2004 ANNUAL MARKET OUTLOOK

CORNERSTONE INVESTORS' NETWORK

Dec. 6, 2003
Harper College, Palatine, IL

Stewart M. Bishop, Publisher

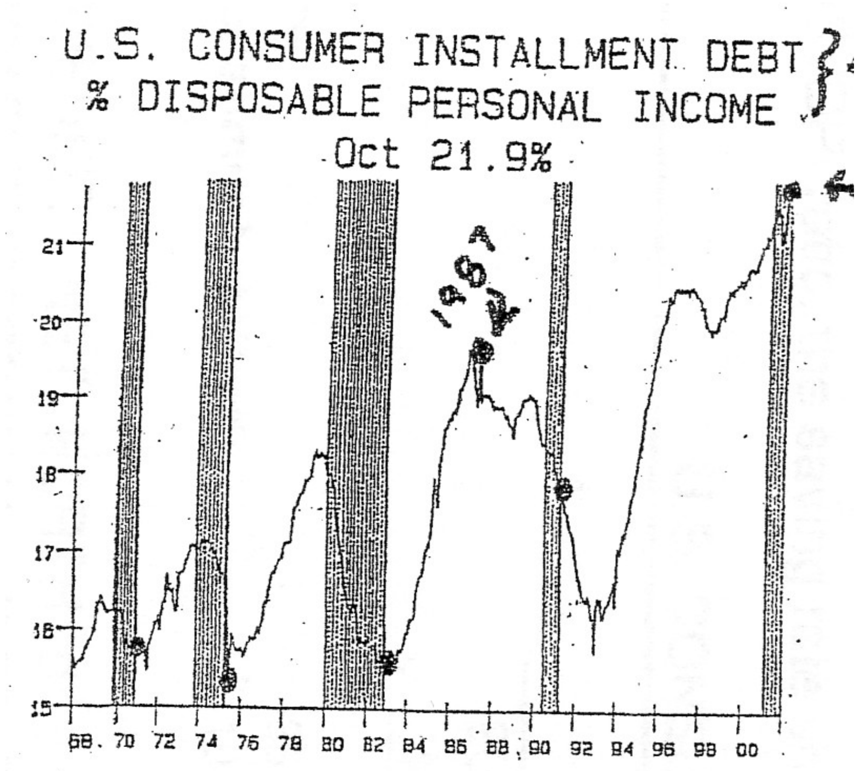
Bishop's Full House Trader

BACKGROUND: Jan. 2002 OUTLOOK FACTORS

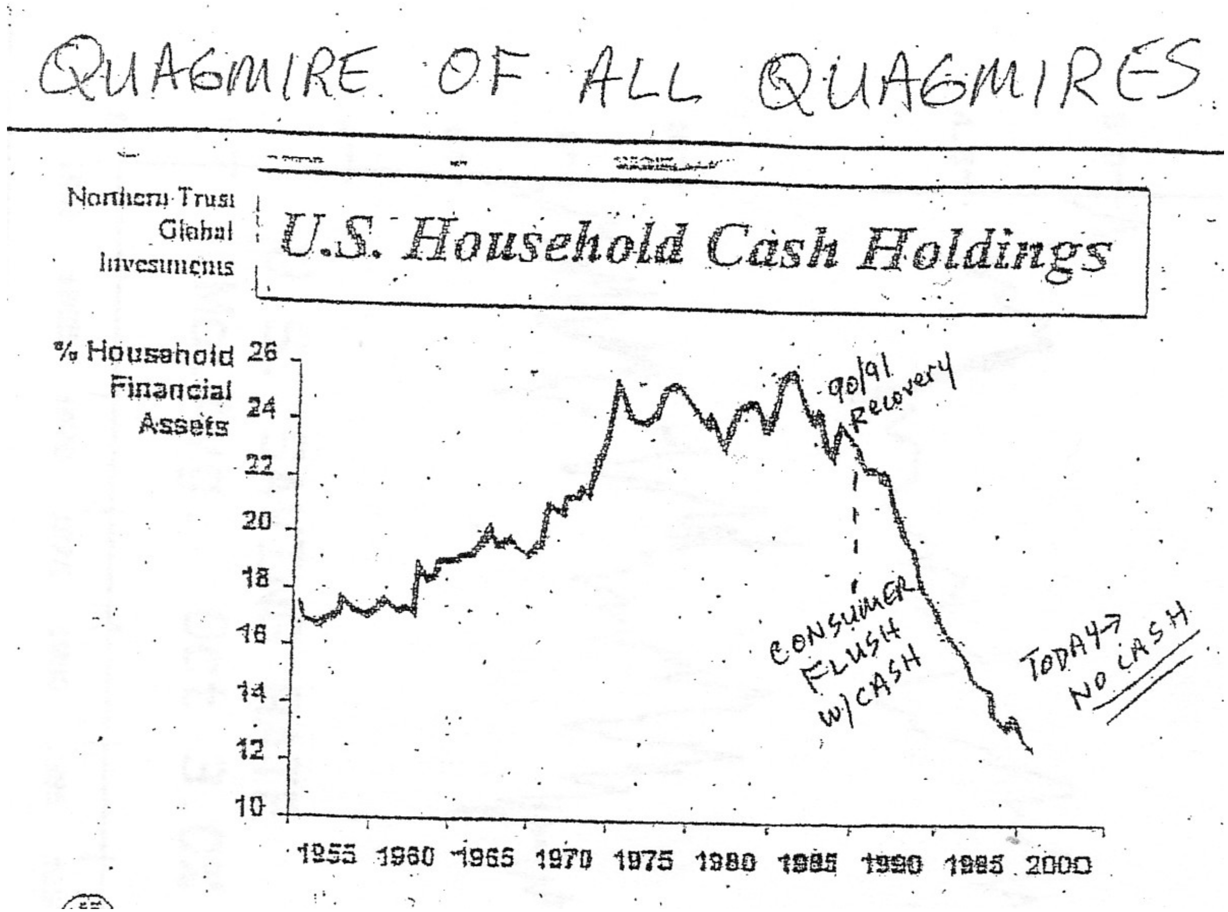
1. High levels of consumer debt
2. Consumer sustained by mortgage re-fi's & more credit
3. High levels of corporate debt from 1990's "capex" bubble
4. High corporate bond "risk spreads" over Treasuries
5. Fed's policy ineffective: banks don't lend & companies don't borrow
6. Housing is the only strong sector: oversupply accumulating
7. Fiscal stimulus is needed but politically unpopular
8. Over-optimistic EPS estimates lead to earnings disappointments
9. On-going Japanese economic, banking & stock malaise
10. Low consumer and investor confidence
11. Terrorism (& eventually Iraq) uncertainties
12. Mutual fund flows are not supporting the markets

13. LONGER-TERM: Likelihood of a prolonged "sideways / choppy" market similar to the 1963 – 82 timeframe.

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



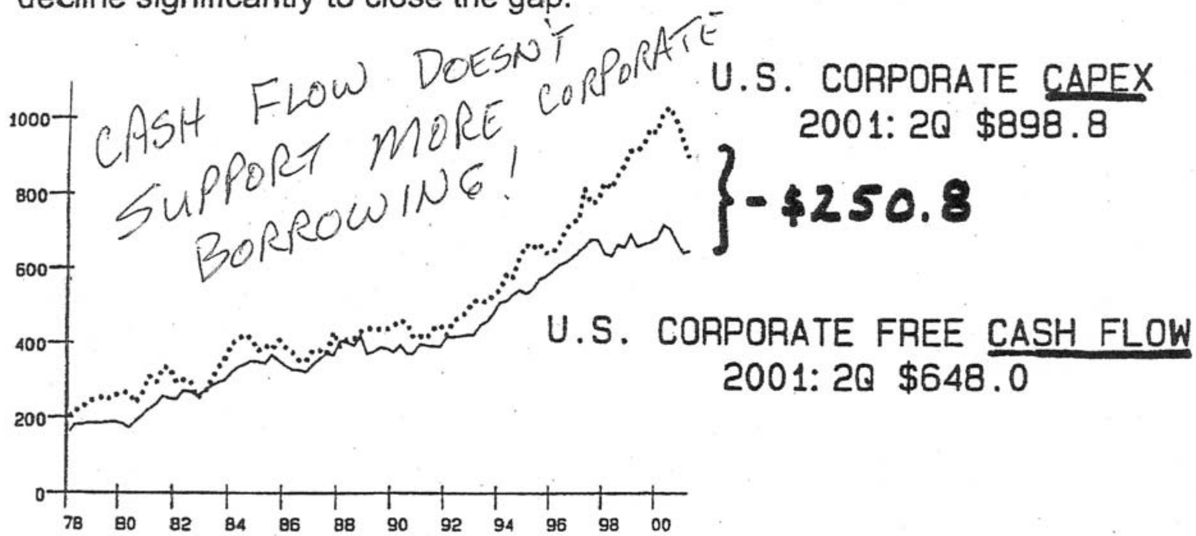
AVG. HOUSEHOLD HAS LOW CASH RESERVES



CORPORATIONS OVER-BORROWED IN BOOMING '90s

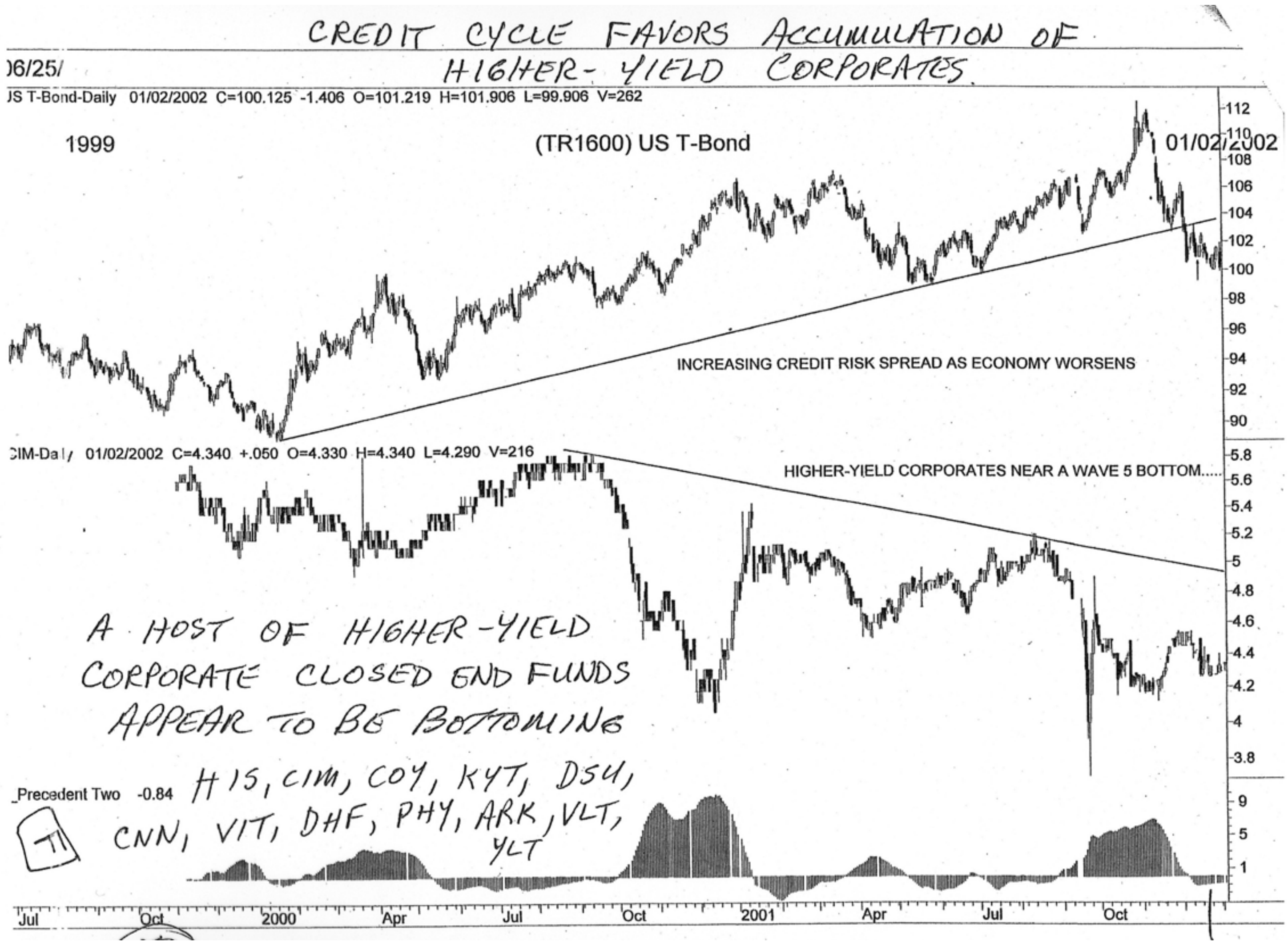
EXTENDED CORPORATE FINANCING GAP MAY MUTE CAPEX IN 2002

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.



