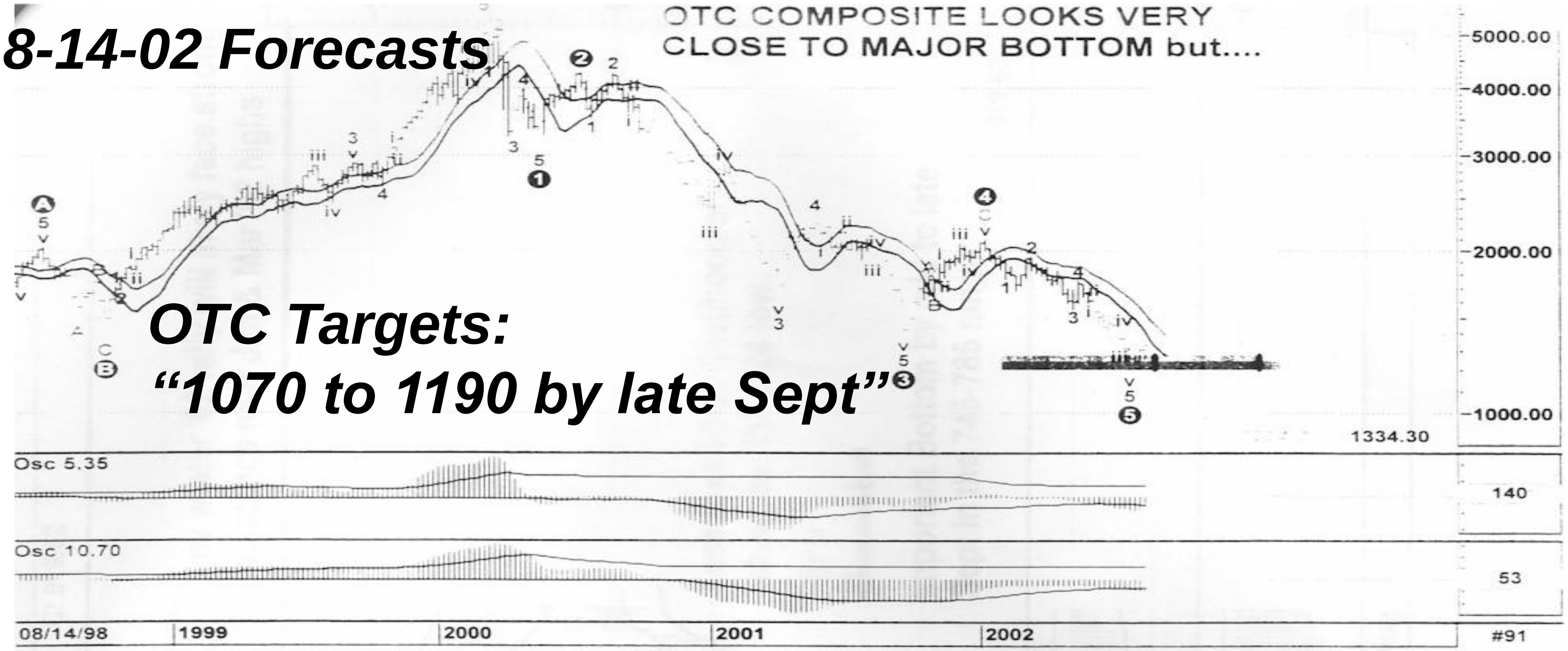
SUMMER of '02 REMAINS BEARISH

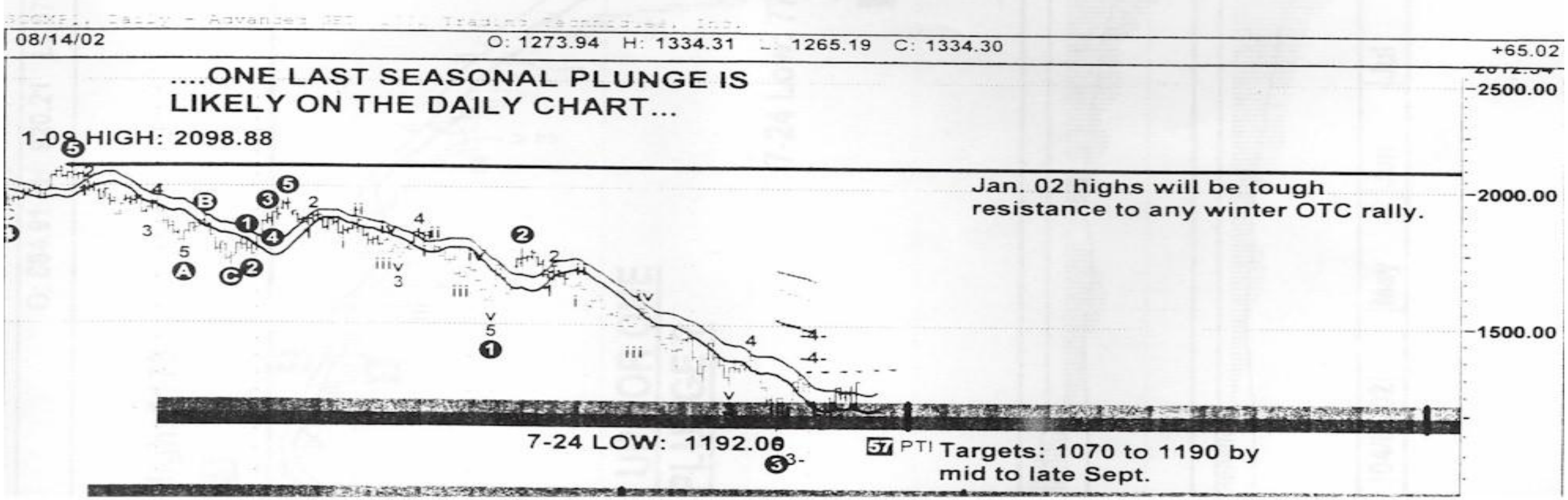


Bearish forecasts continue:
6-18: "Plunge to 1410"
7-08: "1275 to 1325 by late Jul"

8-14-02 Forecasts

OTC Targets:
“1070 to 1190 by late Sept”





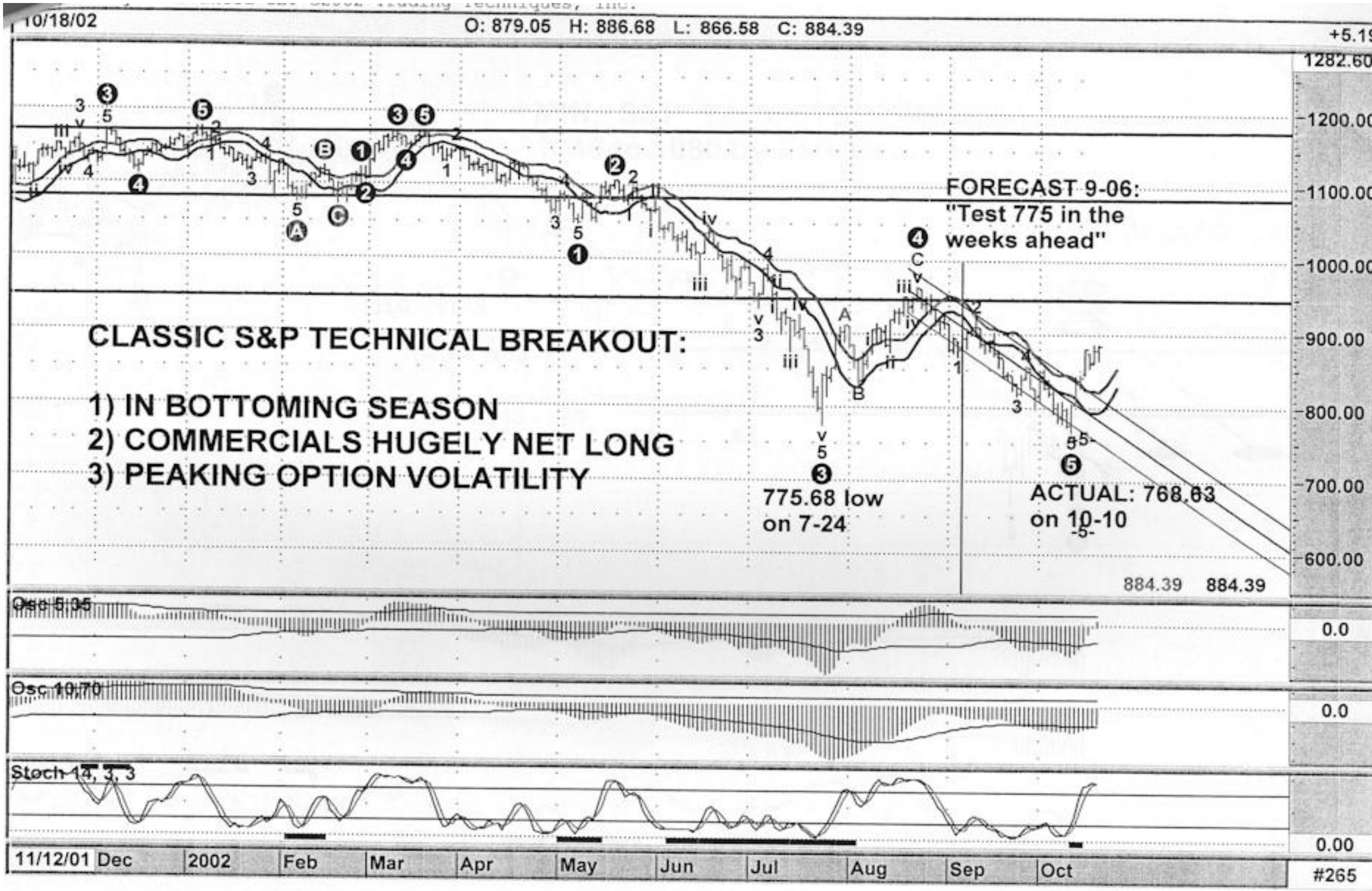
Sept '02 Forecasts:

THE STRIKER REPORT, 9-06-02

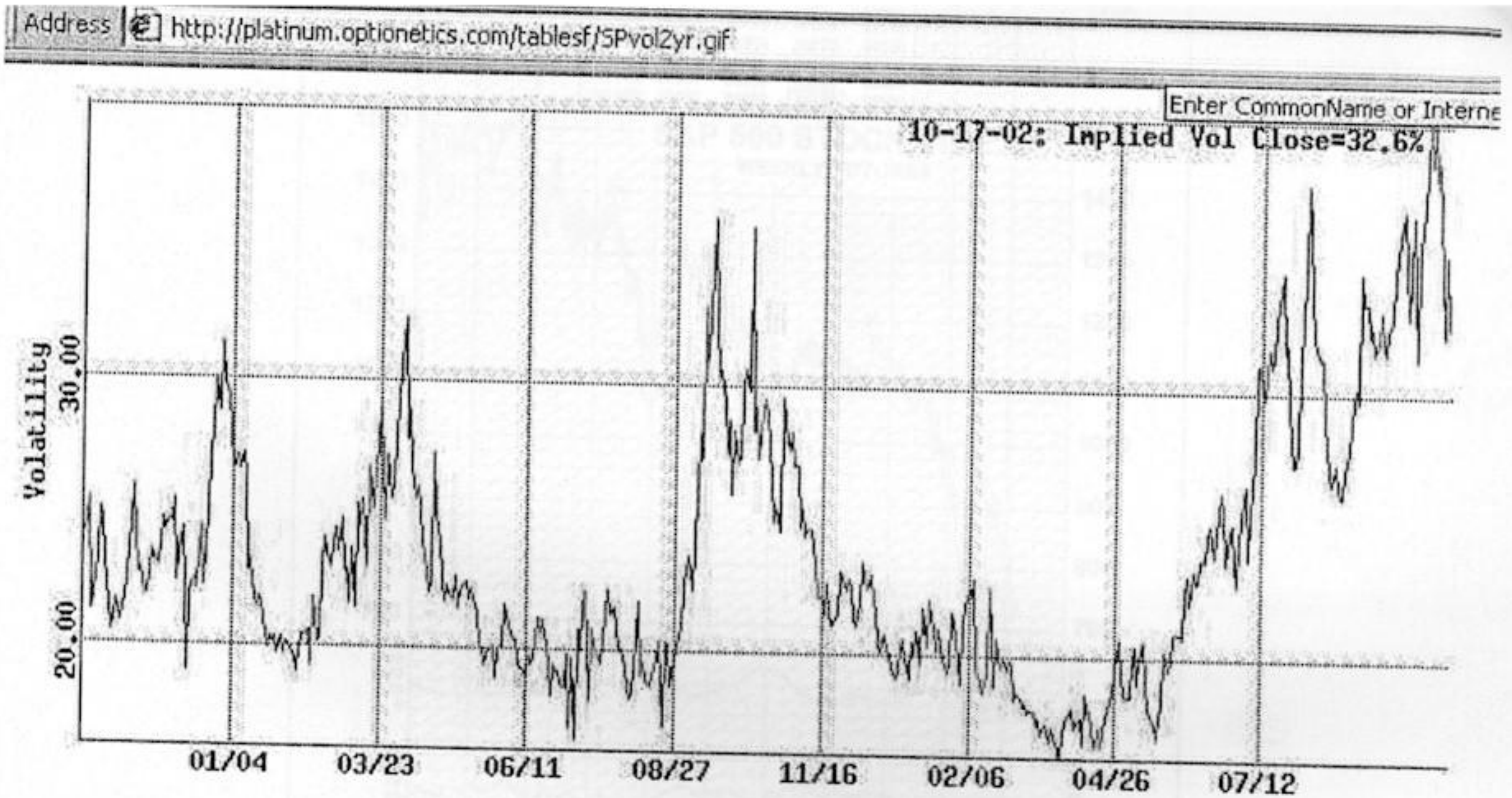
BISHOP'S MARKET OUTLOOK FORECASTS

INDEX	PRICE on 9/6/02	FORECAST TARGET LOWS PRICE	FORECAST TARGET LOWS TIME	LIKELY ACTUAL SEASONAL LOWS
OTC	1295.30	1090 to 1140	"early to mid Oct."	1108.49 on 10/10/02
NDX 100	922.22	750 to 810	"late Sept/ early Oct."	795.25 on 10/08/02
S&P 500	893.92	775.68 low is likely to be tested	"in the weeks ahead"	768.63 on 10/10/02
RU 2000	391.57	335 to 340	"by mid Oct."	324.90 on 10/10/02
VALUE LINE	1019.22	845 to 870	"by mid Oct."	824.77 on 10/10/02
DOW TRANS	2257.07	1980 to 2030	"by mid Oct."	2008.31 on 10/10/02
DOW UTILS	234.56	"break below 200 to test the 7-24 low (186.49)		162.52 on 10/10/02

