

**LONG-TERM ECONOMIC &
FINANCIAL CONTEXT**

CORNERSTONE INVESTORS' NETWORK

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LONG-TERM ECONOMIC SITUATION

We have a MOUNTAIN of DEBT now

We need ANOTHER \$44 Trillion to retire the Baby Boomers

Boomers will be a HUGE VOTING BLOC demanding benefits!

Many corporate pension plans are underfunded

Result will be constant pressure to reduce benefits (income) and increase taxes

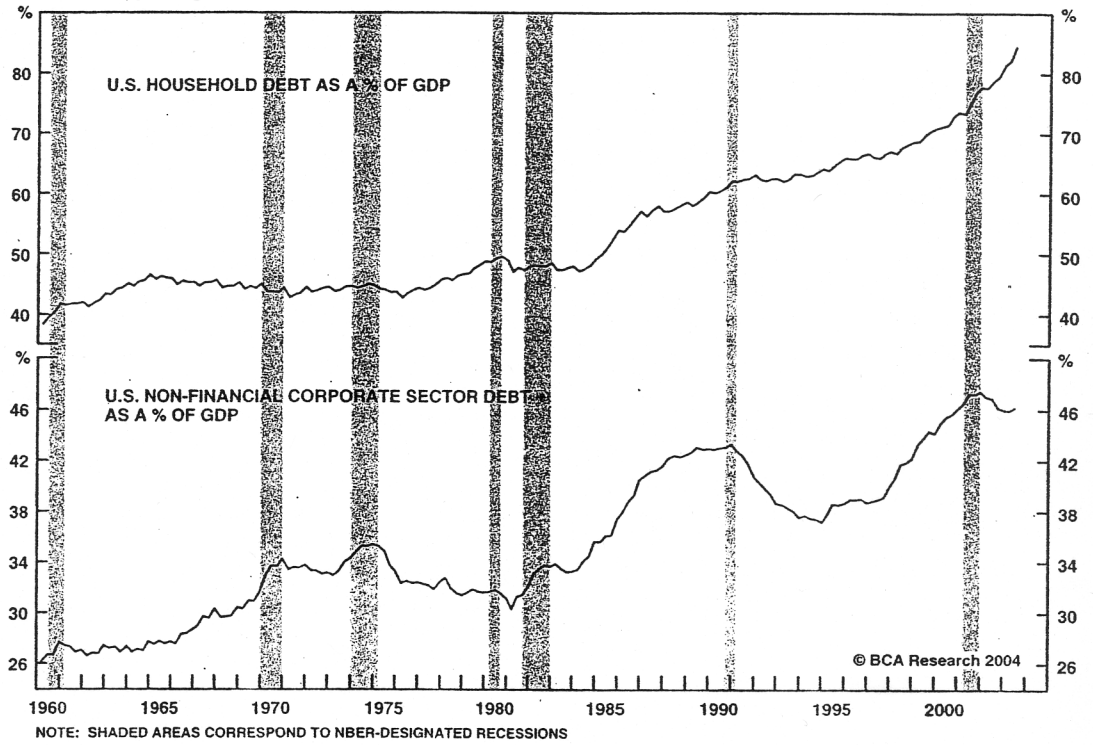
The stock market may be heading for a choppy, sideways pattern lasting 10 to 20 years

Stock market performance is very critical to consumer confidence, personal wealth and therefore to economic growth which in turn is critical to coming anywhere close to raising \$44 Trillion

IF we are heading into a protracted sideways stock market, new technical patterns will begin to emerge (i.e. "stock behavior" will change)