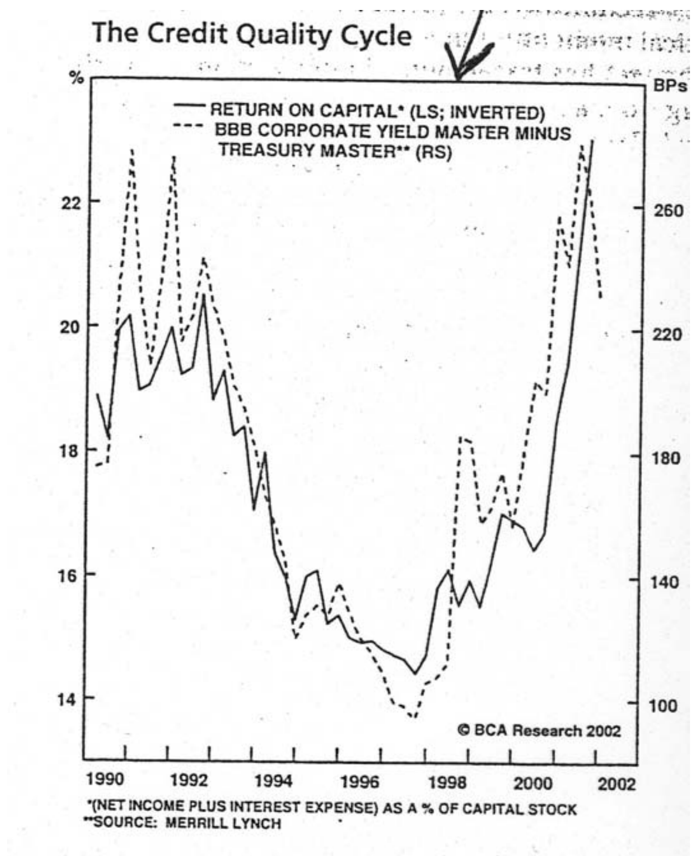
Jan '02

CORPORATE BONDS WERE ATTRACTIVE IN 2002



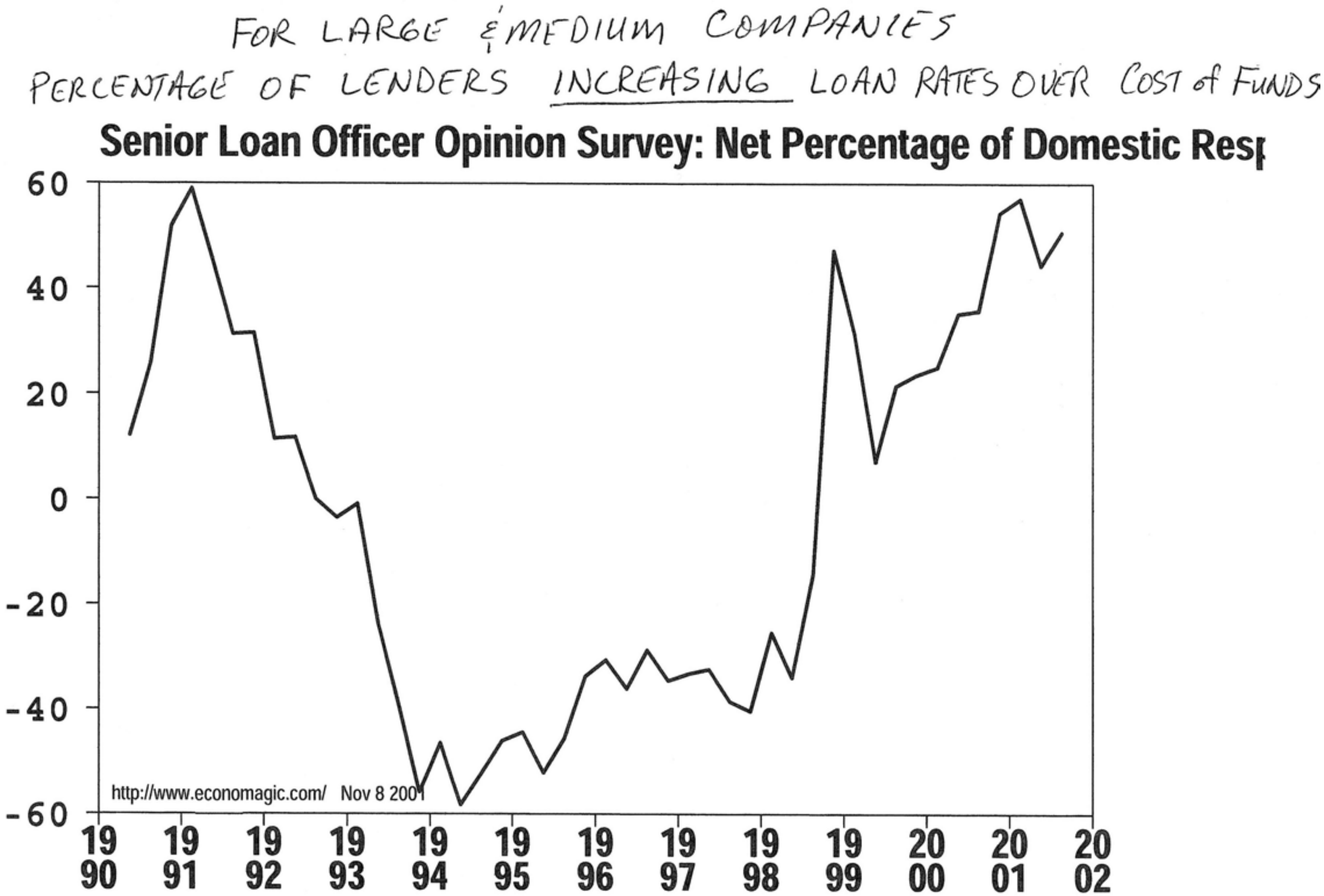
"Higher yield corporate bonds have been out of favor since '98…as the outlook For the economy and corporate cash flow improves, the risk perception should Improve, favoring a reduction in the spread of corporates over T-Bonds…"

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

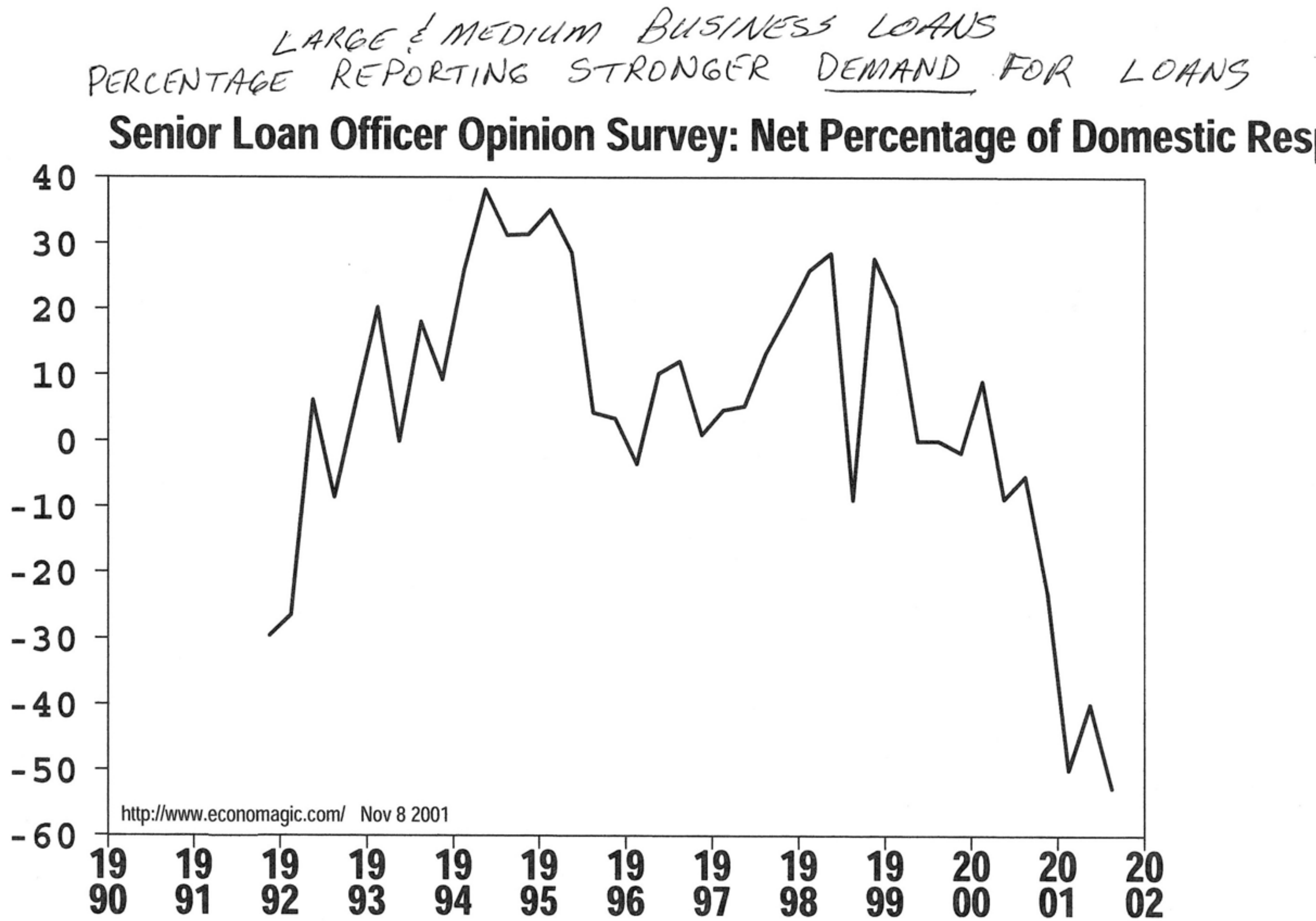


The market was fearful of lending to companies because they had taken on so much CAPEX debt in the booming ’90’s…for similar reasons they are also fearful of STOCKS! Fear is reflected in the spread.

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).

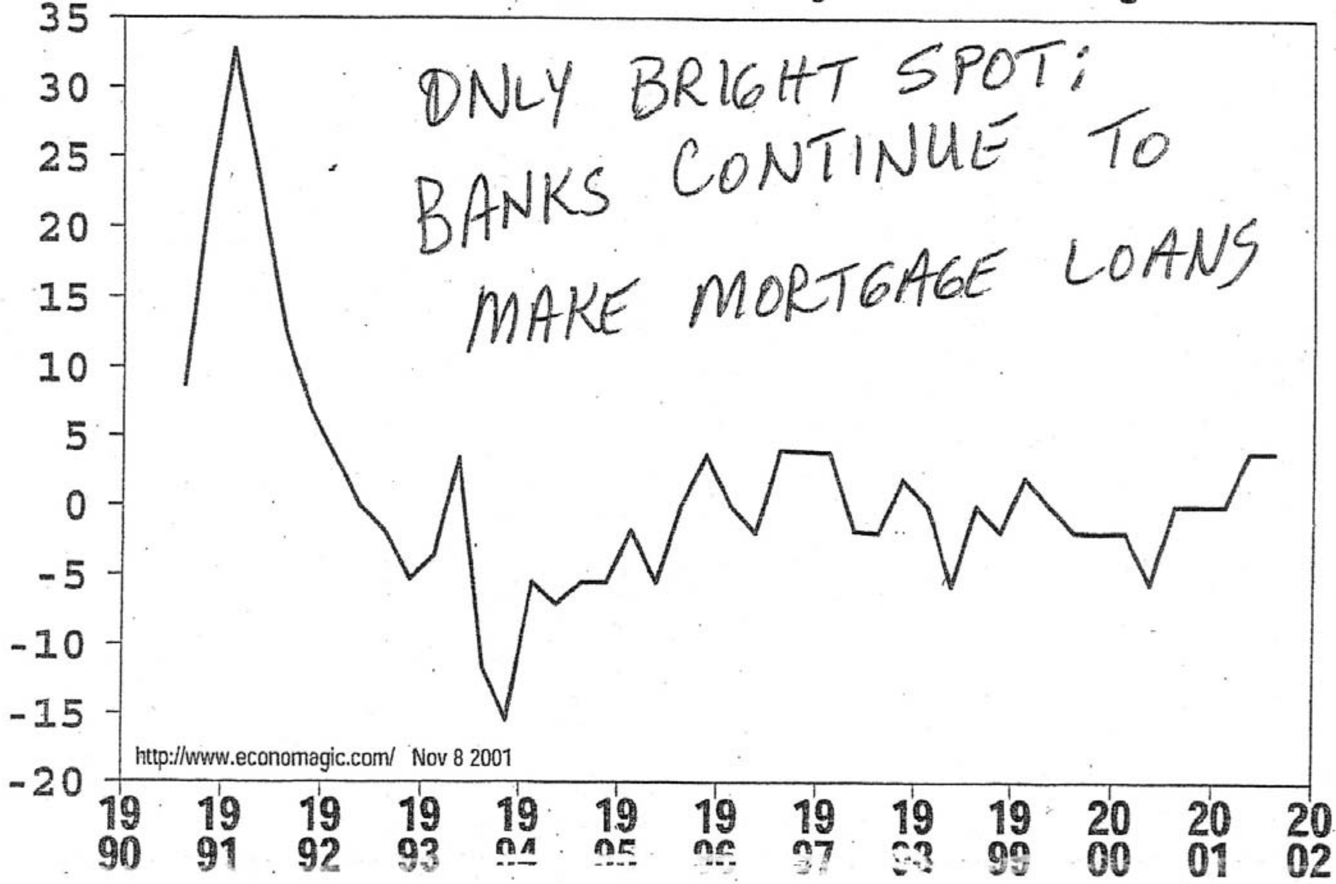


Fed Policy wasn't working not only because banks weren't Lending, but also because companies weren't borrowing!