10-18-02: MARKET OUTLOOK IMPROVES SHARPLY



IMPORTANT INGREDIENTS of the OCT '02 LOWS



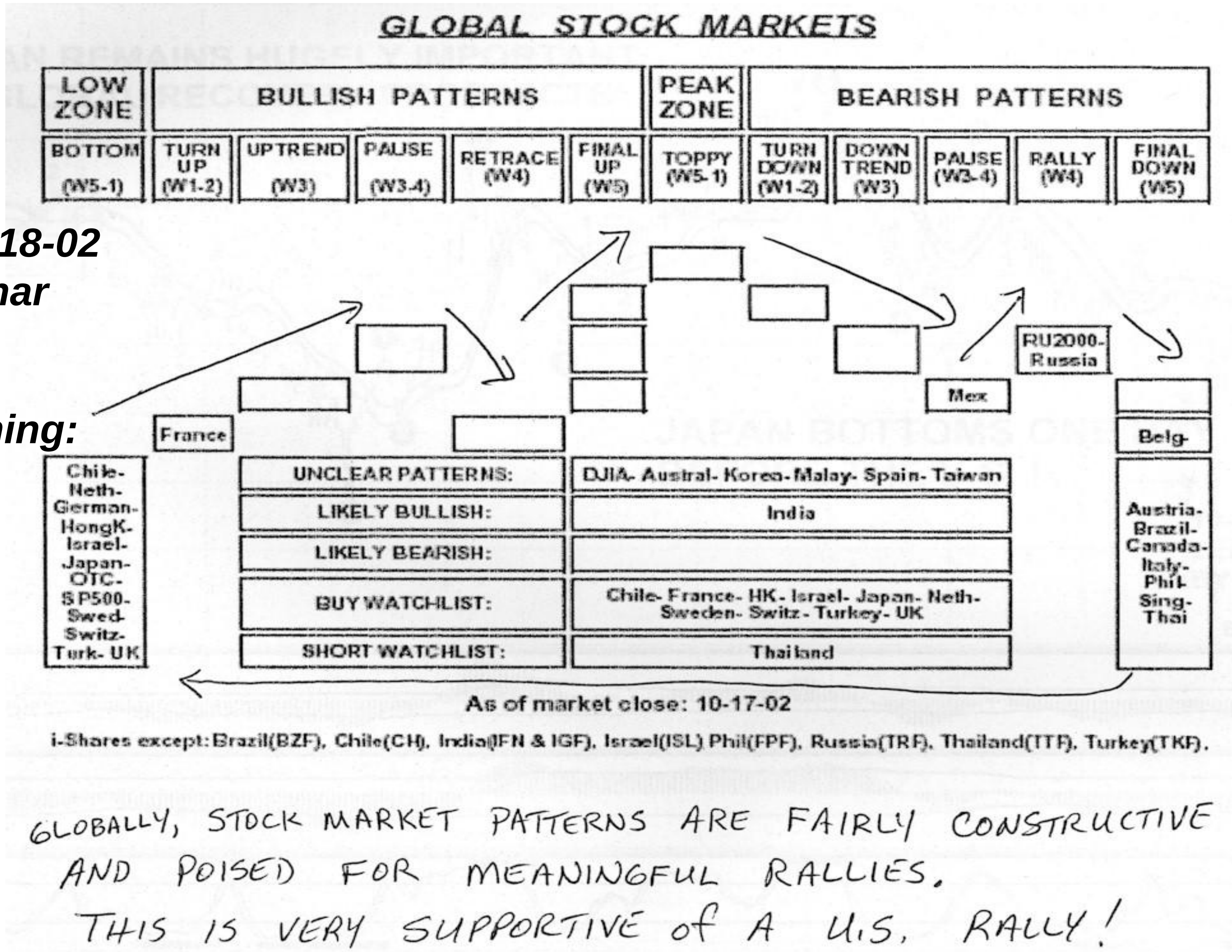
COMPONENTS of the OCT. 10 LOW:

1) Technical pattern 2) Bottoming Season
3) Net Long Commercials 4) Cresting Volatility

10-02: GLOBAL STOCK OUTLOOK HAS GREATLY IMPROVED

From 10-18-02 Seminar

Bottoming:



Jan '03 - 2003 Outlook: Have We Bottomed or is a Major Crash Coming ?

U.S. STOCK MARKET OUTLOOK

COMPARING THE ALTERNATIVES

FACTOIDS	SUPPORTS SCENARIO: H&S Oct. Bottom	Mild Re-Test	Severe Re-Test	Doom
1) Bonds look to be about topped out	X	X		
2) One final blip down in rates possible		X		
3) Dollar looks ready to rally	XX	X		
4) Nikkei very near bottom but may have one final blip down	X	XX	← KEY !	
5) Recent strength on Jan. 2nd	X			
6) Failure to follow thru on Jan. 3rd		X		
7) Mutual Fund cash flows mildly positive	XX	X		
8) Commercials not as constructive as they were in October		X		
9) Analysis of 100 OEX stocks	X	XX		
10) Analysis of 100 NDX stocks		X		
11) Analysis of Global Stock Indices		X		
12) Generally weak SP seasonals ahead		X		
13) Narrowing bond quality spreads: vote of confidence for corporate balance sheets	X	X		
14) Weakness of many index pivots at recent 12-30 and 12-31 lows		X		

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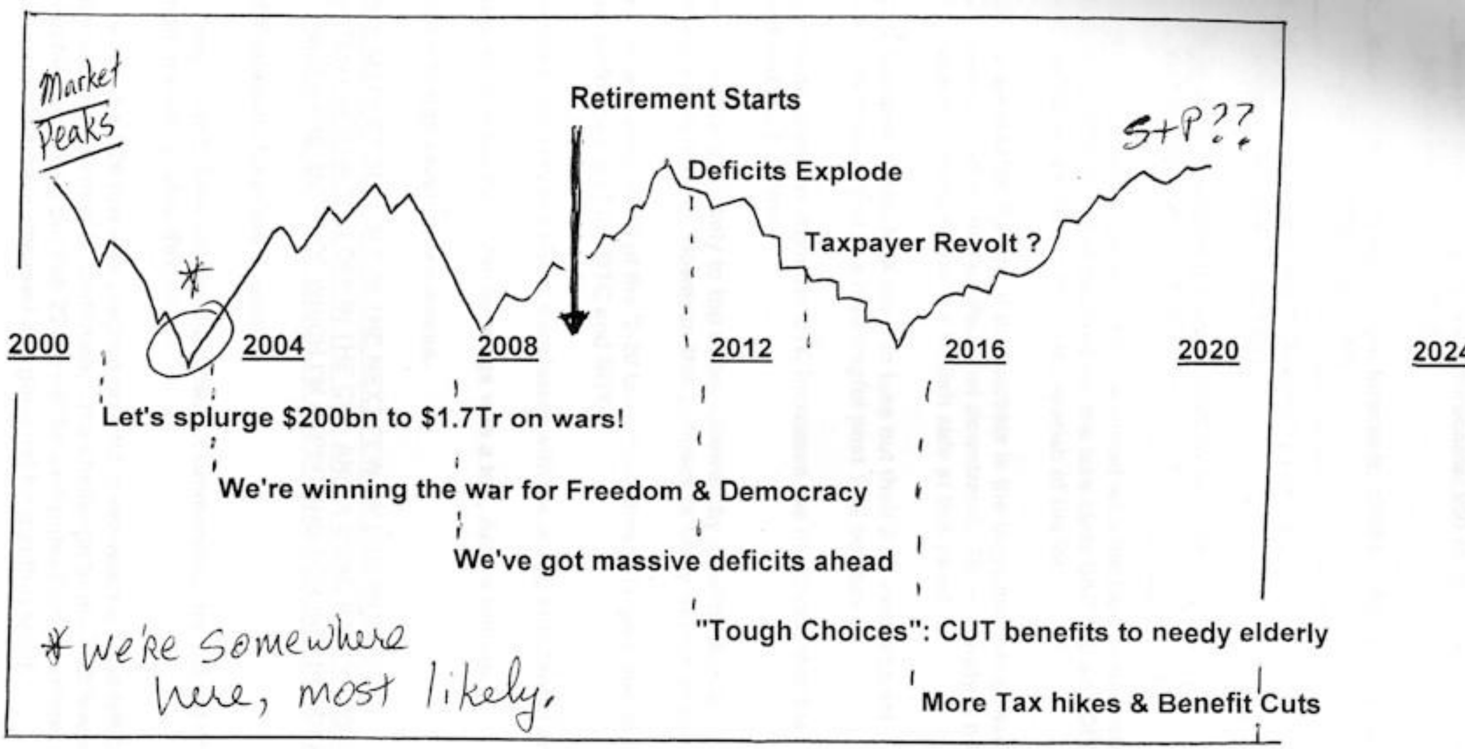
weight of evidence narrowly favors "mild retest"

BABY-BOOMER RETIREMENT:
THE SILENT "BLACK HOLE" of FINANCE



WILL MARKETS MOVE "SIDEWAYS", PULLED BY THE GRAVITY of ENTITLEMENT FINANCING DEMANDS OVER THE NEXT 20 YEARS??

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Jan. '03 ANALYSTS SLASH ESTIMATES & GET THEM RIGHT!

Keeping an Eye on Two Stormy Situations

By E.S. Browning

JOHN MEARA IS trying very hard to look past the war, which isn't easy.

But Mr. Meara, president of St. Louis money-management firm **Argent Capital Management**, figures that, sooner or later, the war will be resolved, and then investors will start looking again at something that a lot of people have forgotten about: profits.

People like Mr. Meara are forcing themselves to keep buying stocks despite unsettling international news. They are a big part of the reason the stock market has been in a gentle slide, rather than a plunge, in recent weeks. As war looked more and more imminent, the Dow Jones Industrial Average fell another 65.07 points, or 0.82%, on Friday, to 7864.23, its lowest close in four months. That left it down 2.4% for the week and down 5.7% on the year.

ABREAST OF THE MARKET

The bet these pros are making is that earnings this year will rescue the stock market, a war with Iraq notwithstanding. The question is whether they are right to make that bet.

"We think there will be a resolution of the geopolitical situation," says Benjamin Pace, portfolio manager at **Deutsche Bank Private Banking** in New York. "The biggest issue going forward is economic fundamentals and earnings."

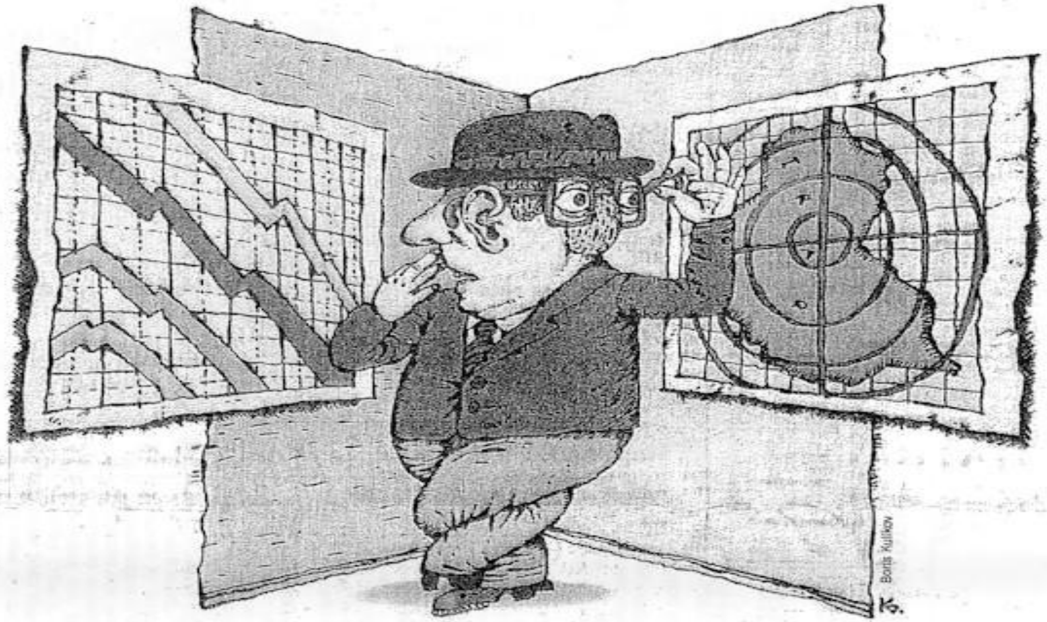
Earnings expectations will become irrelevant, of course, if something goes badly wrong in Iraq or North Korea. But few investors can predict that. As it is, they are finding plenty to worry about on the earnings front.

The initial indications of this year's profit picture aren't that strong. In recent months, morose forecasts from big companies have led analysts to slash earnings expectations for the first half of this year.

In August, analysts thought earnings for companies in the S&P 500 index would grow at a rate of more than 20% in both the first and second quarters of this year. They thought that kind of growth could continue for the full year. Since then, they have steadfastly cut their expectations, and now are calling for less than 8% growth in the first half of the year, and about 12% for the full year, according to Thomson First Call, which collects such data.