In a sideways equity market, yield becomes more important to overall returns

CHART 2
The Supercycle of Debt



*Liquidity
will
take
years*

CHART 4
A Savings Challenged U.S. Economy

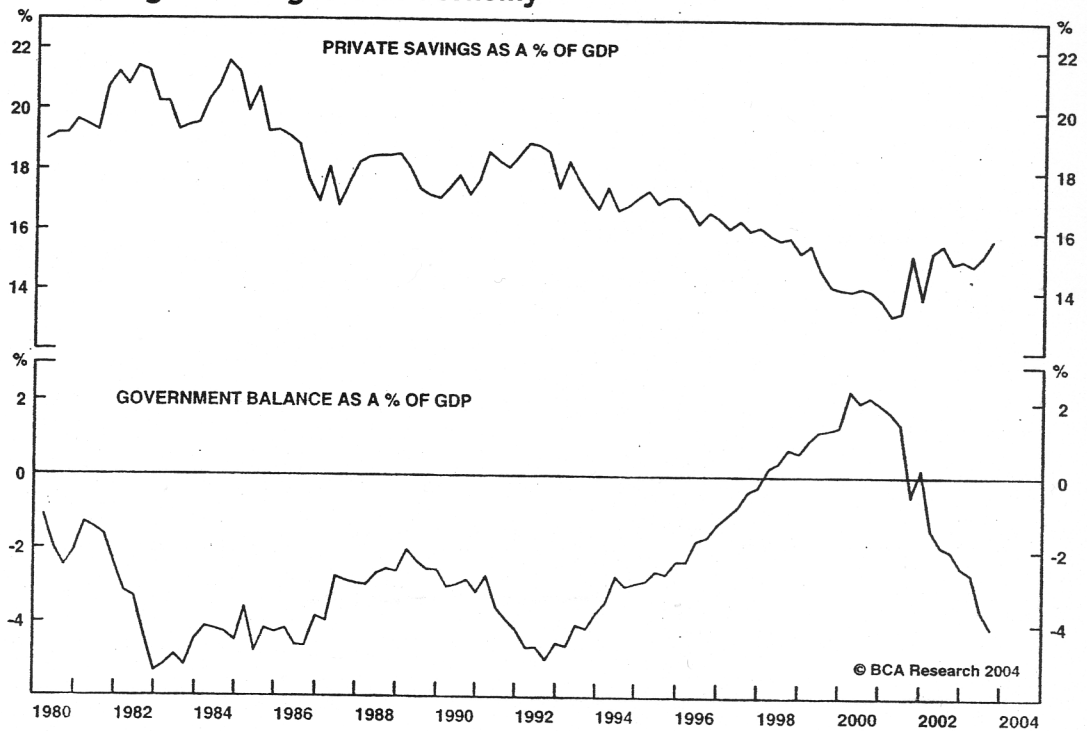


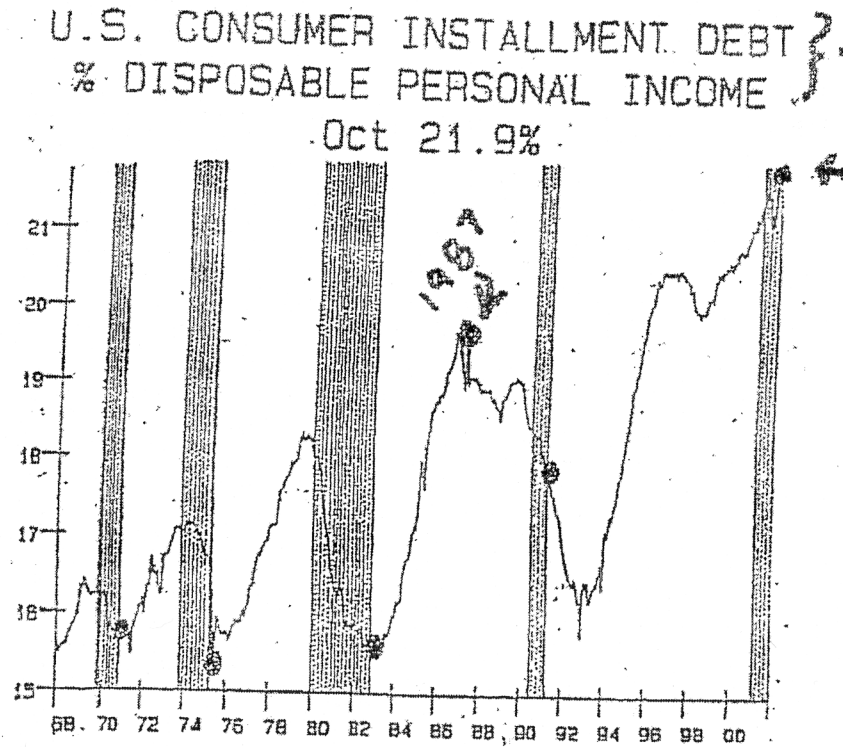
CHART 5
The Dollar: Much Further to Fall

REAL TRADE-WEIGHTED DOLLAR

decline has been relatively modest. In real terms, the dollar's broad trade-weighted index has declined by only 11% since 1980.