PERCENTAGE OF LENDERS TIGHTENING LOAN STANDARDS on MORTGAGES

Senior Loan Officer Opinion Survey: Net Percentage of Domestic Resp



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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

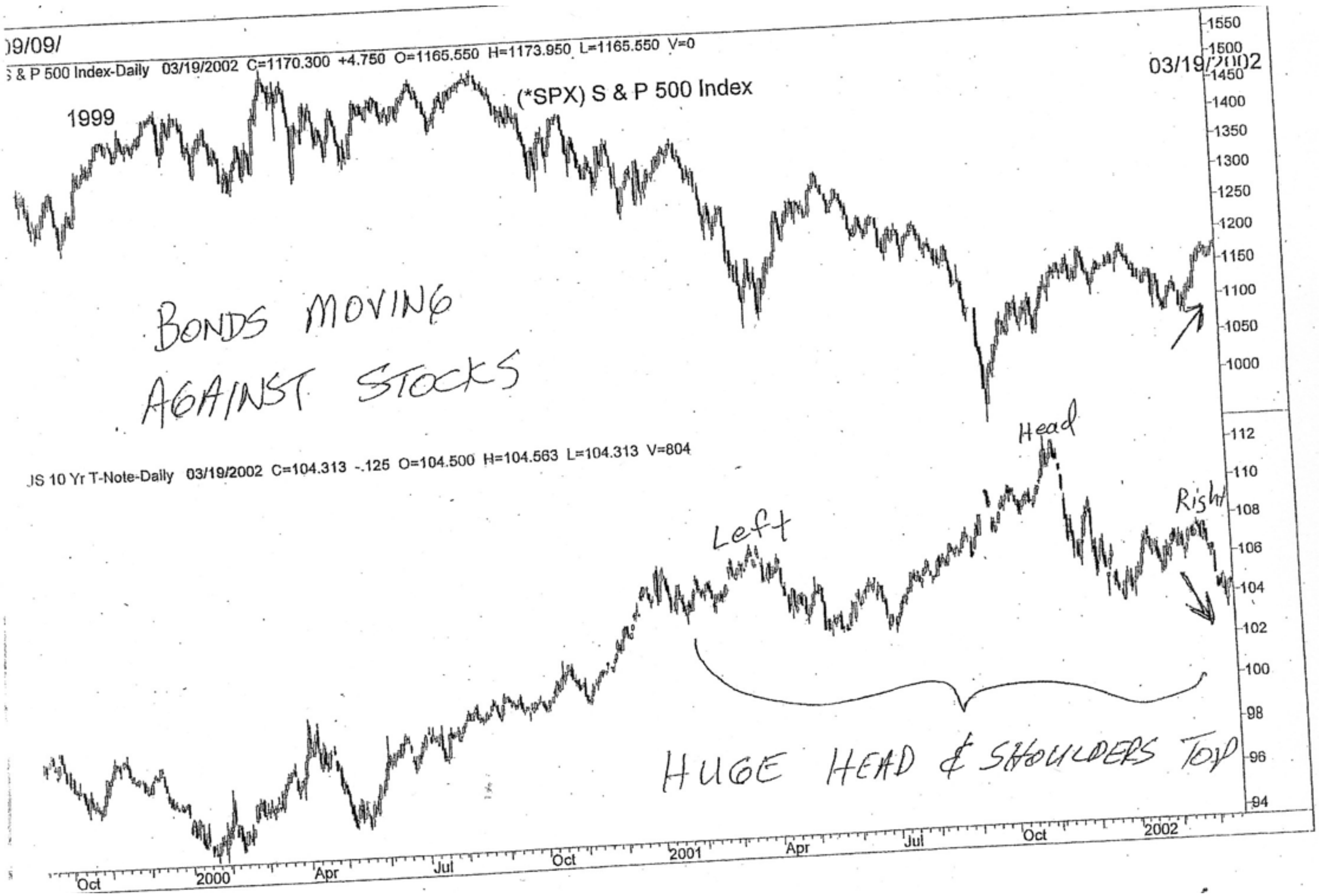
1) **Wealth Effect**
2) **Consumer Confidence**
3) **Corporate Financial Strength / Weakness**

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**

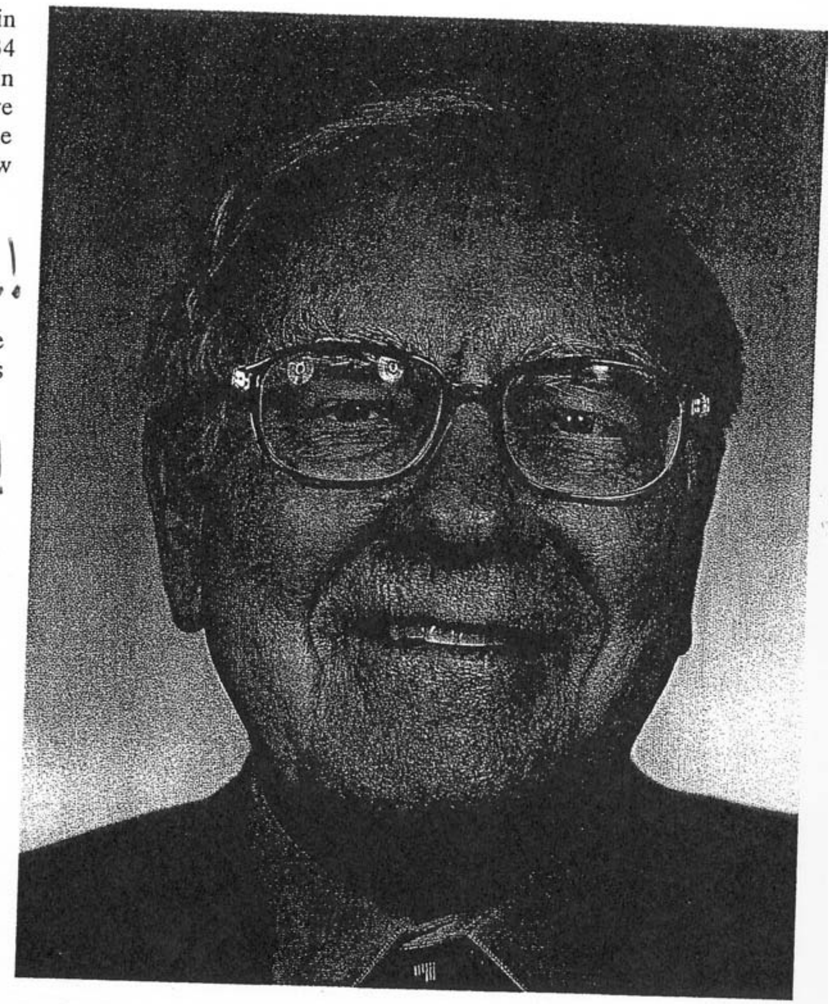
Skyrockets next 17!!

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.

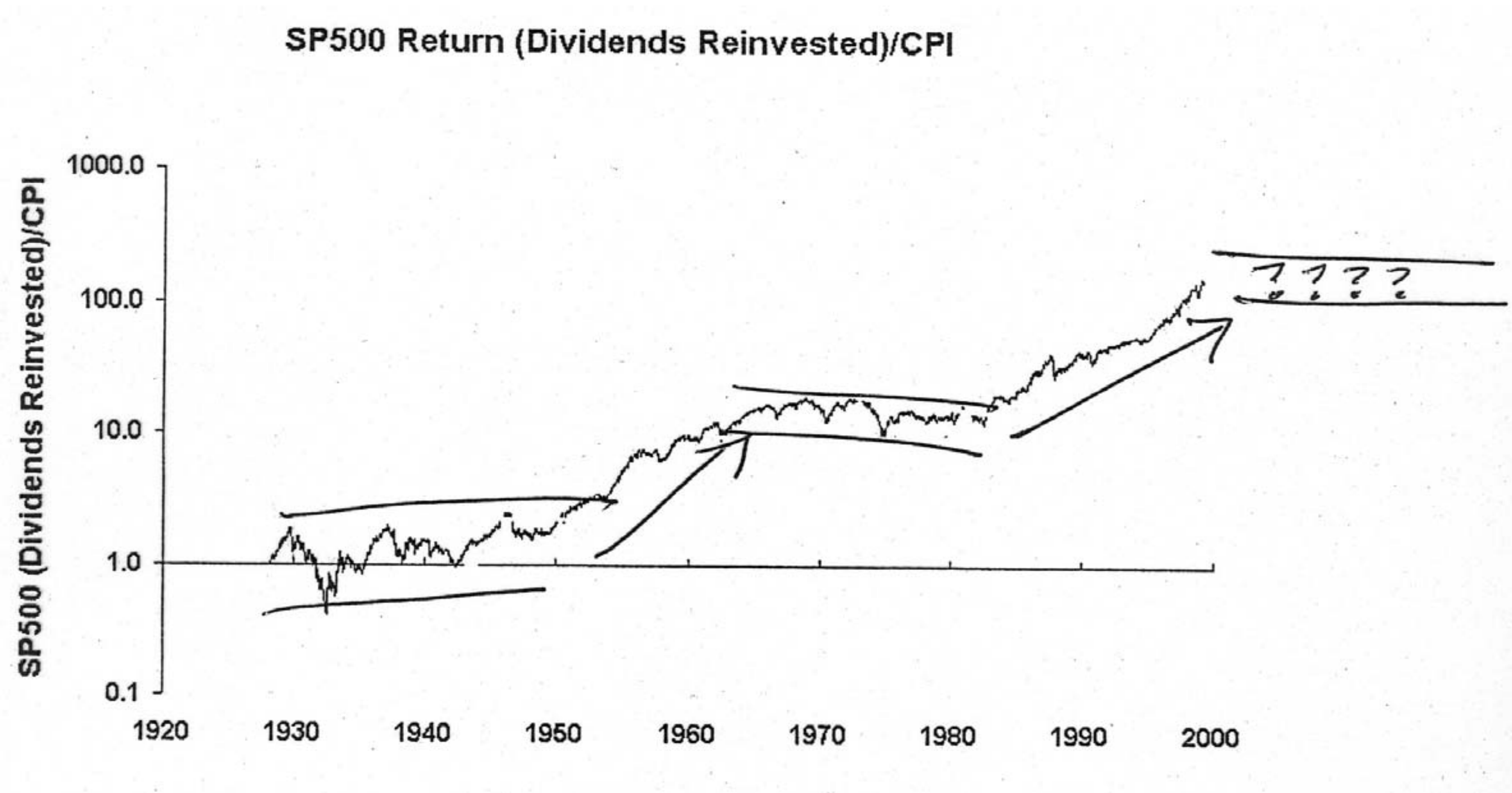
• GAIN IN GROSS NATIONAL PRODUCT
1964–1981: **373%**
1981–1988: **177%**