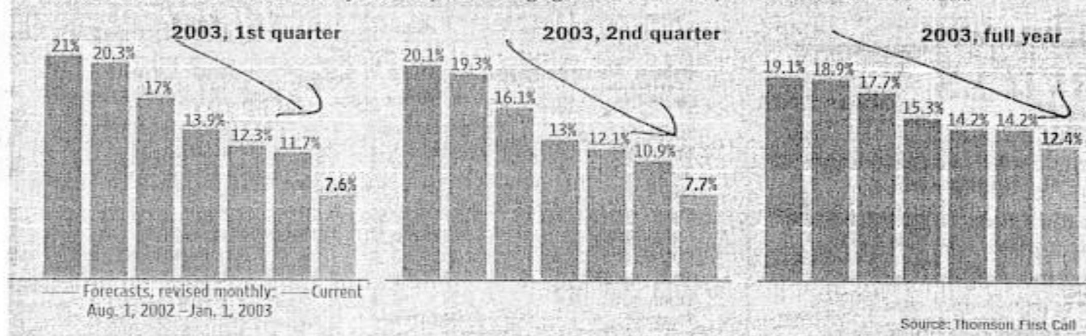
Just as worrisome, companies in the past few weeks have issued an unexpectedly large number of warnings that their performance won't meet even

Please Turn to Page C3, Column 1



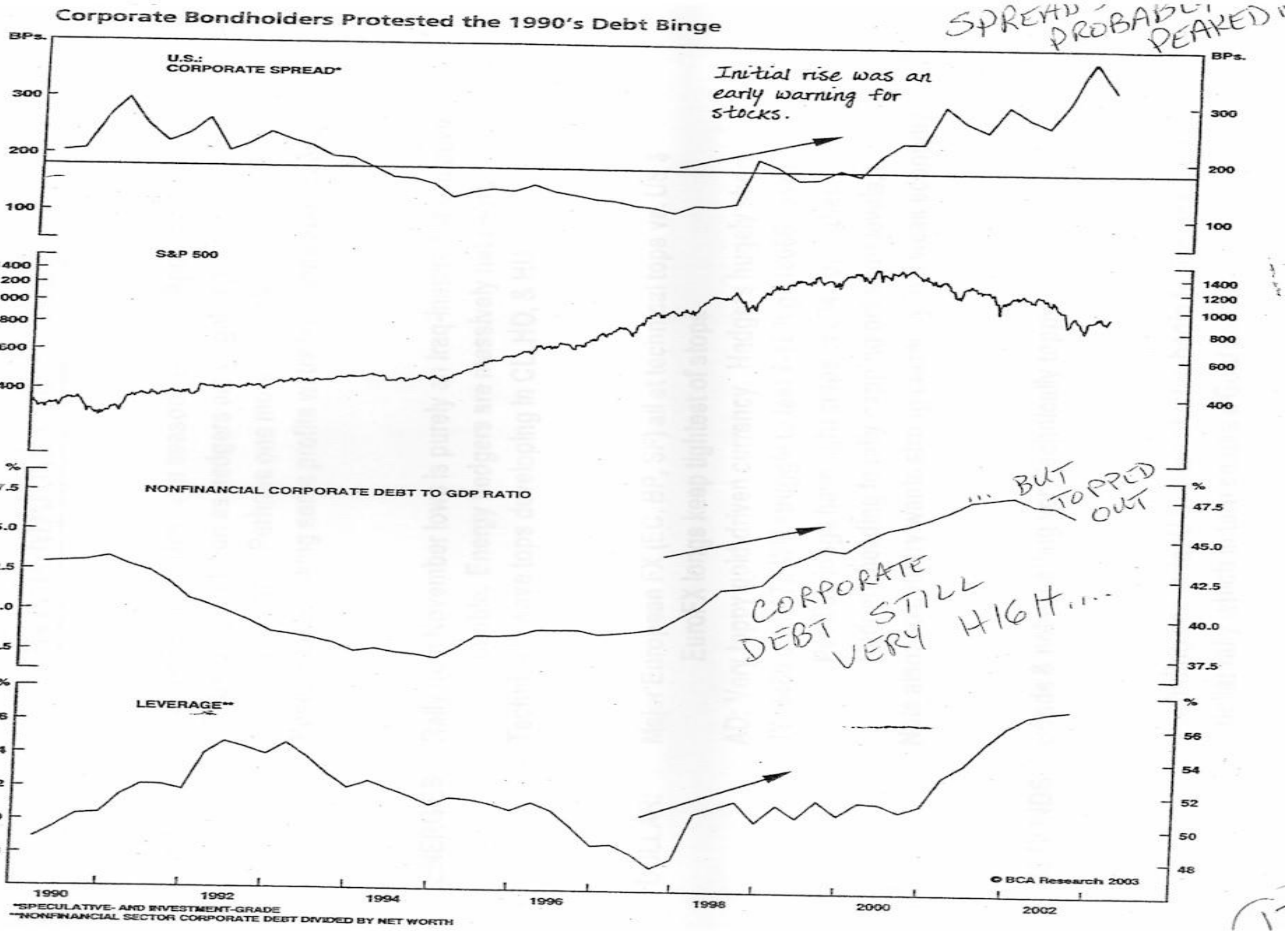
Don't Forget the Battle on the Other Front

Iraq aside, stock-market investors could be facing plenty of unsettling news on the home front. Analysts continue to revise downward their forecasts for year-over-year earnings growth for the companies of the S&P 500 index.



EPS REVISIONS COMING DOWN

Feb, '03: CORPORATE vs. TREASURY SPREADS HAVE PEAKED OUT



1ST QTR '03: ANALYSTS KEEP CUTTING ESTIMATES

SUNDAY FEBRUARY 9, 2003

PESSIMISM: Analysts continue to cut estimates

CONTINUED FROM PAGE 1

pickup. And companies such as Chicago-based energy giant Exelon Corp. see lackluster demand from their business customers.

"We expect 2003 to be another very challenging year," Caterpillar Inc. Chairman Glen Barton said in announcing 2002 results. "In addition to market pressures and political uncertainty, we are faced with rising employee health-care and pension expenses."

But could it be that CEOs are overdoing it a bit, trying to underpromise instead of underdeliver?

Corporate hand-wringing "is

'They all talk to each other. One says things are bad, and then it builds.'

Curt Hunter, Chicago Federal Reserve

more pessimistic than what their internal planning shows. They've been burned by a couple of false starts, where they thought things were getting better and they weren't," O'Neill said.

But executives say they're telling it like it is.

"I think it's real," said Allstate Corp. Chairman Ed Liddy, who warned shareholders Thursday that the insurance company wouldn't be able to sustain more rate hikes this year. "Especially if you're a manufacturer, and there's just no demand, you're struggling."

The top guns are voting with their wallets too.

Insider stock selling has

Earnings and economic outlooks conflict

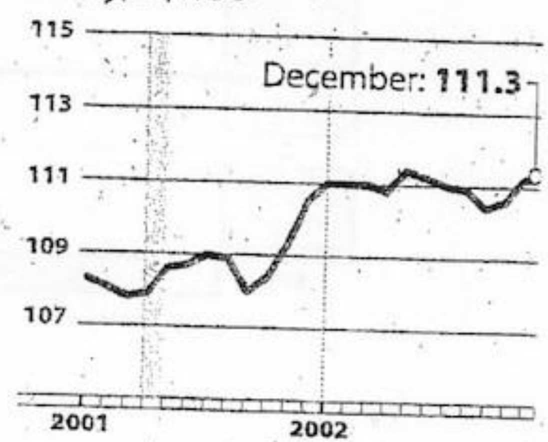
Analysts continue to slash estimates for corporate earnings, reflecting downbeat forecasts by companies, despite improvements in the index of leading indicators, a gauge of future economic activity, and business investments.

Although indicators show potential recovery...

KEY: Recession begins: March 2001

INDEX OF LEADING INDICATORS

Base year, 1996



overdone, and it feeds on itself," said Curt Hunter, head of research at the Chicago Federal Reserve. "They all talk to each other. One says things are bad, and then it builds."

Burned by retribution from the exuberance of the late 1990s, companies also are being "appropriately careful about not misleading the Street," said Timothy O'Neill, chief economist for BMO Financial Group and leader of a national economists group.

"Generally speaking, it's probably true that companies' public positions are somewhat

spiked in the first two months of the year, with eight times more selling than buying, according to Thomson Financial.

"If you're a CEO, the most recent recession was a horrible one, and the recovery has not been rapid. The market is down for a reason," said Jay Mueller, portfolio manager and economist with Strong Investments in Milwaukee. "That's why CEOs are so gloomy."

Investors are pricing in the corporate gloom, along with specific worries about war with Iraq and pension funding for an aging workforce. There are plenty of legitimate reasons to be concerned, executives say.

The Standard & Poor's 500 index closed Friday at 829.69, down nearly 6 percent since Jan. 1.

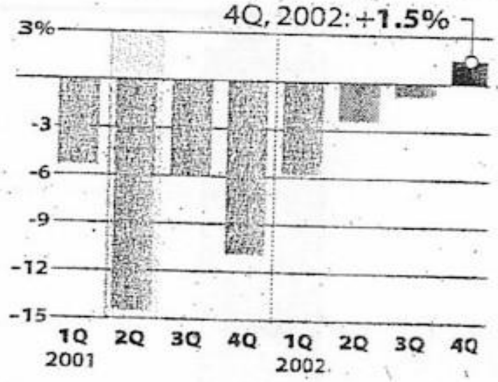
Analysts, who take their cues predominantly from companies rather than economists, still are aggressively cutting their estimates for corporate earnings in the first and second quarters, said Chuck Hill, research director for First Call, a data firm.

"The slashing started last fall, then leveled off at the holidays," Hill said. "The hope was that we'd revert to normal trimming after the first of the year. Unfortunately, slashing is still the word."

Earnings estimates for the second quarter have been

BUSINESS INVESTMENT

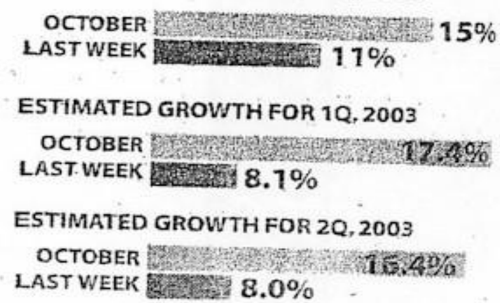
Percent change from previous period



...earnings growth estimates have been cut

FIRST CALL EARNINGS ESTIMATES

Change from year-earlier period



Sources: First Call, The Conference Board, Bureau of Economic Analysis

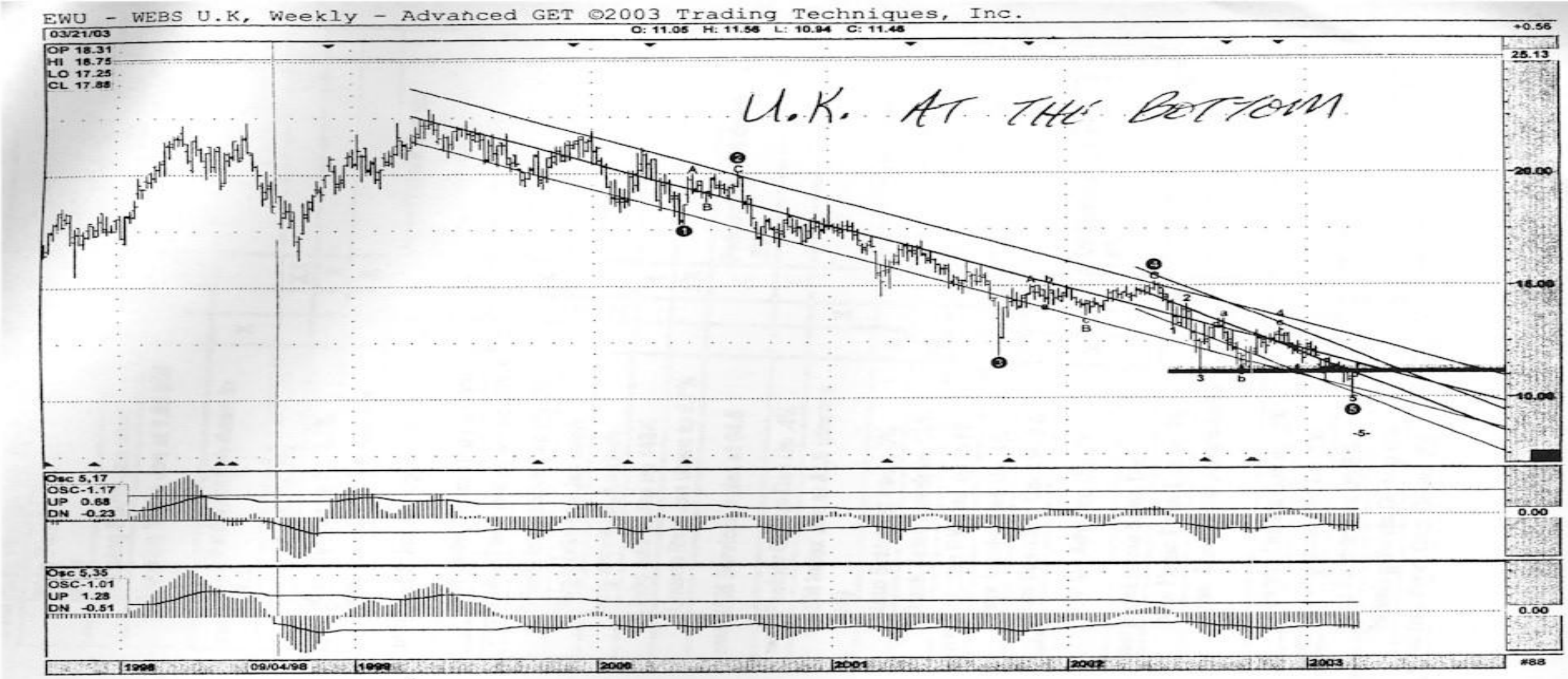
Chicago Tribune

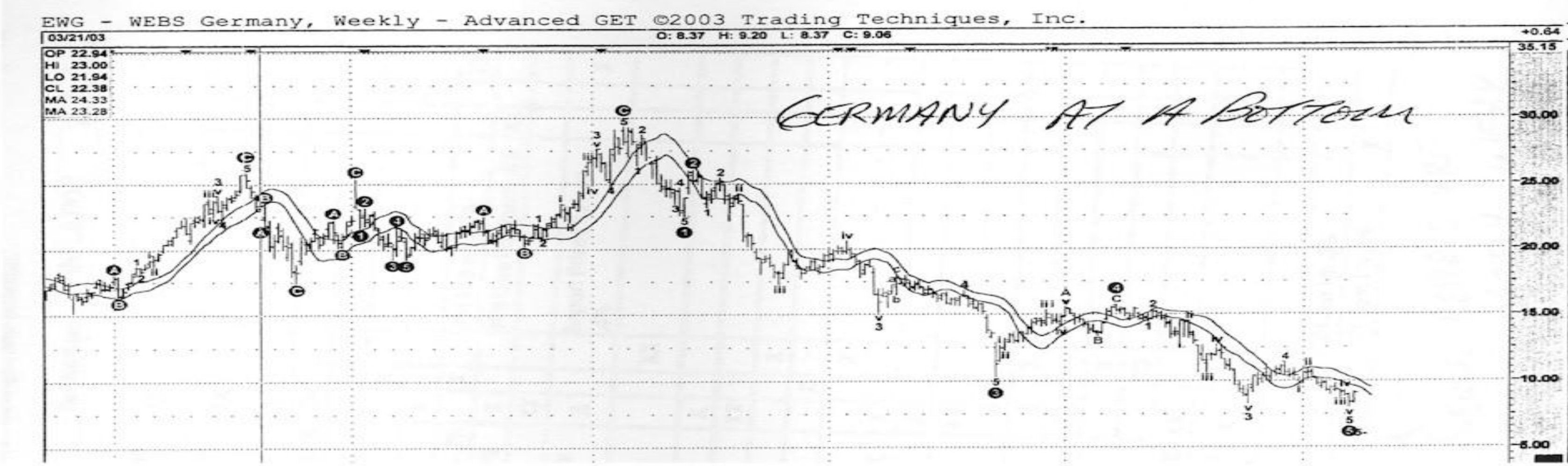
mists, many of whom believe we're in the early stages of a pickup.