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



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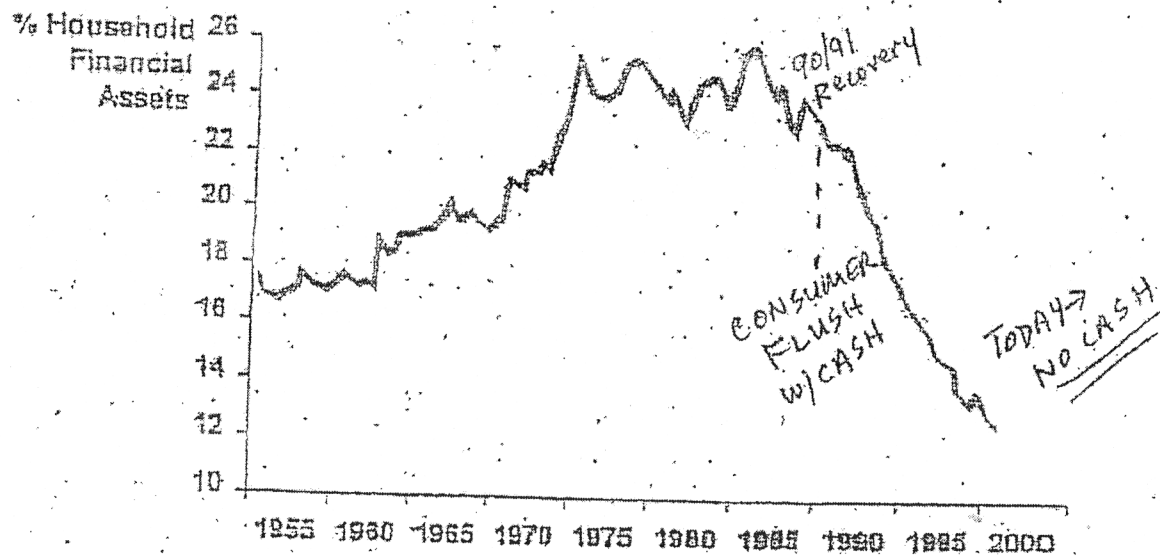
Cornerstone, Jan '02

AVG. HOUSEHOLD HAS LOW CASH RESERVES

QUAGMIRE OF ALL QUAGMIRE

Northern Trust
Global
Investments

U.S. Household Cash Holdings



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Jan. '02

Nation's Debt Grew at Rapid Pace in 2003

By EDUARDO PORTER

Americans, it seems, are feeling optimistic — or maybe fatalistic — about their financial future. The Federal Reserve reported yesterday that the nation's debt, including both household and government borrowing, grew last year at a pace not seen since the late 1980's.

According to the quarterly federal funds report, the total national debt, excluding the obligations of banks and other financial institutions, grew 8.1 percent last year, its fastest pace since 1988.

Households threw caution to the wind, mortgaging and remortgaging their homes and expanding their debt by 10.4 percent, the biggest percentage gain since 1987. Federal government borrowing expanded by 10.9 percent, the fastest rate since 1992. Only businesses held back. Still hobbled by credit overhangs from the investment boom of the late 1990's, corporate borrowing inched ahead by 3 percent.

Over all, the nation's debt grew

A year of living dangerously for U.S. households.

by some \$1.7 trillion last year, to \$22.4 trillion, the Fed said. The federal government accounted for about 18 percent of the total, local governments for roughly 7 percent, households for 42 percent and businesses for 33 percent.

Creditors abroad financed about a third of the year's borrowing, equivalent to roughly 5 percent of the nation's total output of products and services.

A deep recession provided a sour end to the 1980's credit bender, when huge federal deficits fueled double-digit annual growth in the federal debt. But economists are not willing to call how the current borrowing binge might play out.

"There's a time-bomb issue," said Allen Sinai of Decision Economics, a consulting firm. "There are potential adverse conse-

quences, but we don't know when."

Even the Fed chairman, Alan Greenspan, declared himself at a loss to explain how a corrective could be applied to the current financial imbalances. "Can market forces incrementally defuse a worrisome buildup in a nation's current account deficit and net external debt before a crisis more abruptly does so?" Mr. Greenspan asked in a speech to the Economic Club of New York on Tuesday.

Debt can hobble the economy. Mr. Sinai — who was an author of a recent study highlighting the dangers of ballooning budget deficits, along with Robert E. Rubin, the former Treasury secretary, and Peter Orszag, a Brookings Institution economist — said that household balance sheets seemed sound only because the price of household assets, like homes and stocks, were high and interest rates were low.

But if interest rates were to rise sharply, for example because businesses started borrowing again or a depreciating dollar primed inflationary pressures, "the picture could turn nasty in a hurry," Mr. Sinai said.

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