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



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



From Jan. '02 Outlook

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%**
Dec. 31, 1998: **5.09%** 2

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

CAUSES of A PROLONGED SIDEWAYS MARKET

1) Stocks & bonds move inversely, with interest rates pressuring P/E’s & prices

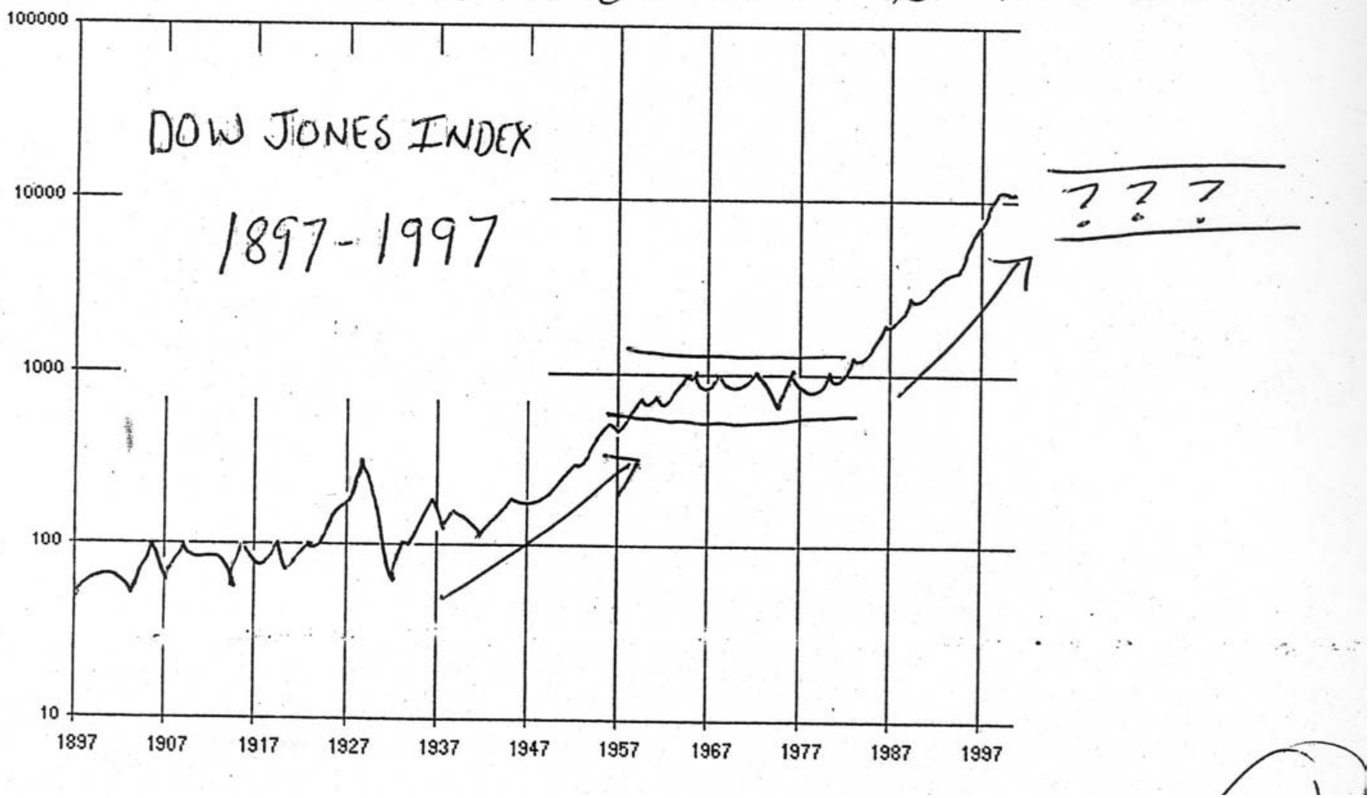
2) Institutions and advisors slowly reduce allocations to stocks

3) Uncertainties regarding long-term baby-boomer retirement overhang the market & economy

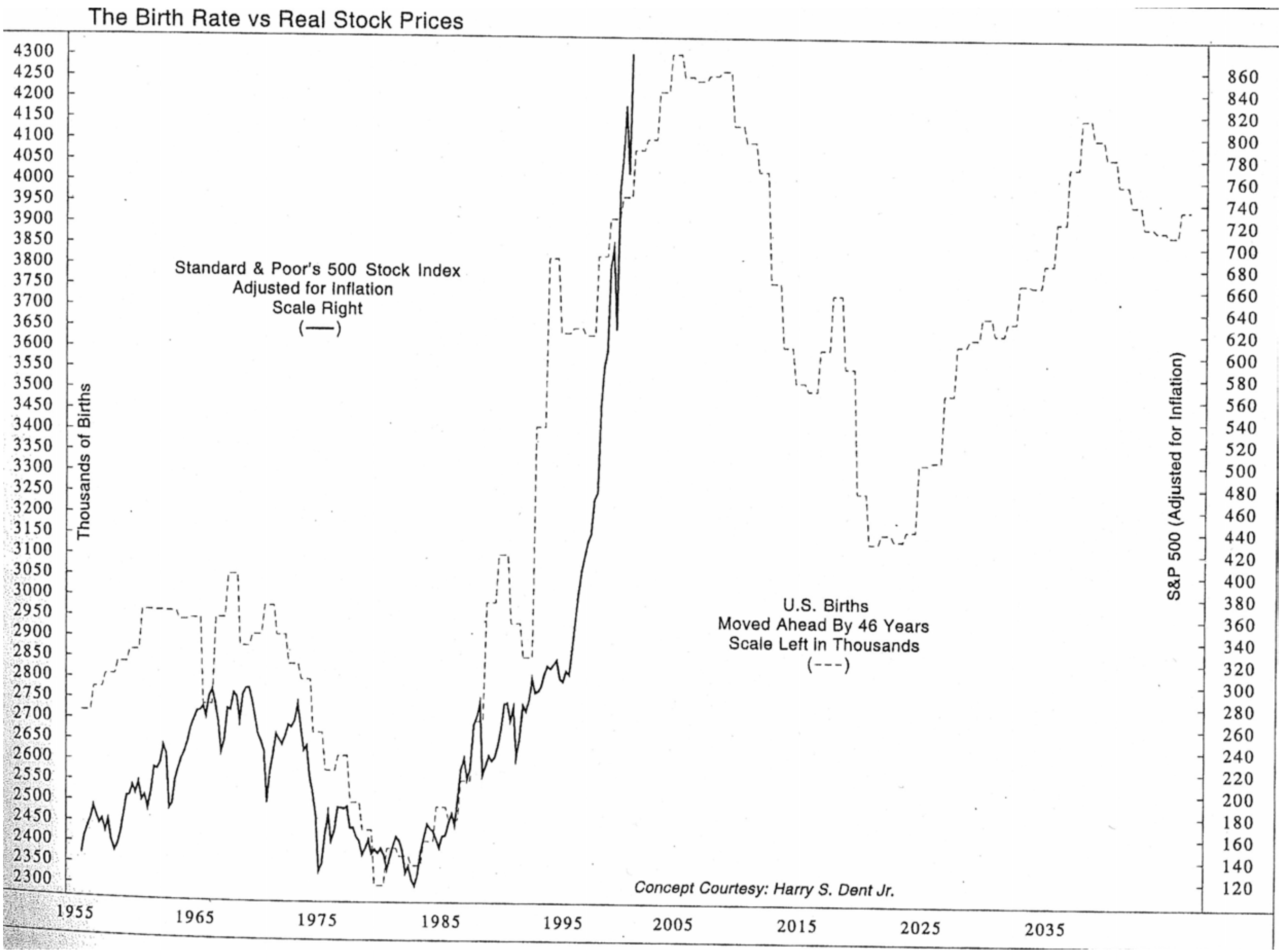
4) Peaking population trends may cap rallies.

One implication: income will be important as price growth may be erratic. This would favor securities with yield, companies able to raise dividends, etc.

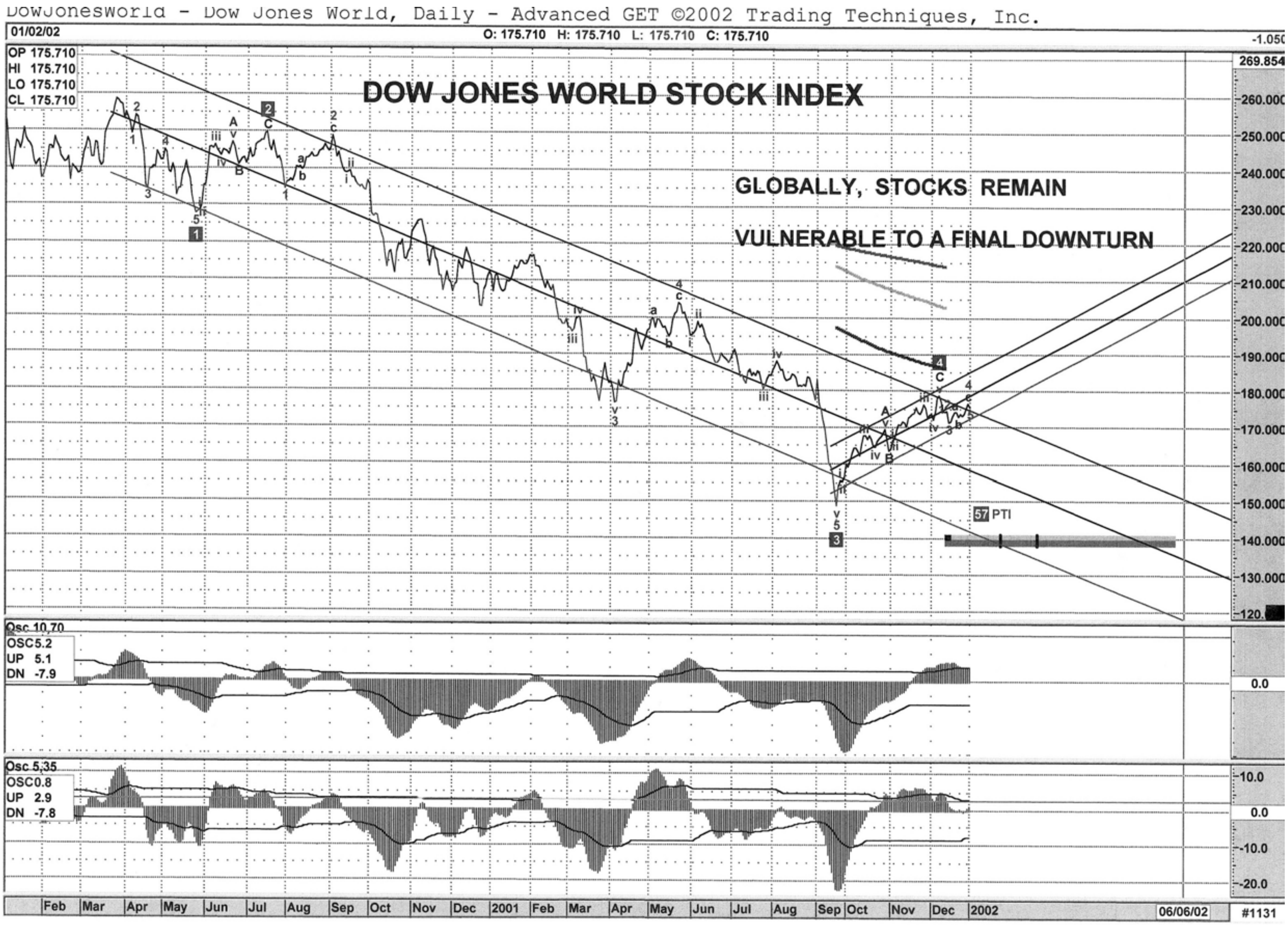
TIME FOR PROLONGED SIDEWAYS CHOPPINESS?
DISAPPOINTING BOTH BULLS & BEARS
... BUT REWARDING TRADERS,