"Executives have always been jokingly referred to as lagging

2-9-03
Estimate
Cuts !

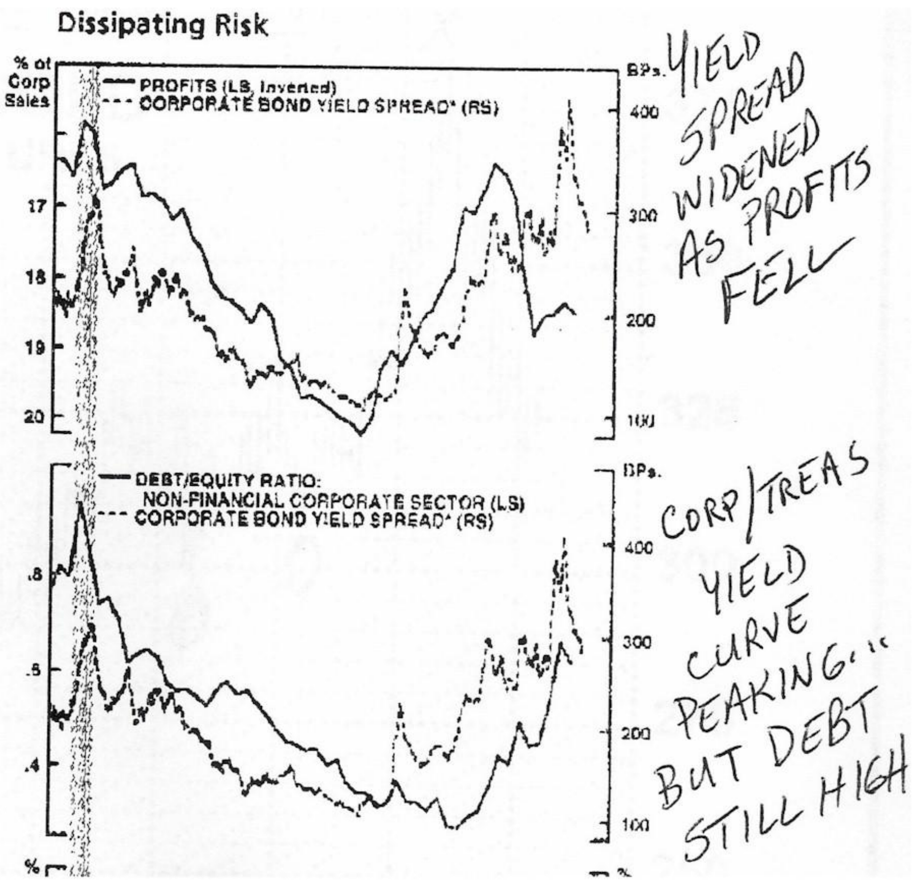
3-21-03: MAJOR GLOBAL STOCK MARKETS HAVE BOTTOMED OUT!

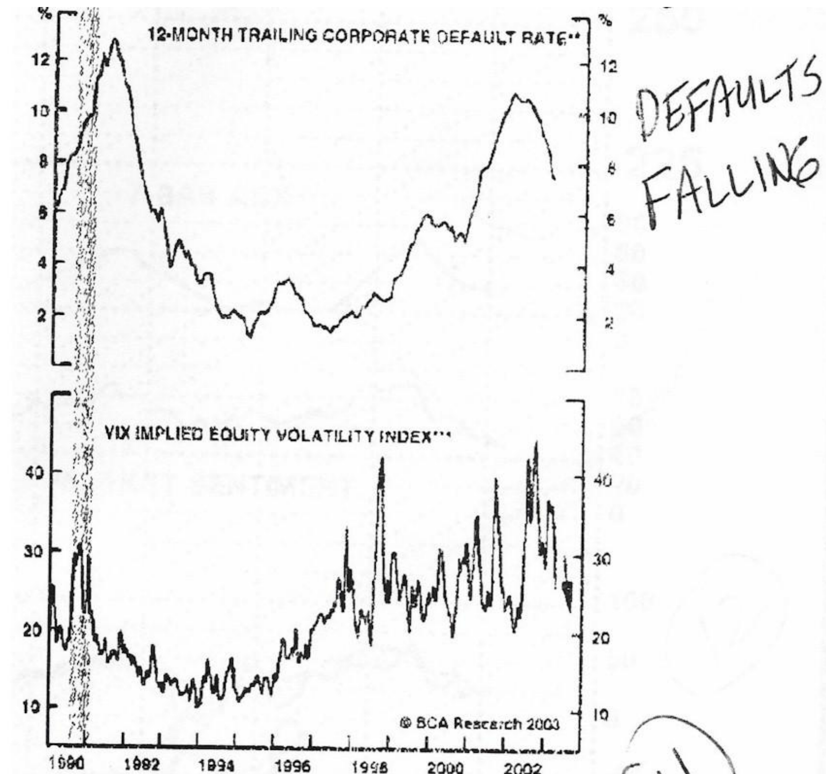




CORPORATE BOND SPREADS CONTINUE TO FALL AS CONFIDENCE RETURNS TO THE MARKETS…

April 20, '03



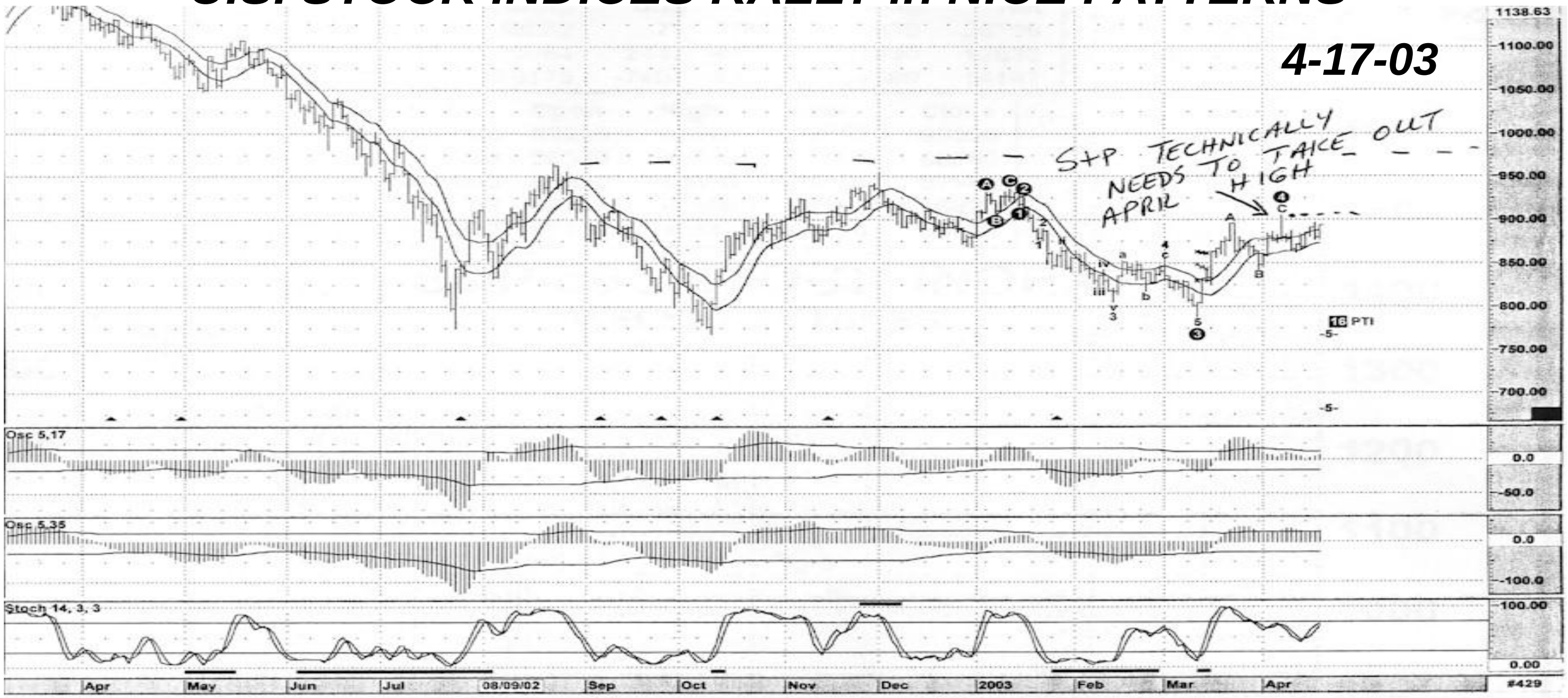


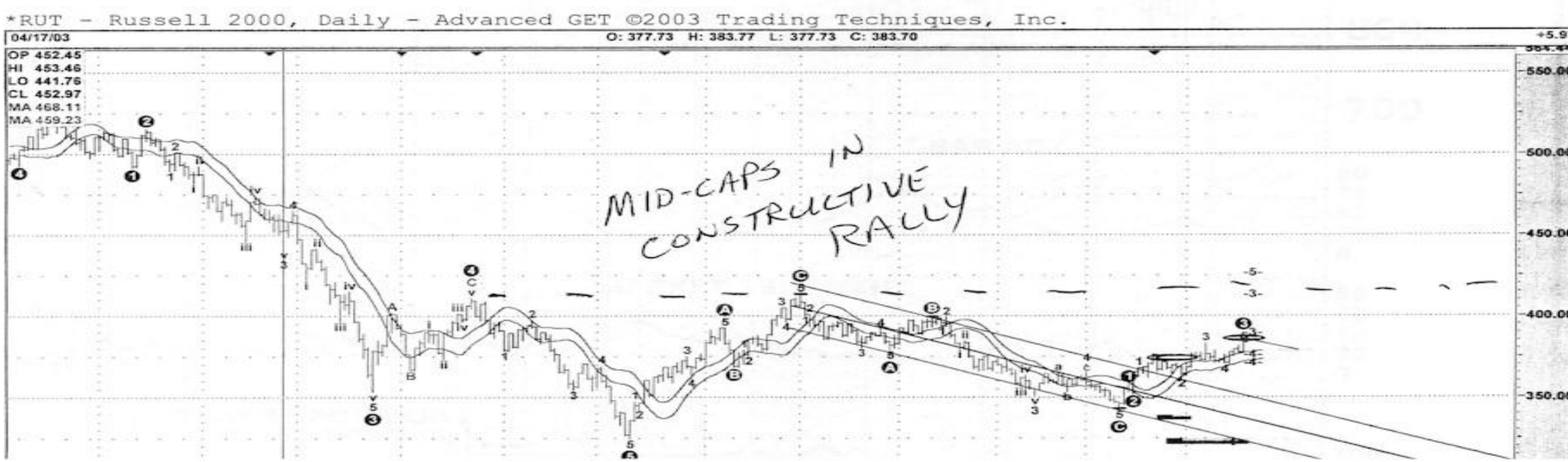
*WEIGHTED AVERAGE INVESTMENT-GRADE AND HIGH-YIELD CORPORATE SPREAD OVER TREASURYS, SOURCE: MERRILL LYNCH
**SOURCE: MOODY'S INVESTORS SERVICE
***SOURCE: CBOE, S&P 100 IMPLIED VOLATILITY INDEX
NOTE: SHADING DENOTES PERIODS OF FLIGHT TO SAFETY: GULF WAR 1990-91, RUSSIAN DEFAULT/LTCM COLLAPSE 1998, TERRORIST ATTACKS 2001, CORPORATE GOVERNANCE SCANDAL 2002.

11

…CONFIDENCE IN BONDS INCREASES CONFIDENCE IN EQUITIES !