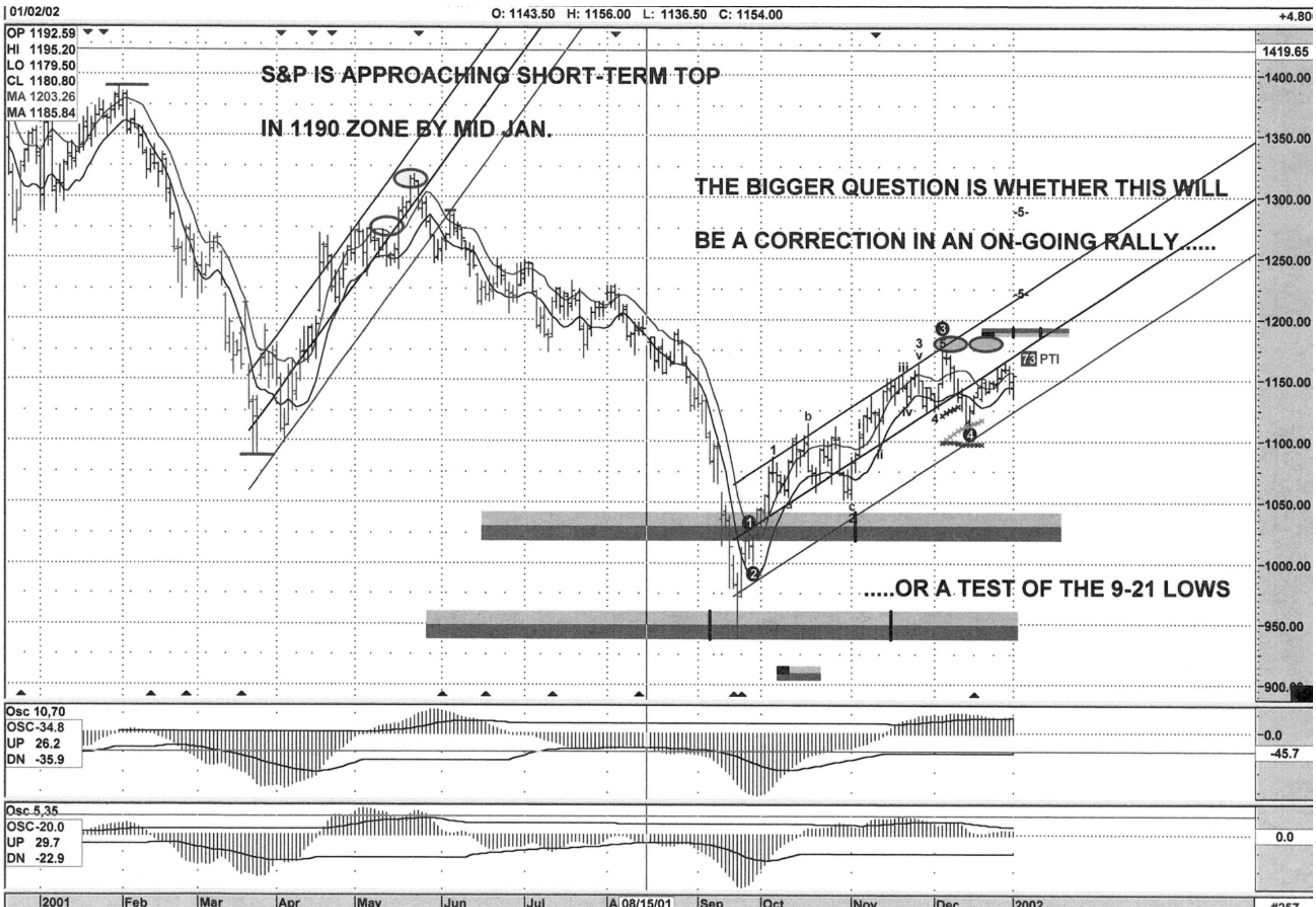
Birth rates vs. Stock Prices: Will we face this pressure soon?



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

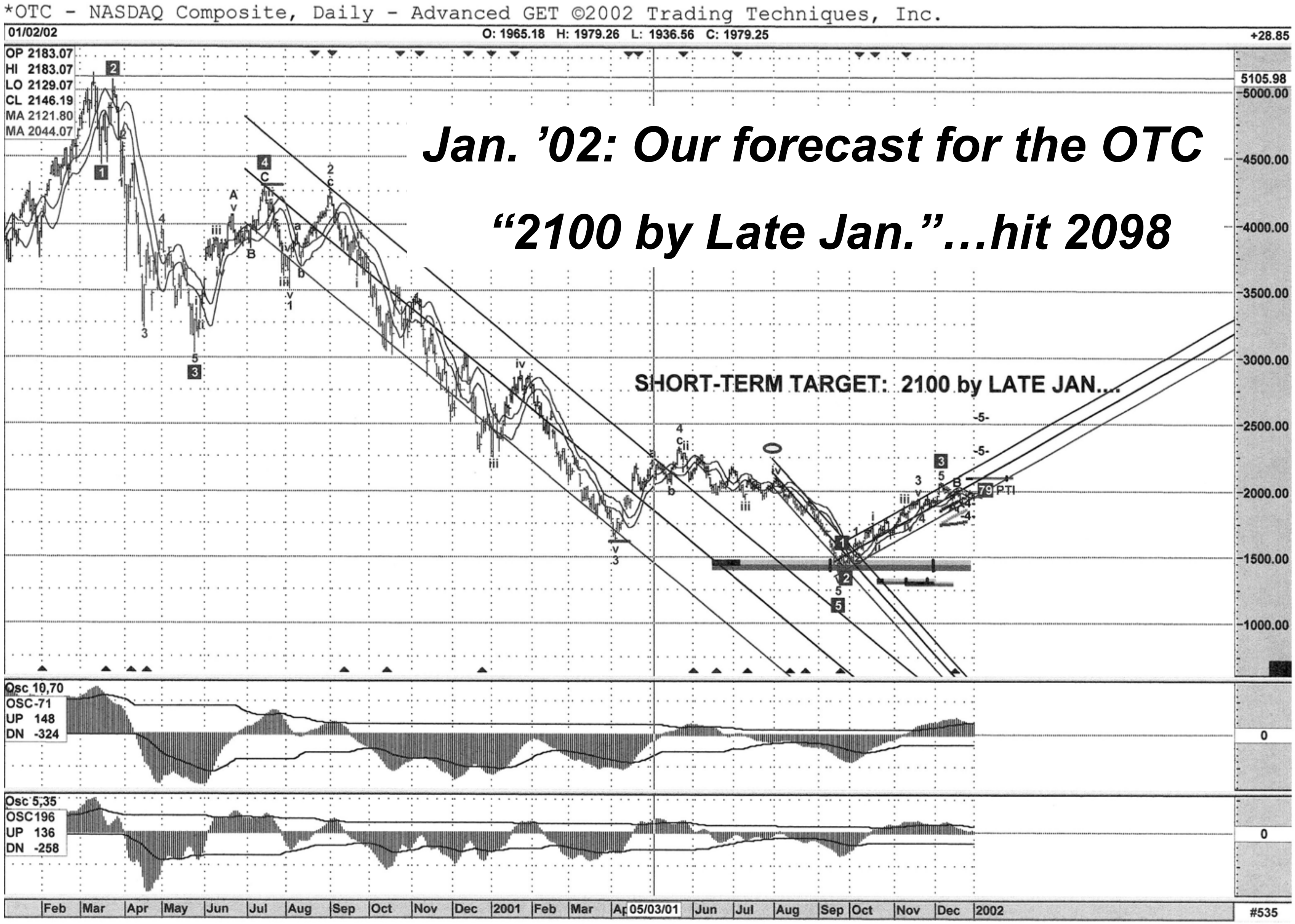


We forecast a rally to 1190 by mid Jan., '02…thereafter the picture was unclear. This was only 3 months after 9-11.