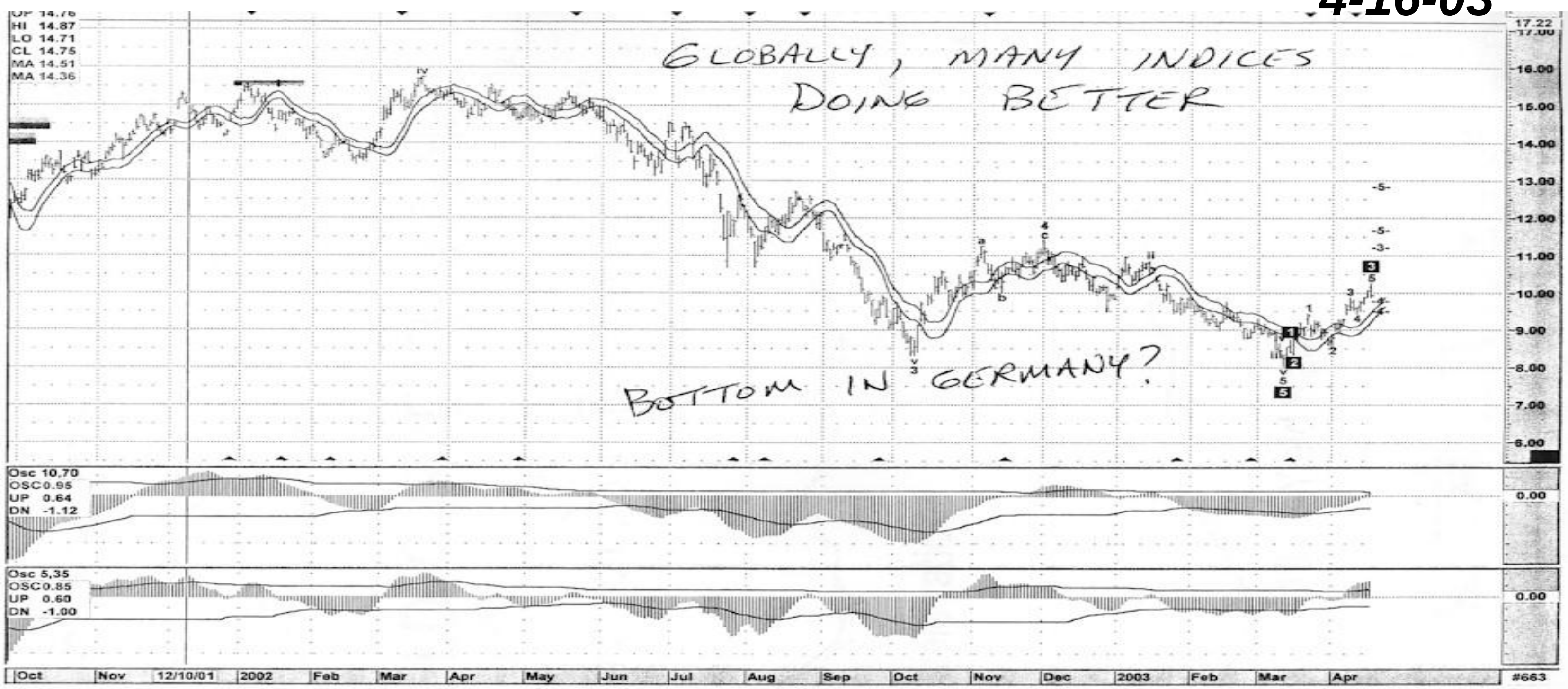
U.S. STOCK INDICES RALLY in NICE PATTERNS





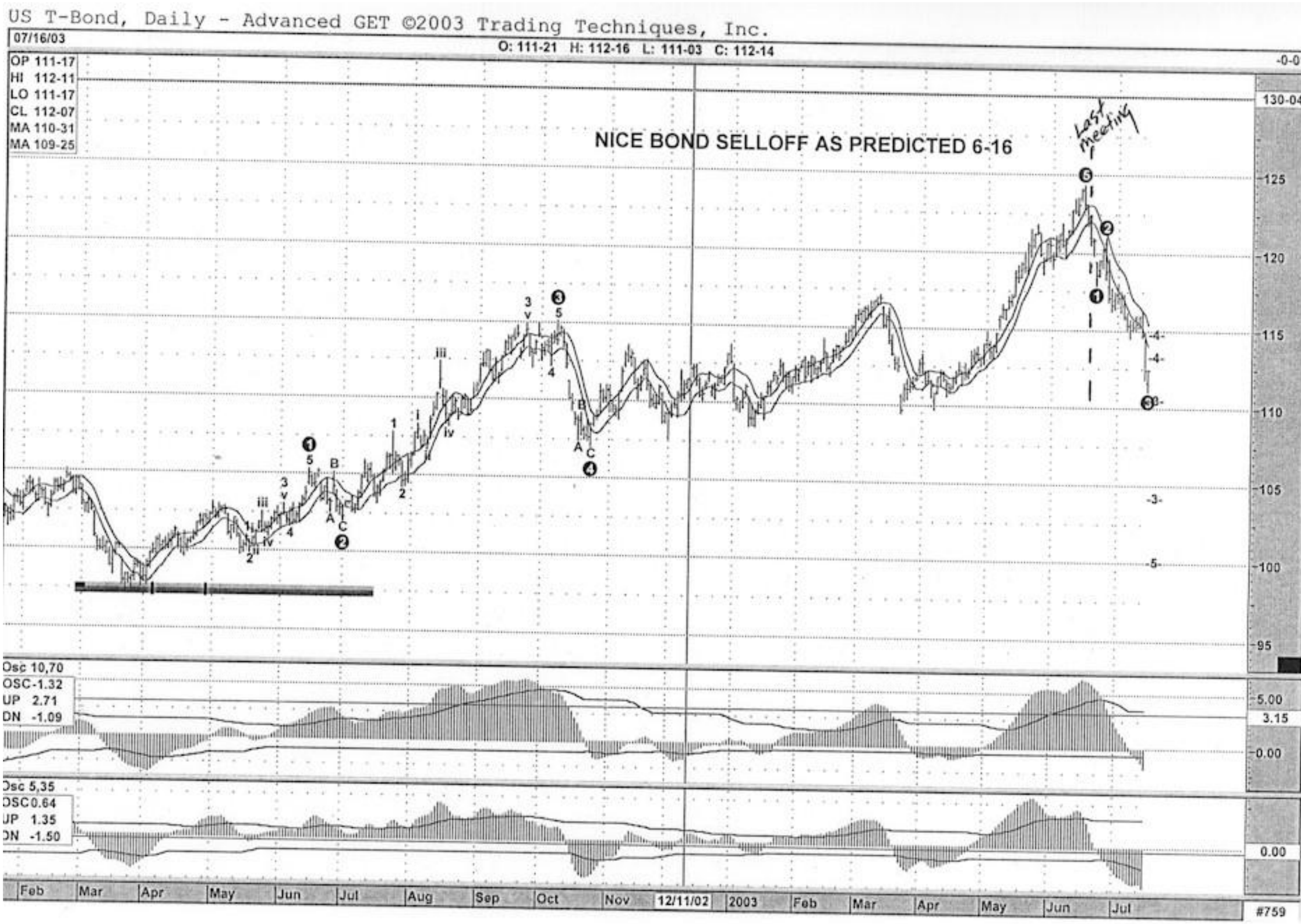
GLOBAL MARKET RALLIES CONTINUE

4-16-03

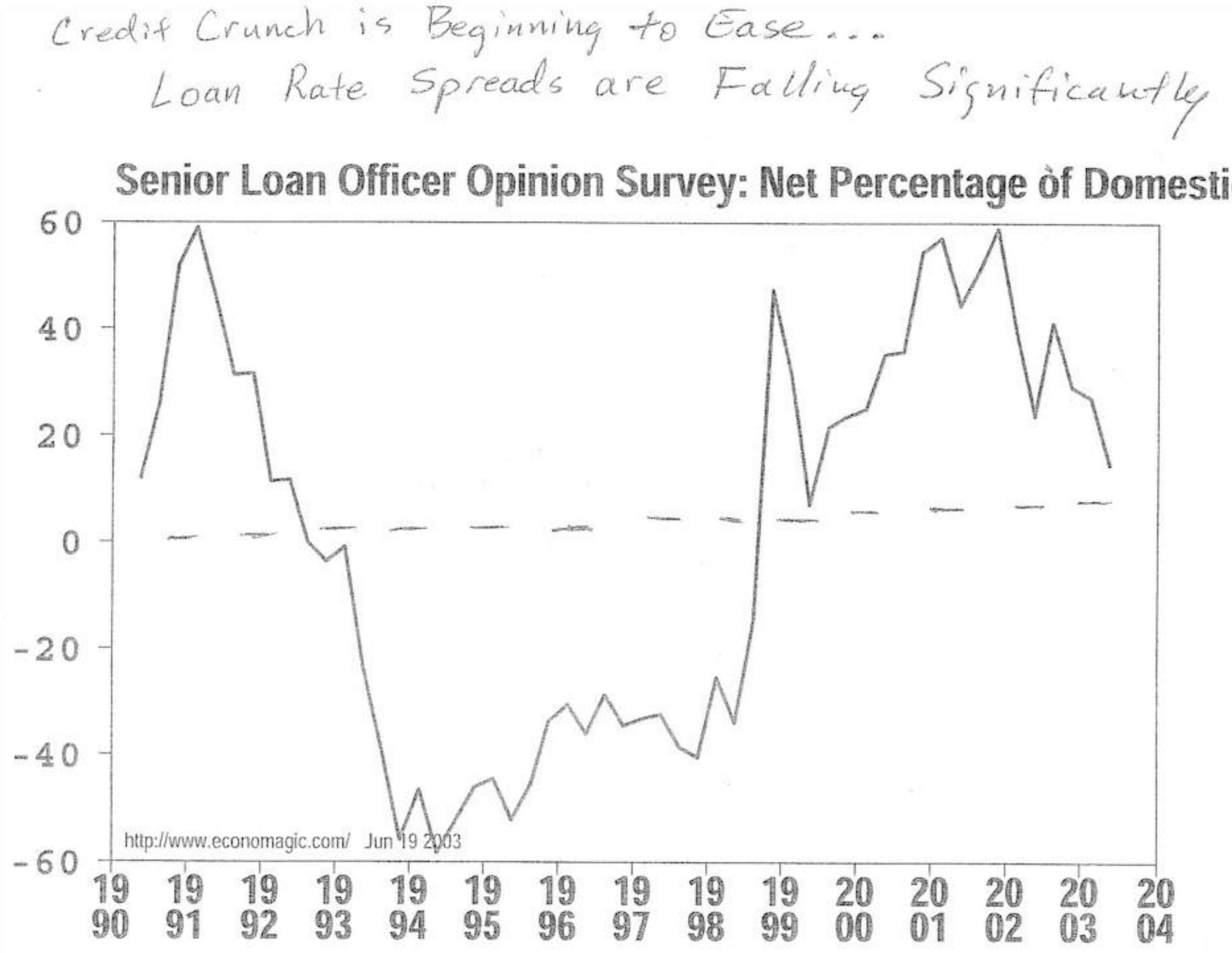


6-19-03: CALLING A MAJOR TOP IN BONDS

7-16-03: DRAMATIC BOND SELLOFF CONTINUES



Jul '03: BANKS EASING LOAN TERMS & RATES…
…FUEL FOR AN ECONOMY THAT RUNS ON CREDIT!



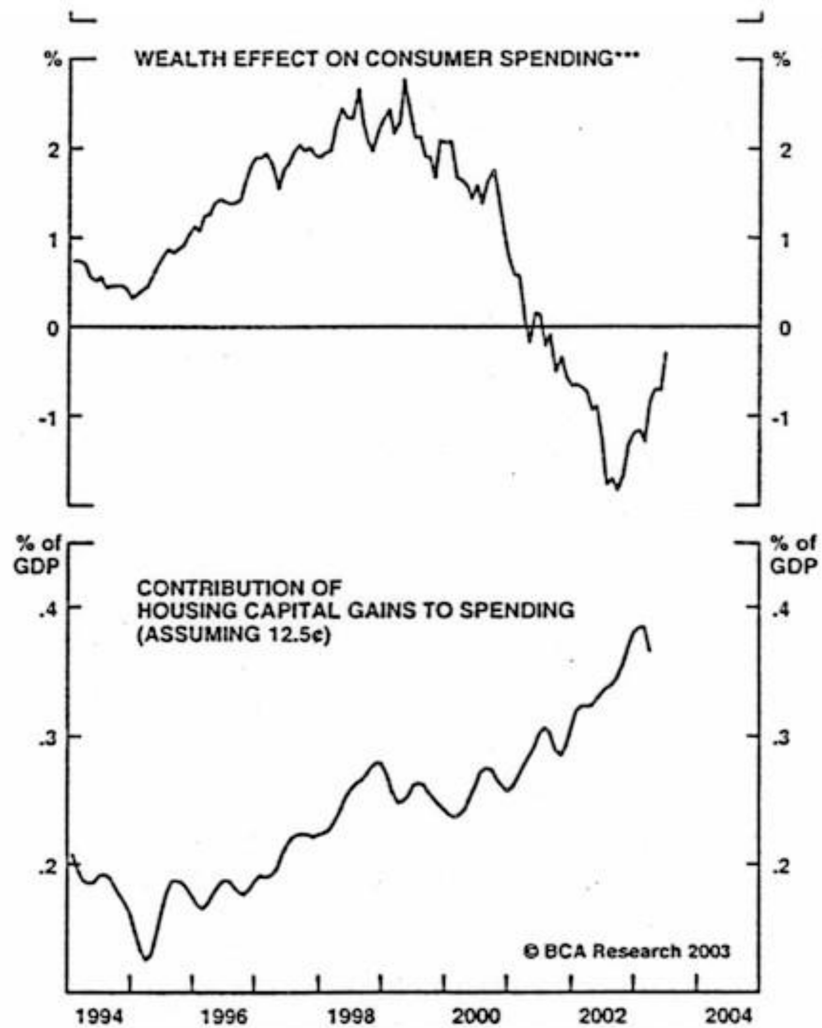
Jul '03: IMPROVING WEALTH EFFECT on CONSUMERS…
…WEALTH UP = CONFIDENCE = SPENDING & INVESTING

This may actually help to explain the Fed's determination to manipulate the bond market. It knows that yields will shoot higher if the market catches even a whiff of inflation. It is determined to keep yields low until the economic recovery is firmly on course.

Economic Recovery on Track

The impact on the economy of the massive monetary stimulus is captured in the top panel of Chart I-3. This shows that the combined effect of lower interest rates and a weaker dollar will contribute 3% to GDP over the next 6 to 18 months. Monetary stimulus will almost certainly be sustained at these high levels for some time. Note that the Fed did not let the real fed funds rate rise during the 1992-93 episode until the unemployment rate had been falling for six months (Chart I-4). Moreover, the dollar is likely headed even lower (discussed further below).

Similarly, fiscal policy is also highly stimulative. The passage of the $350 billion tax-cut and spending plan by Congress was designed in part to boost near-term growth, including a reduction in withholding tax in July and tax rebate checks to



*MONETARY CONDITIONS INDEX COMBINES SHORT-TERM INTEREST RATE

DOWNSIDE OF CONFIDENCE: DEBT MOUNTAIN GROWS

Consumer debt surges, led by auto loans

From Tribune news services

WASHINGTON — U.S. consumers sharply accelerated their borrowing in April, as loans for cars and other items boosted consumer credit outstanding, the Federal Reserve said Friday.