Jan. ’02: Our forecast for the OTC

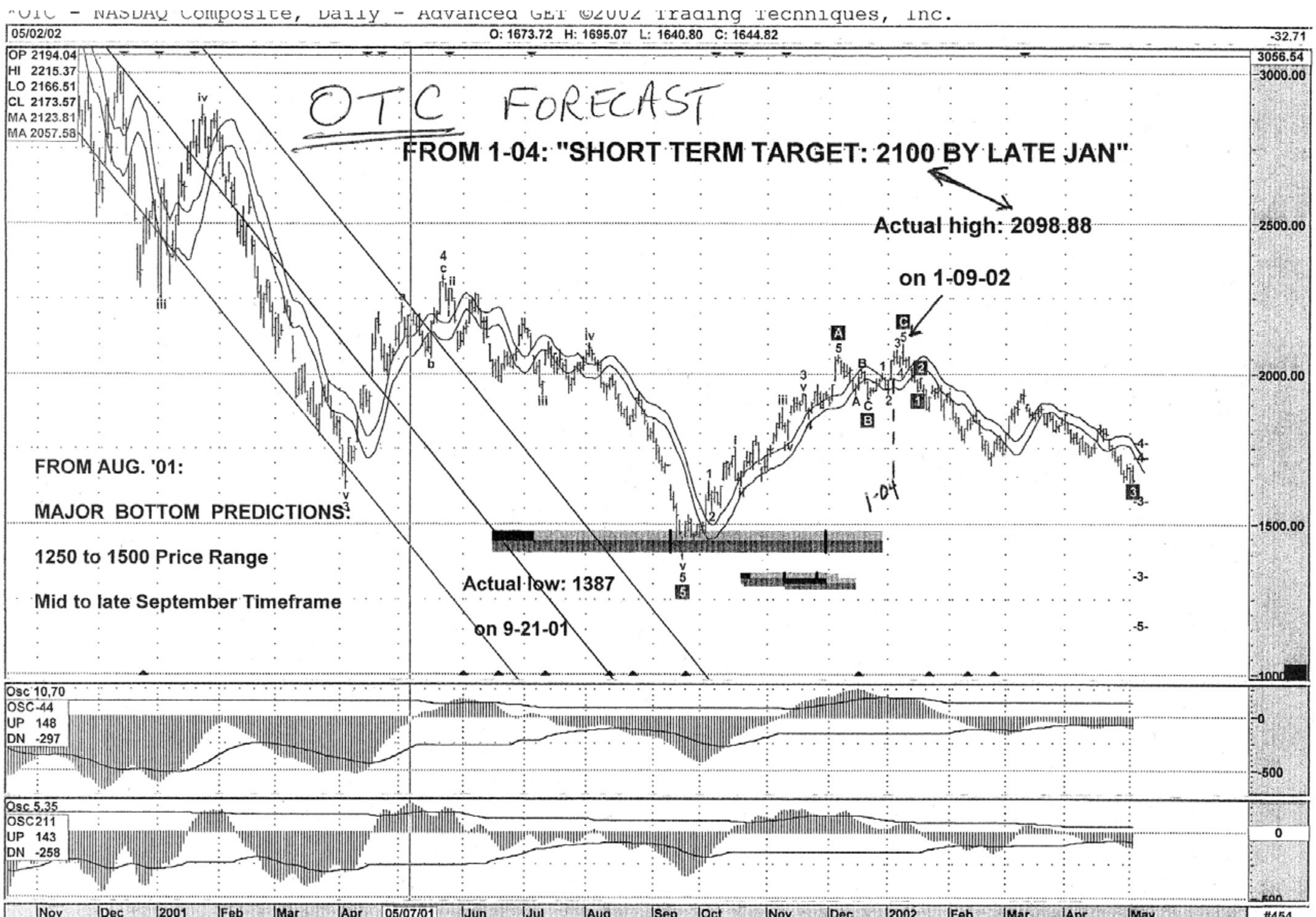
“2100 by Late Jan.”…hit 2098



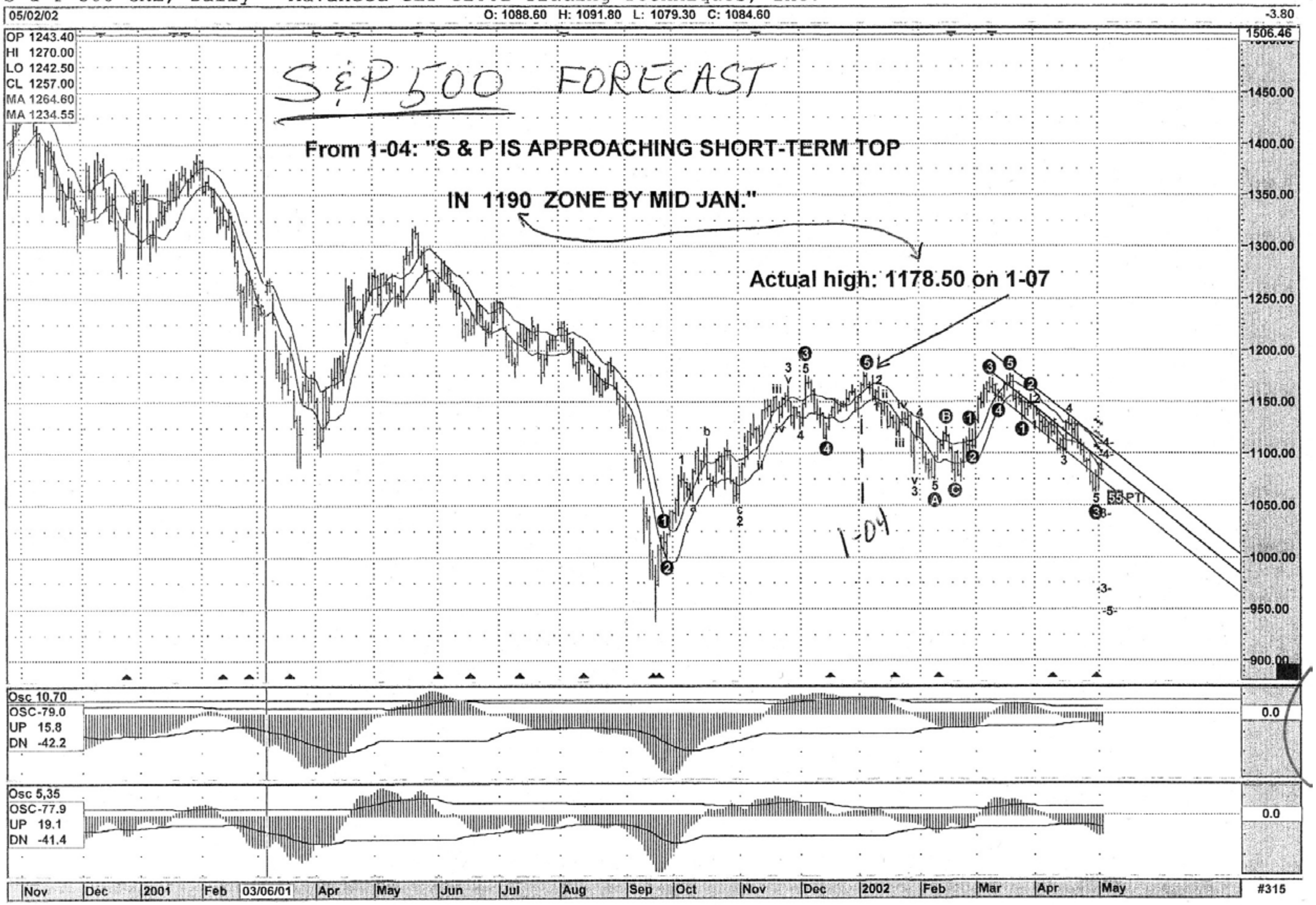
REVIEW OF TRADE FORECASTS, 1-04-02

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.

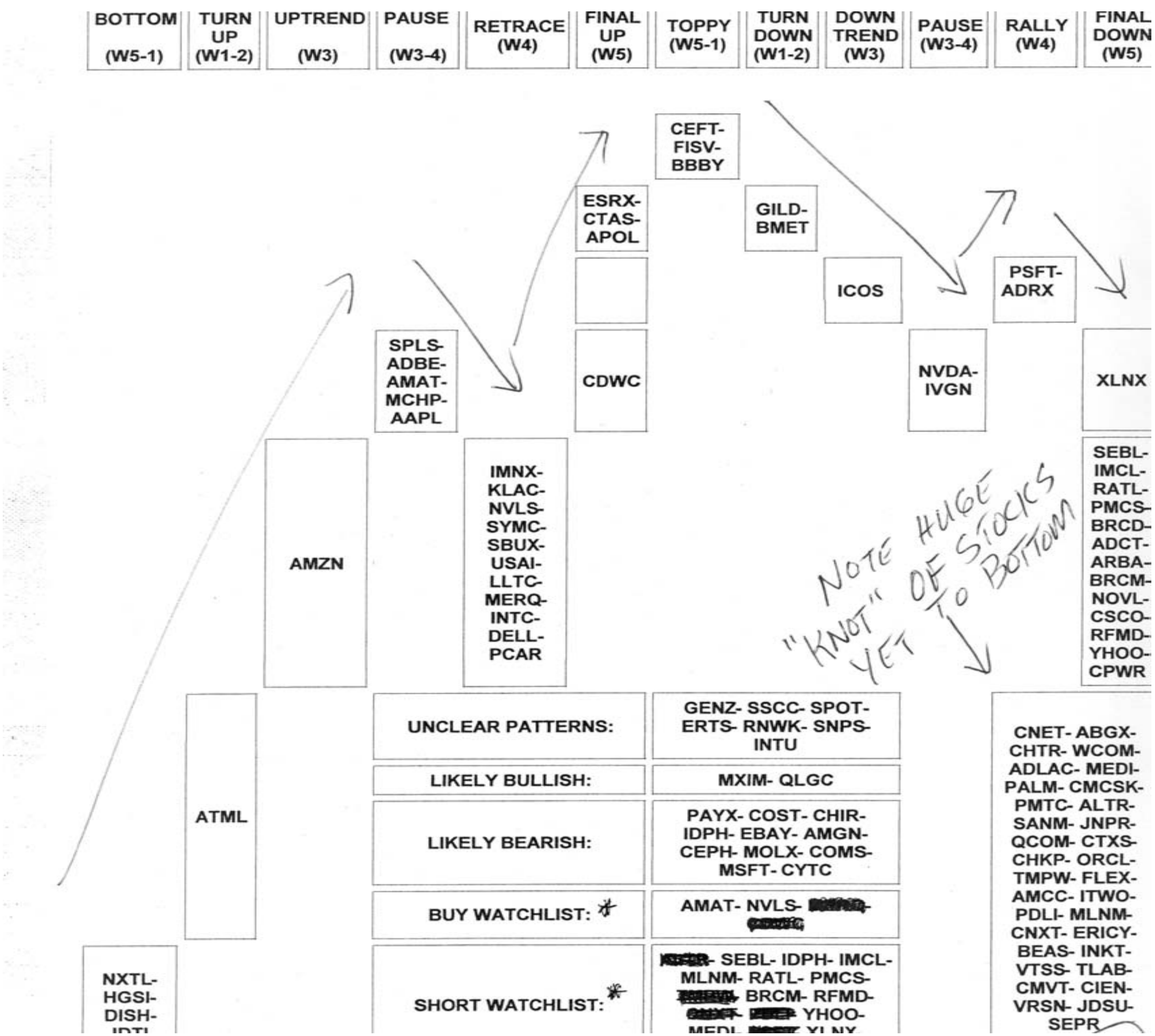
MARKETS HIT THE FORECASTS THEN COLLAPSED



S & P 500 CME, Daily - Advanced GET ©2002 Trading Techniques, Inc.



“INTERNALLY” THERE WAS A LARGE # OF WEAK STOCKS AND THE INDICES COULD NOT RALLY



Jun '02: THE STOCK MARKET DRIVES THIS ECONOMY AS MUCH AS THE ECONOMY DRIVES THE MARKET!

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6-14-02

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"DROOPY STOCKS DRAG ECONOMY"

ECRI U.S. weekly index fell in the latest week

June 14, 2002 10:30 AM ET

Email this article

News from the wo

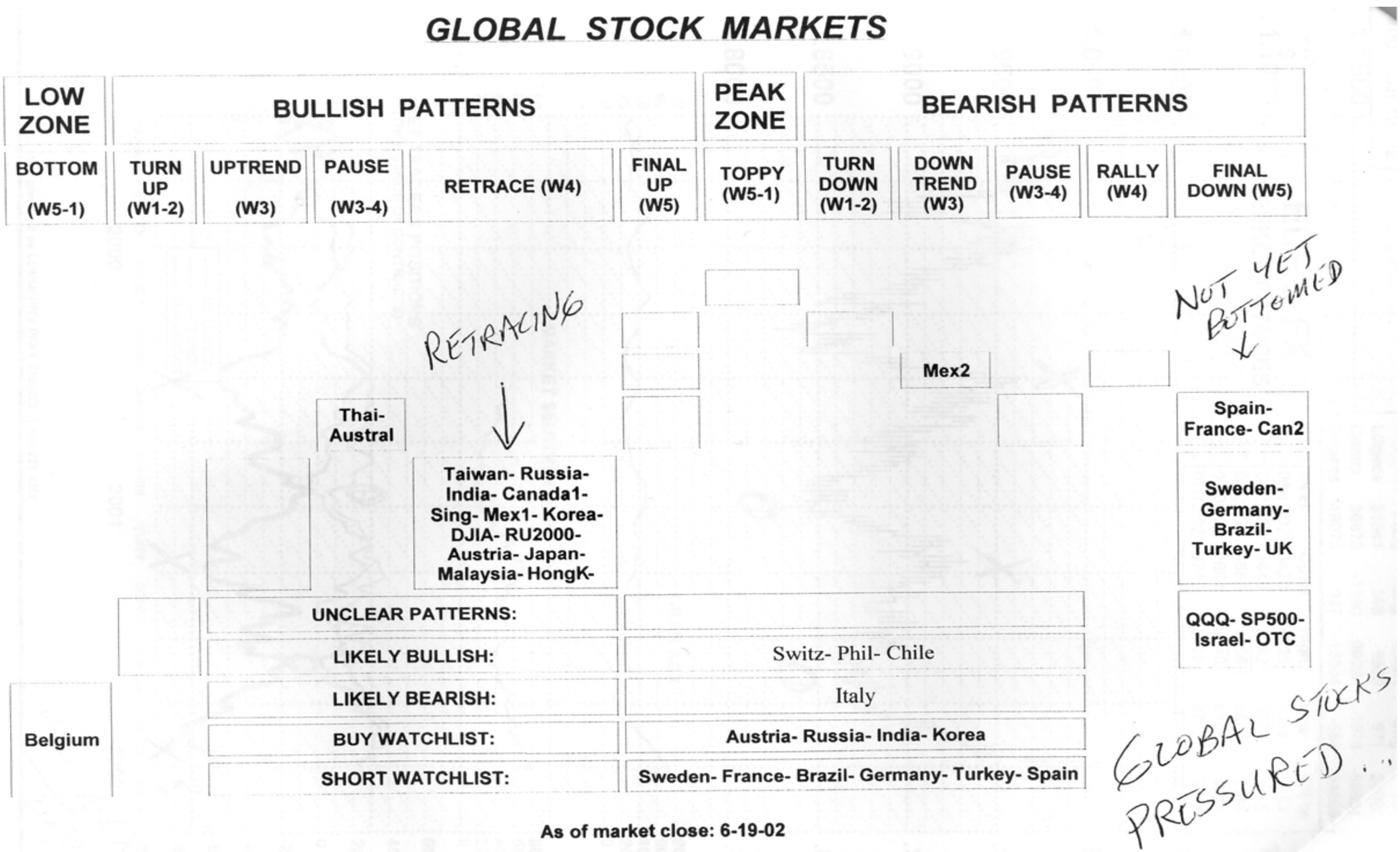
NEW YORK, June 14 (Reuters) - A drop in mortgage applications and droopy stock prices knocked a weekly indicator of U.S. economic activity lower last week, but the index still points to a sustained economic recovery, a report showed on Friday. The Economic Cycle Research Institute's Weekly Leading Index slipped to 122.4 in the week ended June 7 from 121.9 in the prior week.

"It tells us that we're not going to have a perfect recovery, but the recovery continues nonetheless," said Lakshman Achutan, ECRI managing director.

The index's growth rate, which compares

…A DEBT-BURDENED ECONOMY NEEDS THE MARKET

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



NEGATIVE MUTUAL FUND FLOWS PUSH PRICES DOWN

FUNDS ARE BONE DRY

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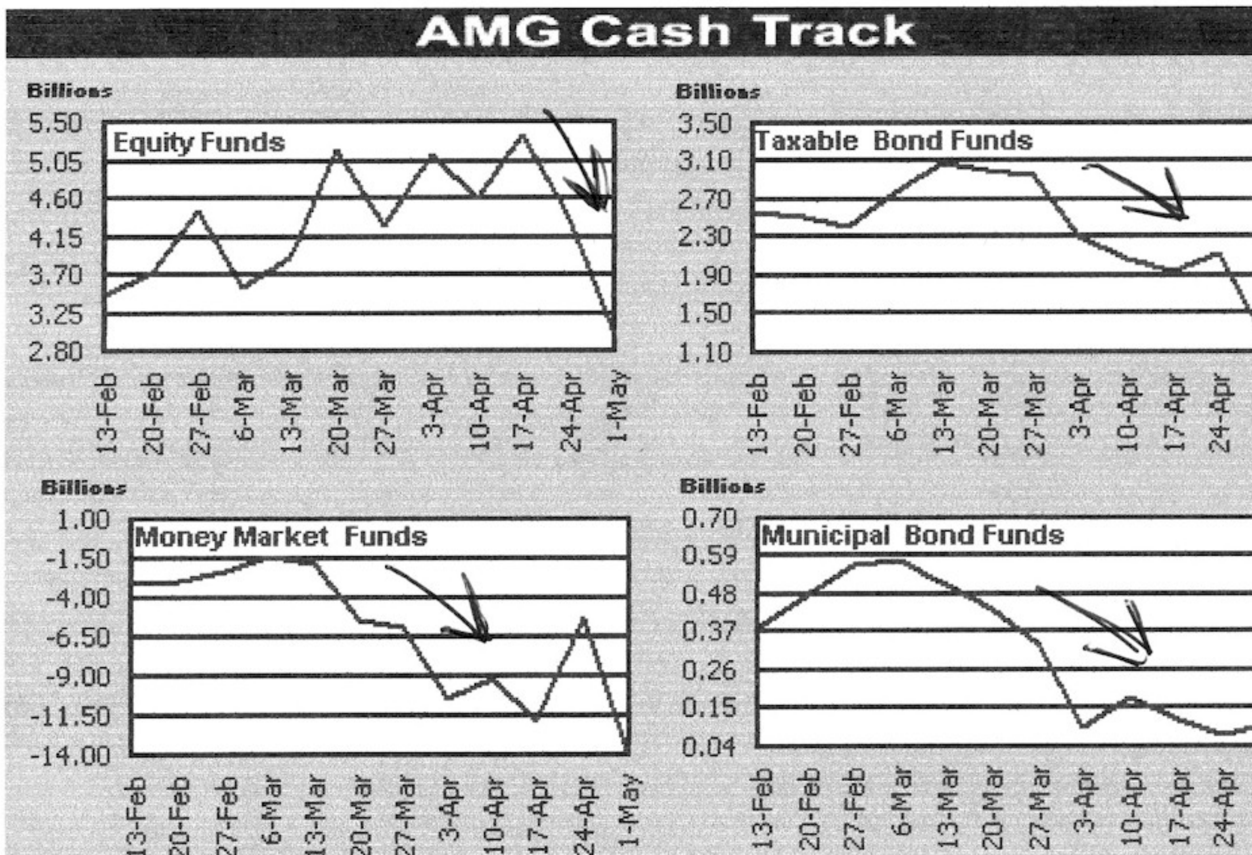
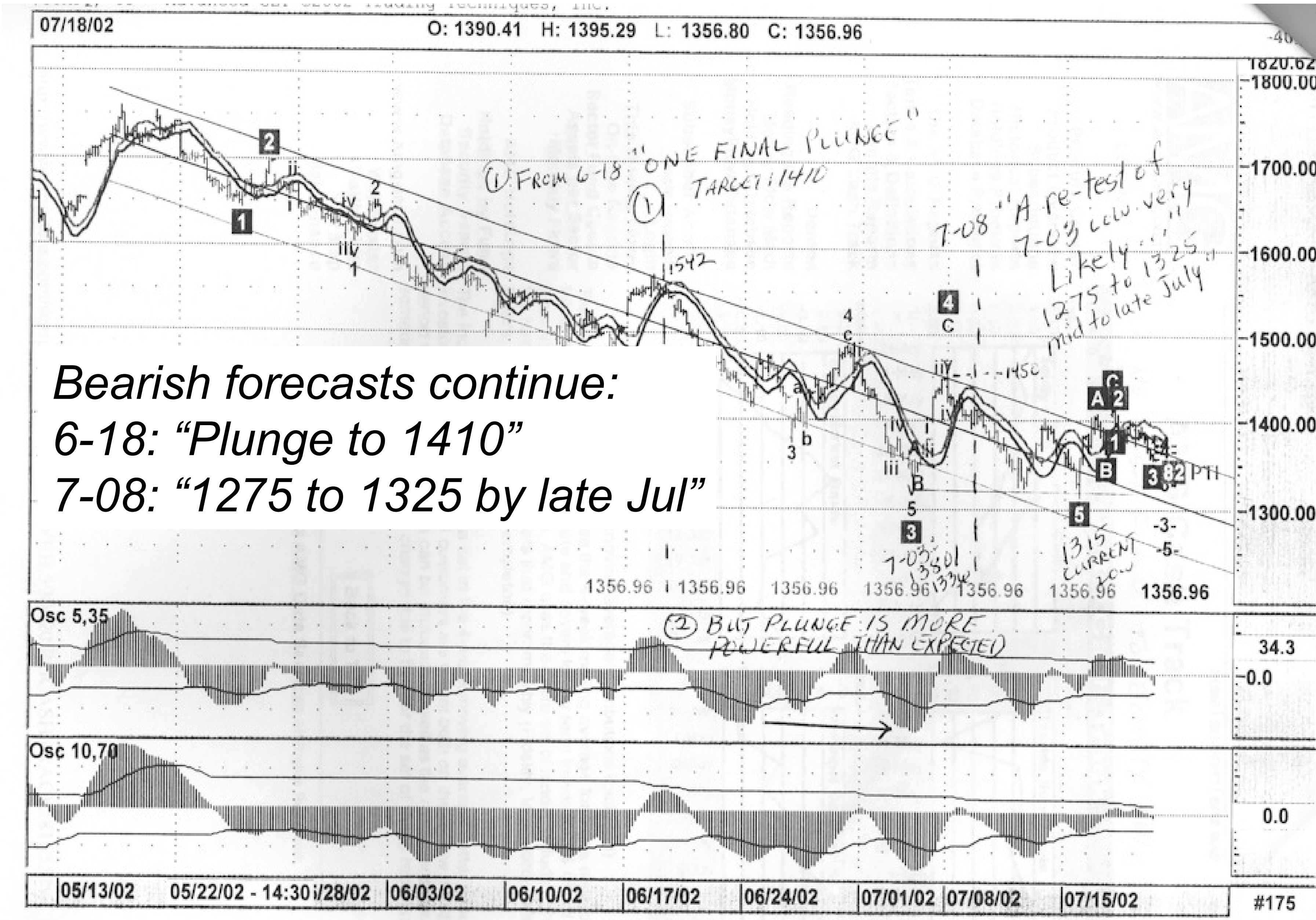
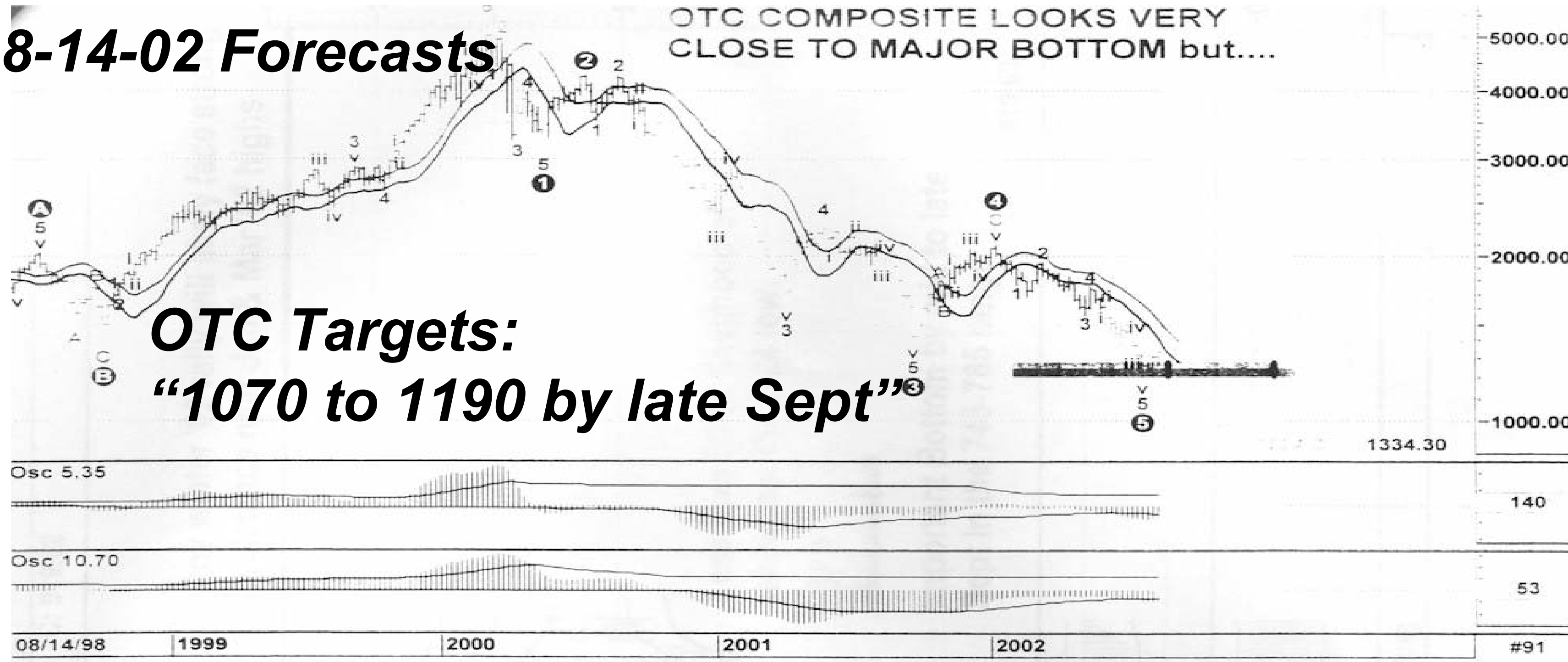


SUMMER of '02 REMAINS BEARISH

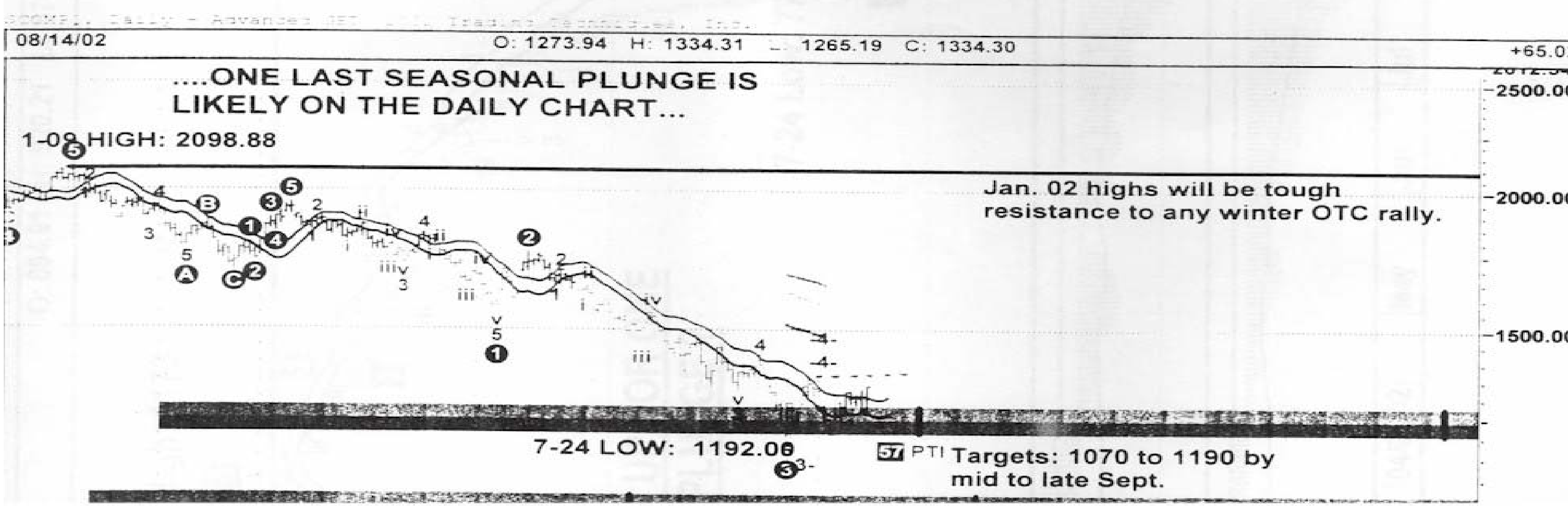


Bearish forecasts continue:
6-18: "Plunge to 1410"
7-08: "1275 to 1325 by late Jul"