The Fed said credit grew by $10.7 billion, to $1.756 trillion, a jump of 7.3 percent from March and the biggest increase in three months. Analysts had expected credit to rise by only $1.9 billion. The figures exclude real estate loans such as mortgages.

April's increase was driven by a $9.3 billion surge in what the Fed calls non-revolving credit: closed-end loans for autos, boats, mobile homes, vacations or tuition expenses. Revolving credit, or debt linked to credit or charge cards, rose by just $1.4 billion.

With battlefield successes in the Iraq war, consumer confidence surged in April and auto sales jumped 1.9 percent from March as carmakers offered discounts and zero-percent financing.

Since 2001, when a recession started, borrowing has expanded at an average of $6.8 billion a month, according to Bloomberg News, down from $12 billion monthly in 2000.

"The consumer's willingness to borrow is consistent with improved confidence and with the idea that consumer spending will sustain the economy," said Milton Ezrati, senior economist at Lord, Abbett & Co. in Jersey City.

In a separate report Thursday, the Fed said overall household debt has increased at a double-digit pace for the past five quarters. It rose by an annualized rate of 10 percent in the first quarter, with mortgage debt climbing by an annualized rate of 12 percent.

That run-up in credit has left some economists concerned about the future durability of consumer spending, which makes up two-thirds of U.S. economic activity.

"Households remain heavily burdened with debt," said Paul Kasriel, director of economic research for Northern Trust Co. in Chicago, in a research note. "Yes, the interest rates on this debt are very low. But the massive amount of debt owed by households is partially offsetting the low-interest rate effect on consumer spending."

Home buying hurting rentals

Vacancies in first quarter were highest since 1989

BY ELIZABETH HAYES

Record-low mortgage rates have turned apartment renters into home buyers over the last couple years, and the resulting apartment glut has cut profits for apartment real estate investment trusts, including Chicago-based Equity Residential Properties Trust.

U.S. rental vacancies rose to 6.8 percent in the first quarter, the highest since 1989, and rents were unchanged, researcher Reis Inc. said.

"It's a really, really difficult environment for multifamily housing," said Michael Torres, chief executive officer of Lend Lease Rosen, which manages $1.5 billion, including shares of real estate investment trusts devoted to apartments.

Demand for houses has been one of the few bright spots in the U.S. economy. The lowest interest rates in more than four decades boosted existing home sales 21 percent since 1999 even as consumer sentiment measured by the Conference Board plunged 43 percent.

Employment last year fell 0.9 percent and will increase only 0.4 percent this year, according to RBC Capital Markets. That's particularly ominous for the rental market, because to remain in balance, the economy needs to create five to seven new U.S. jobs for every apartment unit built. Instead, three jobs are being lost for every unit built, said Christopher Hartung, a real estate analyst at WR Hambrecht + Co.

U.S. employers have eliminated 289,000 jobs in the last four months, and the unemployment rate climbed to 6.1 percent in May, the highest in almost nine years.

"If you look at multifamily housing supply we're getting now, it's in line with what we got in the late '90s, when we had meaningful job growth," said Andrew Rosivach, an analyst at US Bancorp Piper Jaffray. "We're getting new supply while job growth is lower."

Demand has been hurt further by renters who can't afford to buy, and are sharing apartments with roommates or moving back home.

Publicly traded developers build about 10 percent of new rental units, while the rest comes from closely held companies such as JPI, Atlanta-based Trammell Crow Residential and Irvine Co. Companies that don't answer to shareholders tend to take more risks, such as borrowing while interest rates are low to build to be ready when the economy improves, Rosivach said.

Earnings for apartment real estate investment trusts fell 14 per-

See RENTING, Page 62

Jul '03: Non-stop New home building Raises apartment Vacancies to near Record highs…

Boom can lead to Bust!

RENTING

Continued from Page 57

Landlords reducing rents, offering free months

cent in the first quarter, the weakest performance of all real estate investment trust property types, according to Smith Barney. Earnings for 2003 will slide 11 percent, Smith Barney predicts.

Alexandria, Va.-based AvalonBay's first-quarter earnings declined 17 percent to $57.5 million, or 83 cents a share, from the year-earlier quarter. Chicago-based Equity Residential's earnings slid 12 percent to $168.6 million, or 57 cents, and Richfield Heights, Ohio-based Associated Estates Realty Corp. fell 46 percent to $3 million, or 16 cents.

The companies' shares have lagged the market. Associated Estates shares fell 4 percent this year through Tuesday, AvalonBay's shares rose 11 percent and Equity Residential gained 10 percent, all behind the 15 percent climb in the Standard & Poor's 500 Index in that time.

The national home ownership rate has risen almost 4 percentage points to 68 percent since 1993, according to the U.S. Census Bureau. Home ownership may climb to 70 percent in the next five years, said Douglas Duncan, an economist at the Mortgage Bankers Association.

Landlords are reducing rents or offering one month or more free to draw renters. Equity Residential increased spending on such concessions by $3.7 million, or 42 percent, in the first quarter from the year before. Concessions were offered in about 33 percent of apartment markets at the end of last year, up from 28 percent of markets a year earlier, according to RBC.

"The biggest negative is we've not been able to increase rents," said Glade Knight, chairman and chief executive of Cornerstone Realty Income Trust Inc.

That stands in stark contrast to declining home sales in the recession of 1990-91, Banc of America analyst Lee Schalop said.

Jeffrey Friedman, chairman and chief executive of Associated Estates, who has been in the business for 25 years, said "I've never seen a cycle like this," referring to the fact that lower rents haven't persuaded renters to stay put even as apartment units proliferate.

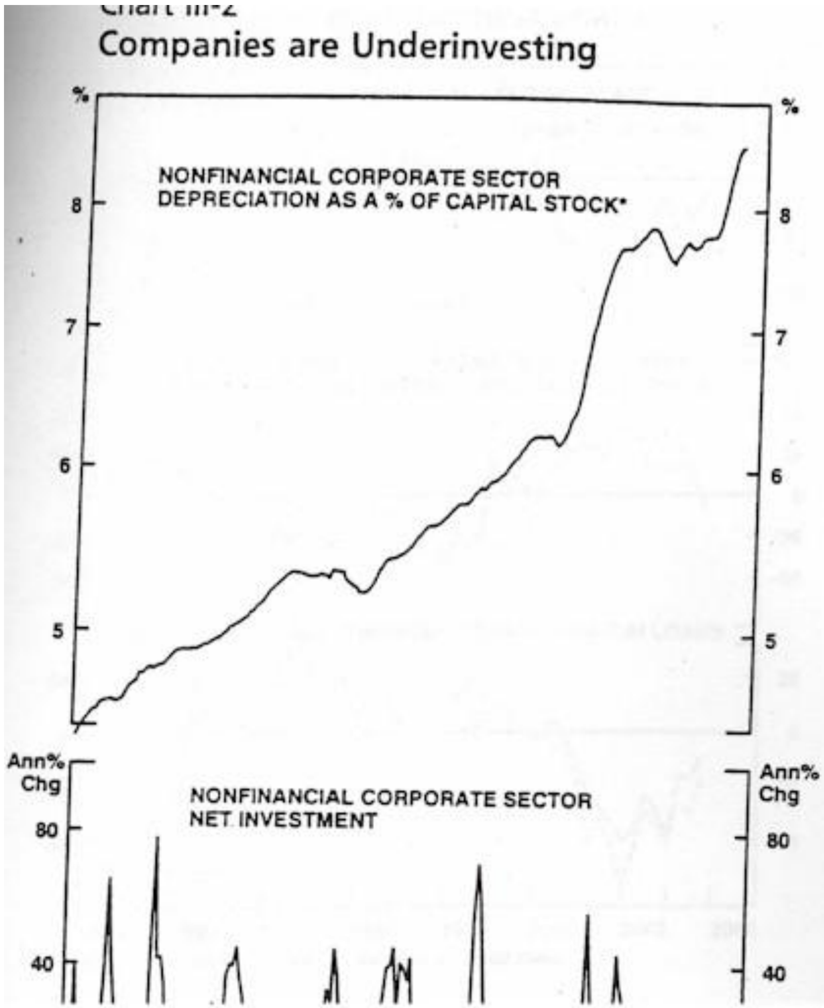
Associated Estates has no plans to start building as it wraps up development of apartments in Atlanta and Orlando, Friedman said.

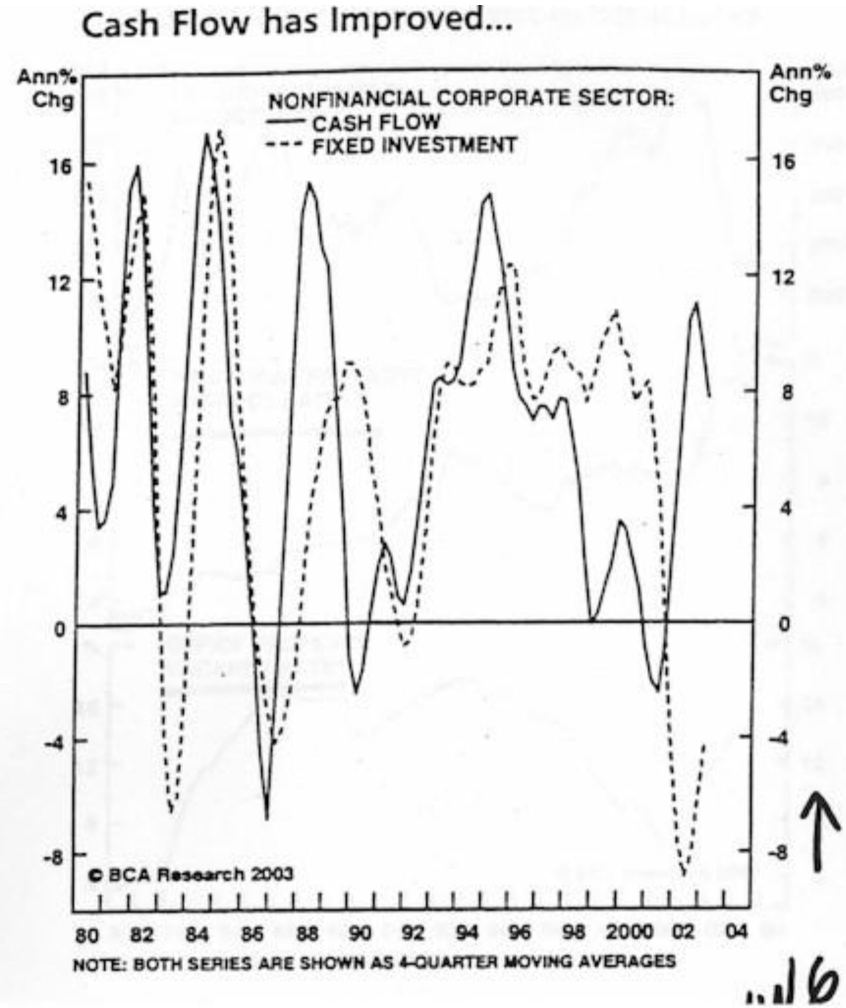
"Would we prefer to be on a different swing of the pendulum? Certainly," Friedman said. "In the long run, all these investments will prove to be quite profitable."

Bloomberg News

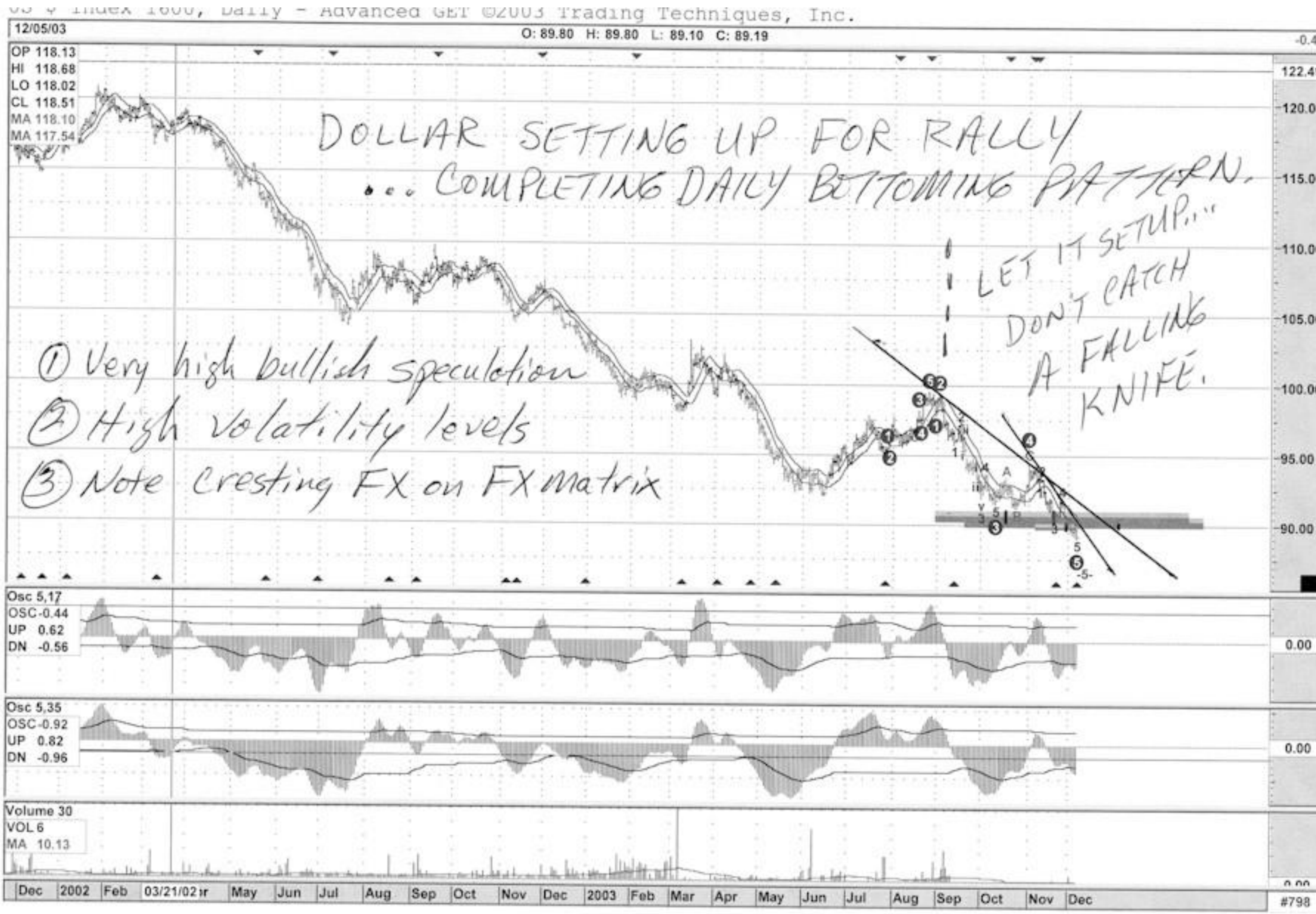
8

SEP '03: CORPORATE CASH FLOW IMPROVES….
…BUT COMPANIES ARE RELUCTANT TO INVEST





12-5-03 *IMMINENT DOLLAR RALLY IS LIKELY*



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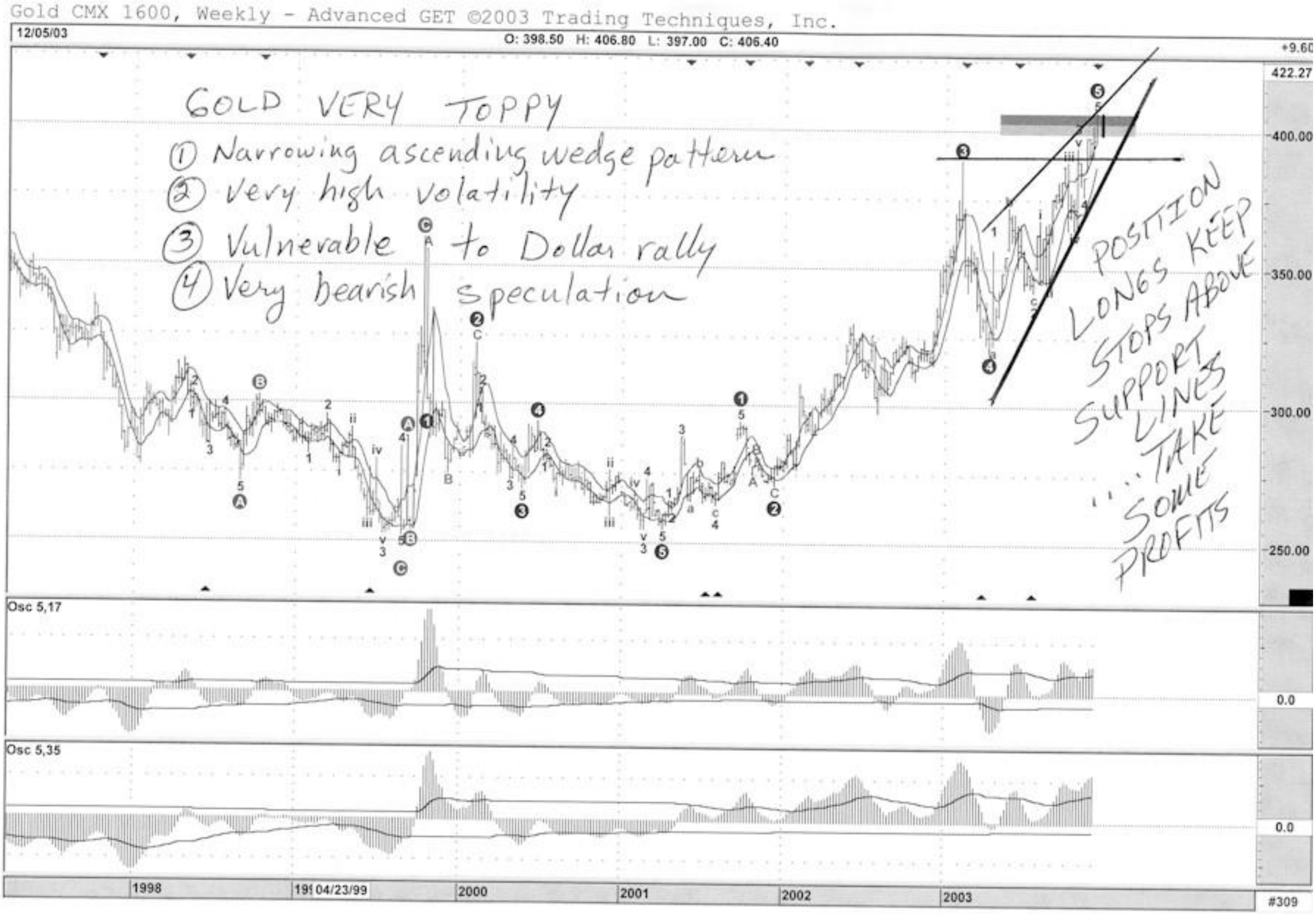


$64 QUESTION: After any pullback, then what ?

11-26-03

GLOBAL STOCK MARKET TIMING SIGNALS

Short-term: toppy
Longer-term: more upside

LOW ZONE	BULLISH PATTERNS					PEAK ZONE	BEARISH PATTERNS				
BOTTOM (W5-1)	TURN UP (W1-2)	UPTREND (W3)	PAUSE (W3-4)	RETRACE (W4)	FINAL UP (W5)	TOPPY (W5-1)	TURN DOWN (W1-2)	DOWN TREND (W3)	PAUSE (W3-4)	RALLY (W4)	FINAL DOWN (W5)
	Sing	BrazBZF- TaiROC- HongK- ChinaJFC- RussTRF	Austral- Austria- Belgium- Canada- DJWorld- EAFE- France- Germany- Israel- Italy- Neth- Spain- Switz- UK	BrazBZL- Chile- India- Indo- Japan- Malay- Mexico- Sweden- TaiEWT- Thai- Turkey		Korea					

UNCLEAR, LIKELY BULLISH:	
UNCLEAR:	
UNCLEAR, LIKELY BEARISH:	
BUY WATCHLIST:	
SHORT WATCHLIST:	

Last updated as of market close: 11-26-03

NOTE: The above "country timing sequences" are all based on closed-end funds or mutual funds traded in the U.S. The countries and their associated funds are listed below:

Australia: IAF / Austria: EWO / Belgium: EWK / Brazil: BZF, BZL / Canada: EWC / Chile: CH / China: JFC / France: EWQ / Germany: EWG / Hong Kong: EWH / India: IFN / Indonesia: IF / Israel: ISL / Italy: EWI / Japan: EWJ, JPN / Netherlands: EWN / Russia: TRF / Singapore: EWS, SGF / Spain: EWP / Switzerland: EWL / Taiwan: ROC, EWT / Thailand: TTF / Turkey: TKF / U.K.: EWU

Corporate earnings look to be strong

CONTINUED FROM PAGE 1

Tribune Oct '03

gaining 15 percent in the second quarter. The Dow Jones industrial average is up 3.7 percent, following 12 percent growth in the second quarter.

In the third quarter, 311 stocks have higher S&P earnings estimates than they did at the same time last year, said S&P analyst Howard Silverblatt.

The best news came from energy stocks, where 91 percent are expected to increase. The worst news is in utility stocks, with only 31 percent expected to better their performance.

The power blackout in the East in August is a sign of the face. Many are saddled with high debt and an aging infrastructure, a combination that is a drag on financial performance, Silverblatt said.

"There are some very big political questions, some very big capital questions to be answered," he said.

In addition to relatively strong earnings, investors should be encouraged by dividend increases, Silverblatt said. The S&P 500's indicated-dividend rate is $17.73, compared with $16.08 in 2002. Silverblatt estimated that translates into an increase of $48.3 billion in the hands of investors after taxes.

Although the jobless rate—6.1 percent in August—continues to hurt the economy, growth in the gross domestic product and wages is a sign that things are improving, said Stuart Freeman, chief equities strategist for A.G. Edwards & Sons.

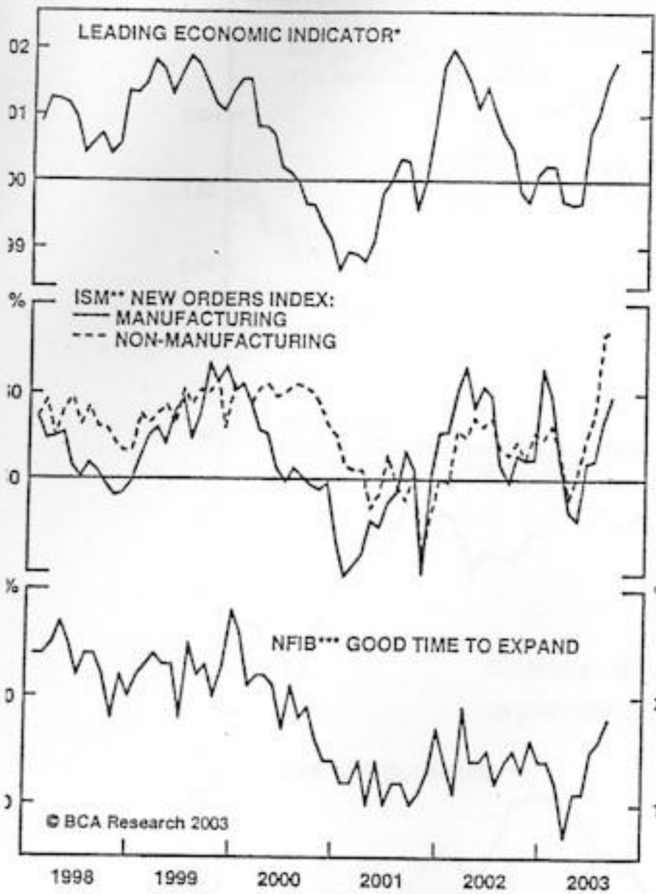
"As companies become more confident that growth in the economy will continue, that's

…orporate healing" story is …high-yield. Stay overweight in

ECON OU… IMPROVING

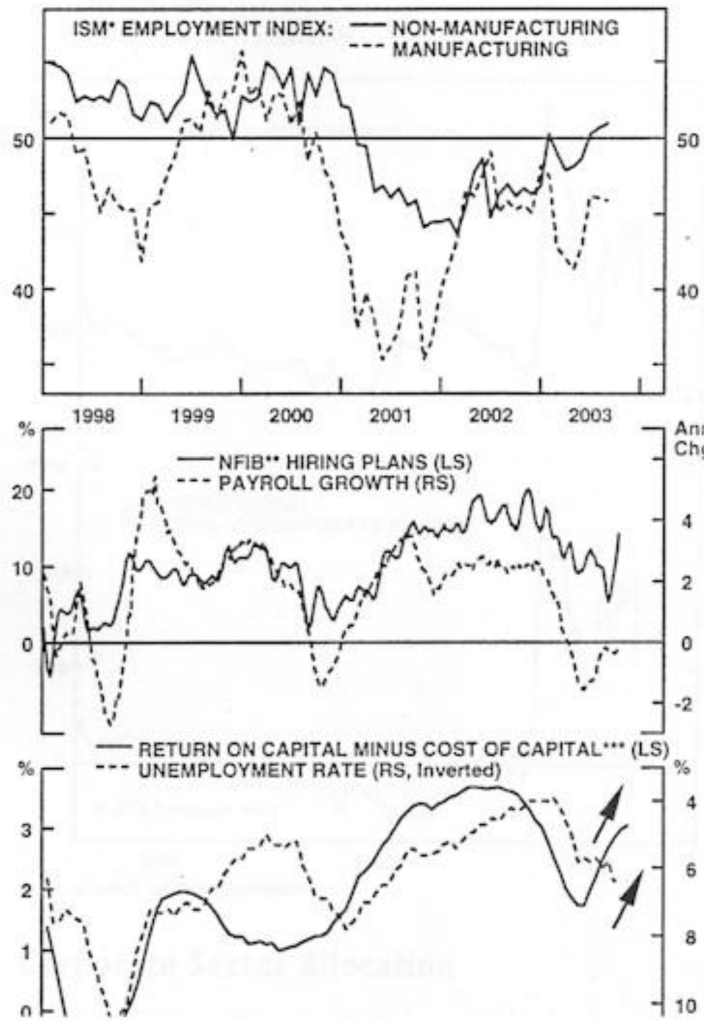
JOB OUTLOO… IMPROVING

Chart I-1
Economic Strength Will Lead to...



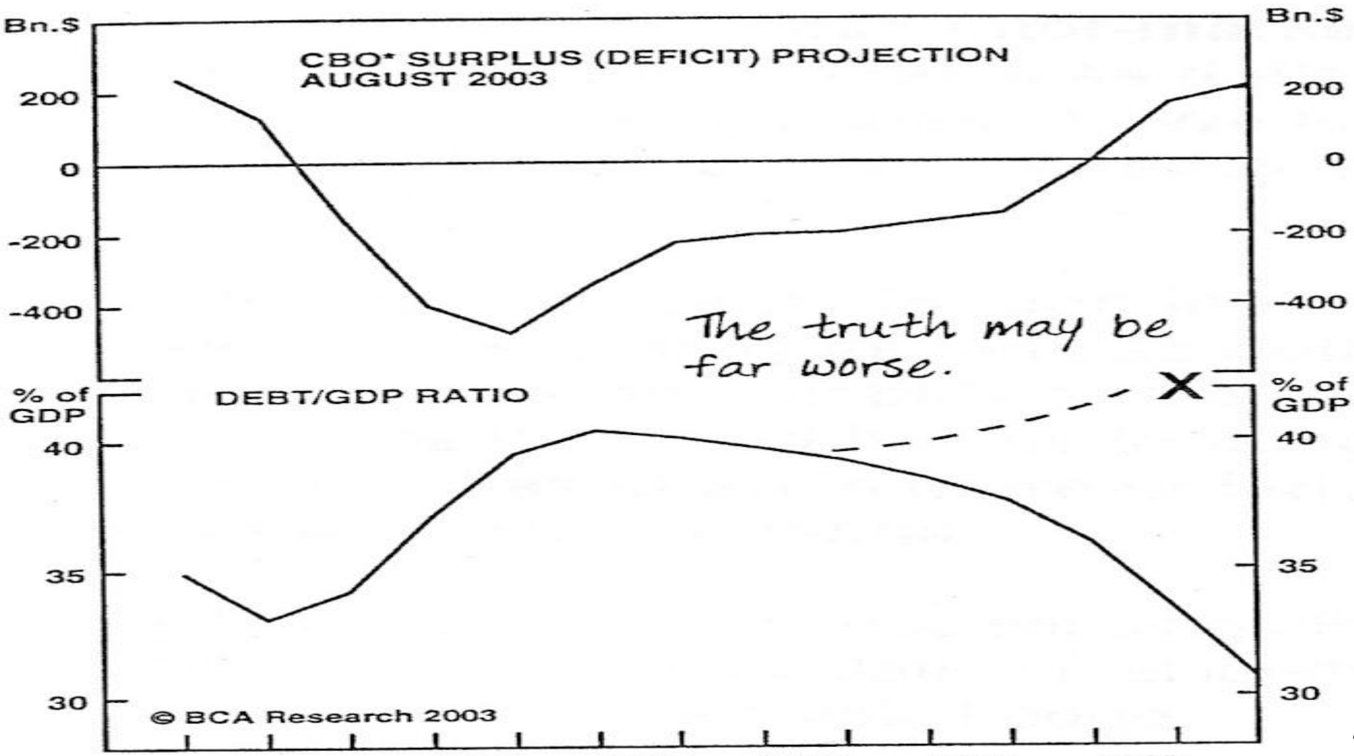
*SOURCE: THE CONFERENCE BOARD, SHOWN AS A DEVIATION FROM TREND
**SOURCE: INSTITUTE FOR SUPPLY MANAGEMENT
***NFIB = NATIONAL FEDERATION OF INDEPENDENT BUSINESS, PERCENT REPORTING THAT NOW IS A GOOD TIME TO EXPAND

Chart I-2
... Renewed Growth in Employment



OUR BIGGEST NATIONAL CHALLENGE

Fiscal Blowout

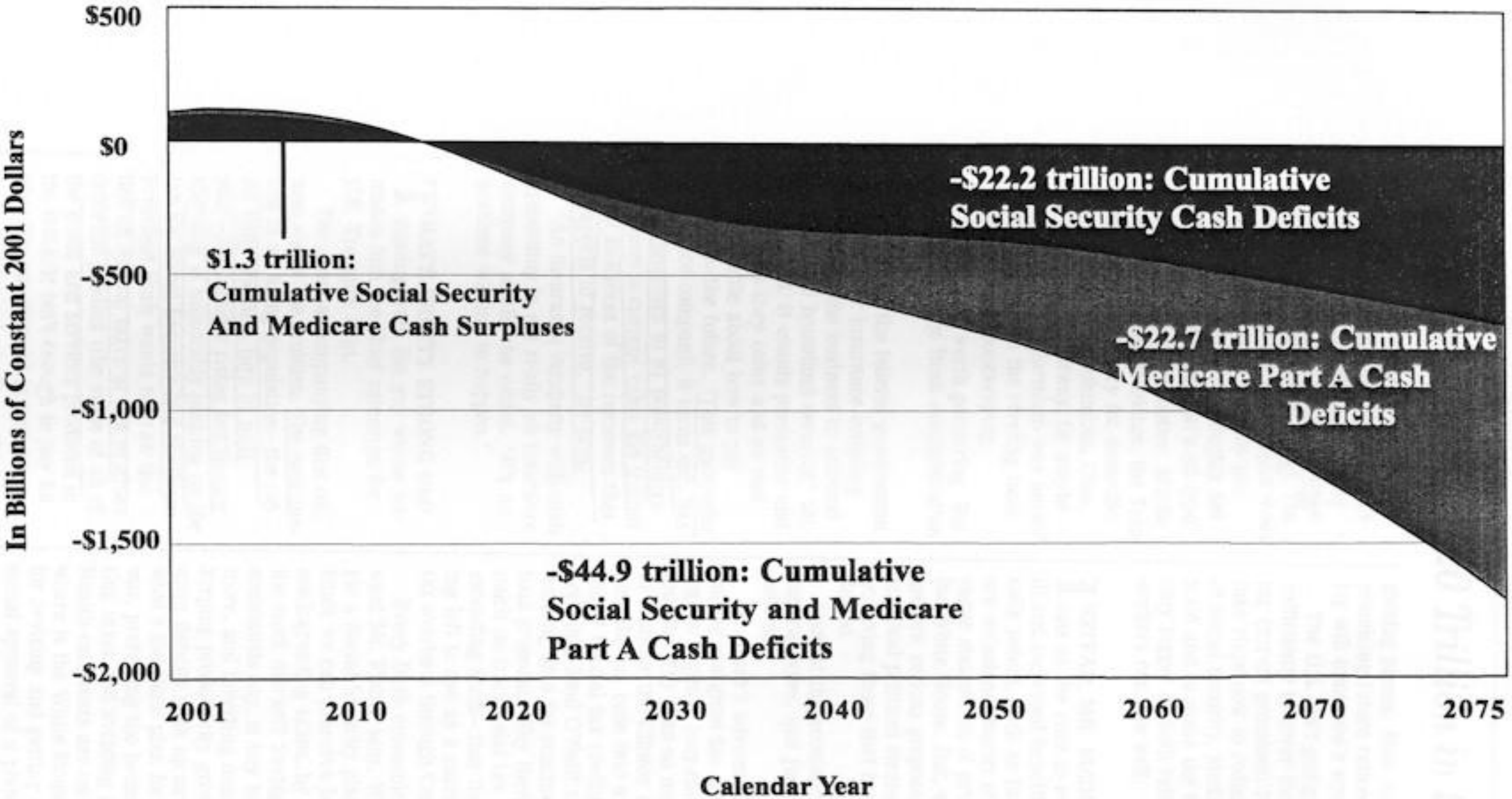


*CBO = THE CONGRESSIONAL BUDGET OFFICE

plan omitted his $87 billion request for Iraq's reconstruction, not to mention the proposed (and very pricey) prescription drug benefit plan. None of the main Democrat presidential contenders have shown how they would balance the budget. Concerns among bond investors are escalating about the lack of political will to tackle the out-of-control budget situation.

"…out of Control budget Situation…"
Bank Credit Analyst

SOCIAL SECURITY AND MEDICARE PART A CUMULATIVE CASH SURPLUSES AND DEFICITS IN CONSTANT 2001 DOLLARS 2001-2075



Increase the figure by $7 Trillion for the Prescription Benefit !

BIRNBAUM ON WASHINGTON
$10 Trillion in Deficits?
Federal liabilities and accumulated deficits may actually soar by tens of trillions of dollars over the next few decades, leading to fiscal catastrophe, a Congressional expert warns.
FORTUNE
Wednesday, September 10, 2003
By Jeffrey H. Birnbaum

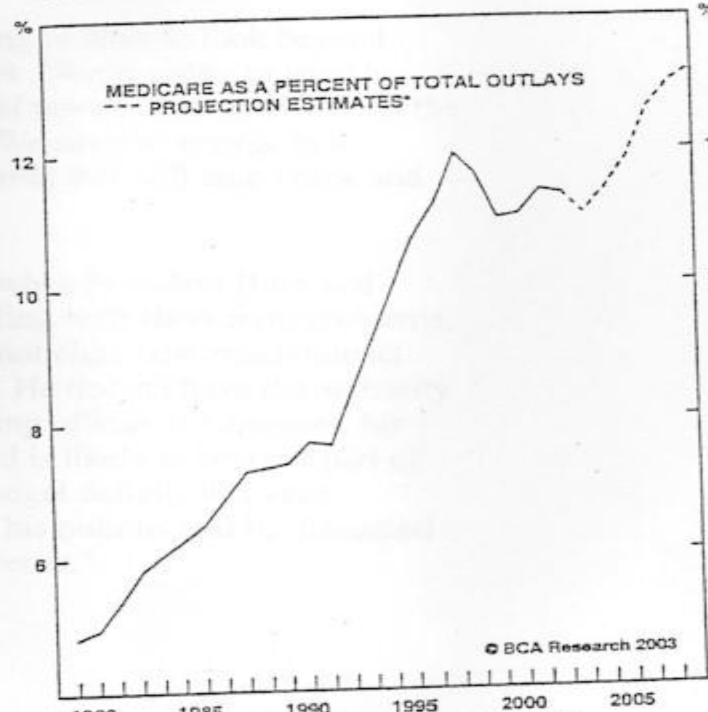

Jeffrey Birnbaum

Everyone knows that the federal budget deficit is going to be huge in the next fiscal year: a half-trillion dollars or more. And that's before the $87 billion the President has requested for rebuilding Iraq next year. But over the next few decades, the budget deficit may actually soar tens of trillions of dollars above and beyond that amount--due to largely unaccounted-for costs from entitlement programs, warned Comptroller General David Walker in an interview with Fortune.com this week.

A deficit that high could be a fiscal catastrophe, says Walker, who runs Congress's investigative arm, the General Accounting Office. Most Americans don't know about these liabilities because they don't appear in any of the ten-year estimates that official Washington relies on to write its budgets and to form new policies, says Walker, who is scheduled to give a major address to the National Press Club next Wednesday in Washington, D.C., to warn about the matter. He intends to "issue a wake-up call that we face serious and structural deficits that we need to start doing something about."

Washington experts have been forecasting annual deficits of around $500 billion, but Walker says those numbers don't take into account that, as the Baby Boom starts to retire over the next decade, entitlement programs, especially Social Security, Medicare and veterans health programs, will balloon in cost. "There are tens of trillions of dollars in discounted present value of commitments and obligations that aren't adequately

Chart III-2
Medicare: A Growing Burden



*OFFICE OF MANAGEMENT AND BUDGET, MID-SESSION REVIEW

E14

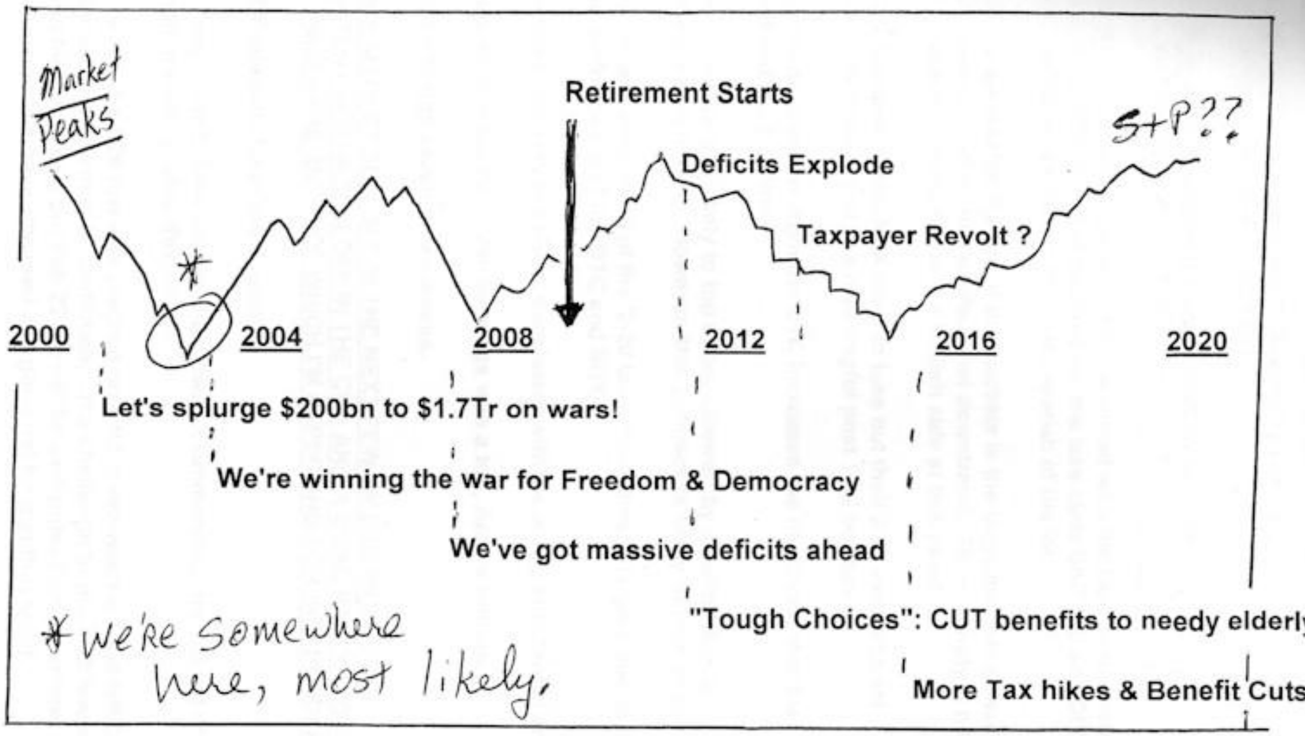
addressed," Walker says. "We would have to have tens of trillions of dollars invested at Treasury rates today to make good on those promises and we just don't have it." And the gap between incoming revenue and expenditures on these programs "is too great to simply grow our way out of the problem," he says. "Tough choices have to made."

Walker declined to give a complete listing of solutions he will suggest next week. But he gave a few hints. For instance, he plans to propose that better, more accurate measurements should be published about the long-term costs of programs now on the books. He also would like to begin "a massive education campaign" to inform the public about these concerns. "One of the biggest problems is that the American public doesn't understand the nature and magnitude of our challenge," he says. As the Baby Boom hits retirement age starting in 2008, "we face a demographic tidal wave that is unprecedented in the history of this country," he says.

How to fix the budget? "We're going to have to look beyond entitlement programs," Walker says. "We're going to have to review and examine a wide range of government activities on the spending side and on the tax side. We need to engage in a fundamental review and reengineering that will take years, and it's important that we start now."

From Dec. 2003 Market Outlook

BABY-BOOMER RETIREMENT:
THE SILENT "BLACK HOLE" of FINANCE



WILL MARKETS MOVE "SIDEWAYS", PULLED BY THE GRAVITY of ENTITLEMENT FINANCING DEMANDS OVER THE NEXT 20 YEARS??

520

Bishop's Full House Trader

Stewart M. Bishop, Publisher
FullHouseTrader.net

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