8-14-02 Forecasts



OTC Targets:
"1070 to 1190 by late Sept"



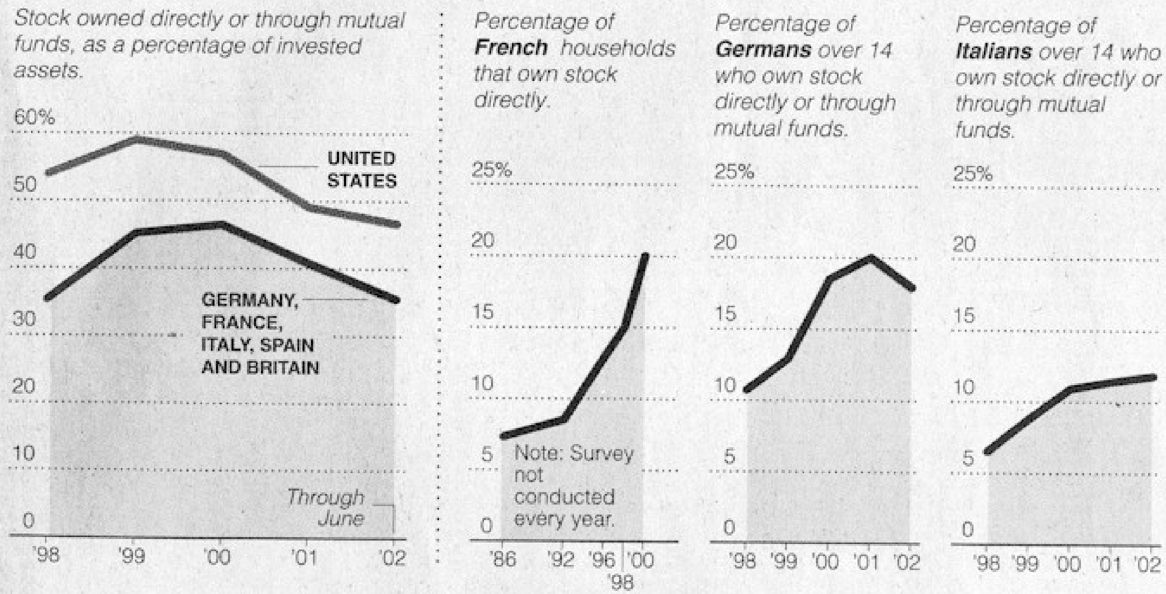
PORTFOLIO ALLOCATIONS to STOCKS ARE FALLING

Europeans Curbing Their Appetite for Stocks

By JOHN TAGLIABUE

Losing Favor

In the booming stock markets of the 1990's, Europeans seemed on their way to developing a culture of widespread share ownership like that in the United States. But the trend has been slowed or halted by the slump in the markets since 2000.



Sources: Schroder Salomon Smith Barney; INSEE; Infratest; Eurisko

The New York Times

PARIS, Sept. 10 — In the early 1990's, Édouard Winckler decided to bet on the future. A scholarship he landed to finish business school offered him a nest egg to invest. Beginning with low-risk money market funds, he gradually diversified into stock. The market was rising, and the French government, short of cash to balance its budget, was selling off chunks of nationalized industries like the oil company, the phone company and the national airline.

After landing a job as a financial controller in the mid-1990's, Mr. Winckler kept buying stock. "Everybody was influenced by the Internet phenomenon," he said. "I decided to take more risks."

Now all bets are off. "I was really hit by the downturn," Mr. Winckler, 30, said recently.

The stock market slump, and the uncertainty it breeds in investors, is threatening Europe's fragile new faith in stocks as an investment.

In the booming 1990's, American-style stock ownership, long regarded in the Old World as too risky for most ordinary people, began to catch on among Europeans. In Europe's five biggest economies — France, Germany, Italy, Spain and Britain — stock's share of total invested assets grew to more than 46 percent by the end of 2000, according to Schroder Salomon Smith Barney. To be sure, that figure reflected the inflated share prices of the time, and it remained far below the 57 percent share in the United States, said Moneesh Puri, an analyst who helped compile the figures. But it was a big increase from the 38 percent of assets Europeans allocated to stock four years earlier.

Indeed, over the same period, the number of French households owning stock other than through mutual funds rose by half, to 20 percent in 2000 from 13 percent in 1996. In Germany, the number of people over 14 who owned stock, either directly or through funds, climbed to 20 percent of the total population by 2001, more than double the proportion of five years before. In Italy, it reached 11 percent, from 6.5 percent in 1998.

Yet Europeans have slowed their net new investment in stocks to a trickle in recent months. They poured a net 56 billion euros ($54.6 billion) into stock funds in the first

Continued on Page 7

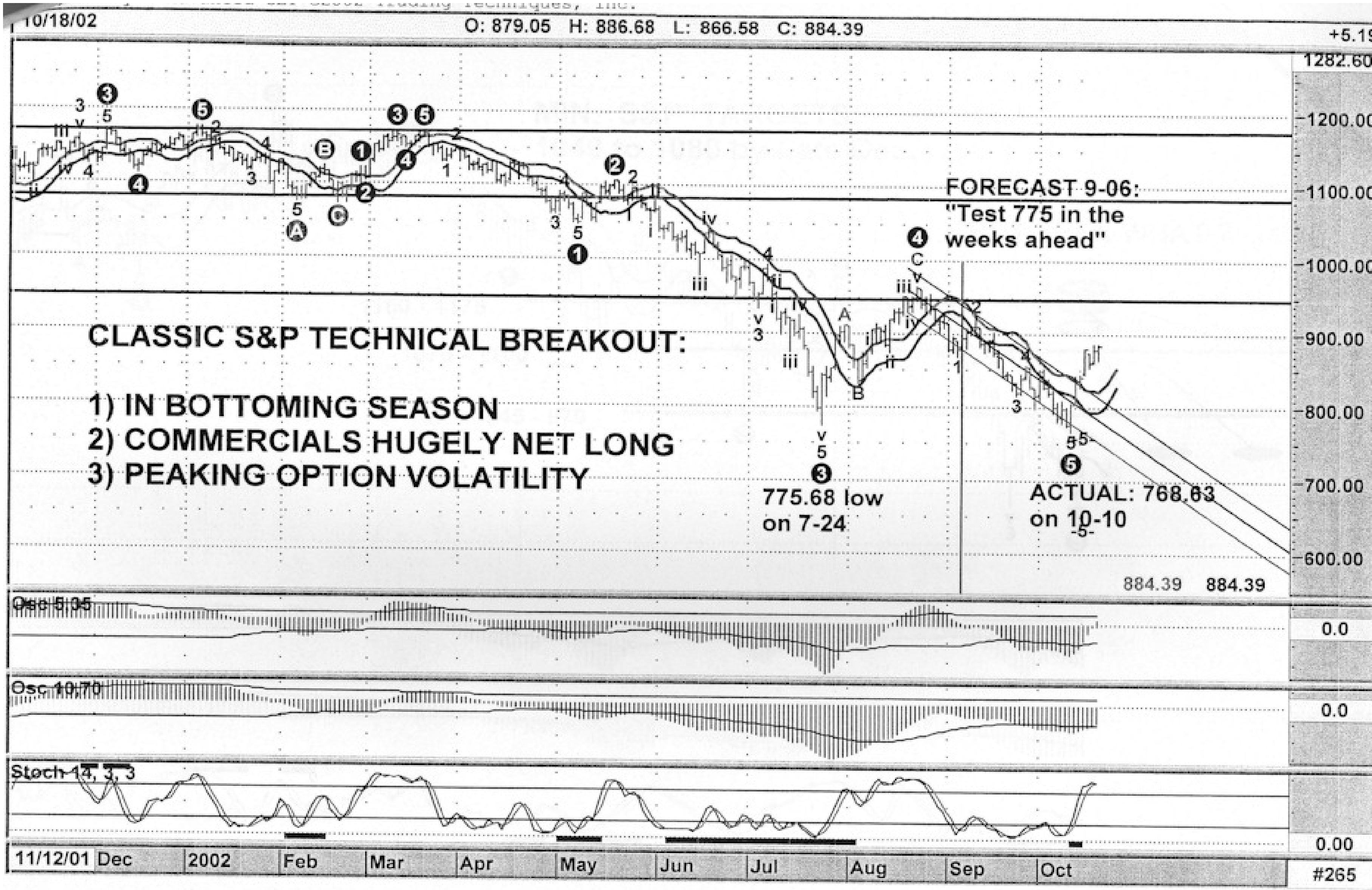
Sept '02 Forecasts:

THE STRIKER REPORT, 9-06-02

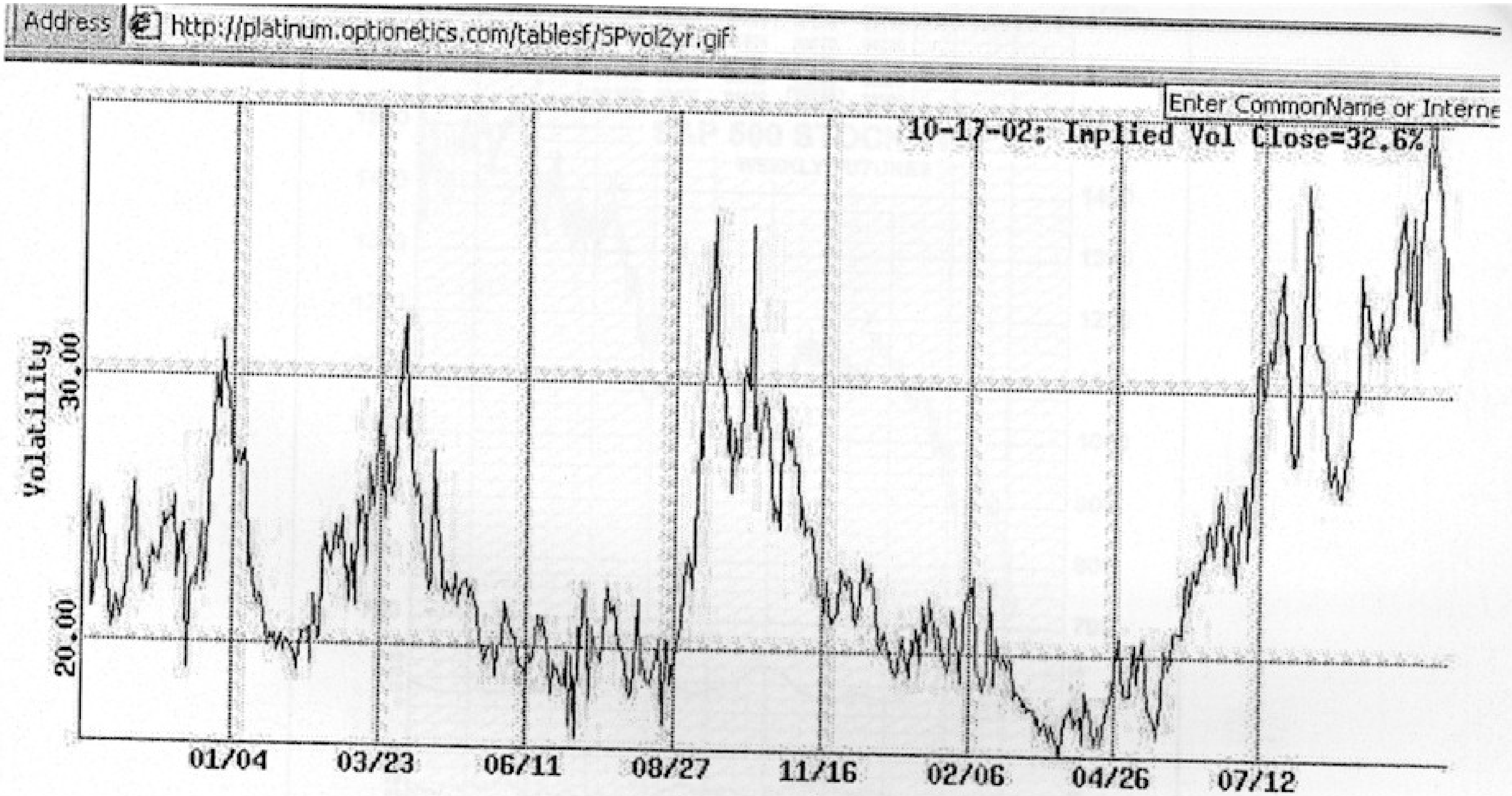
BISHOP'S MARKET OUTLOOK FORECASTS

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



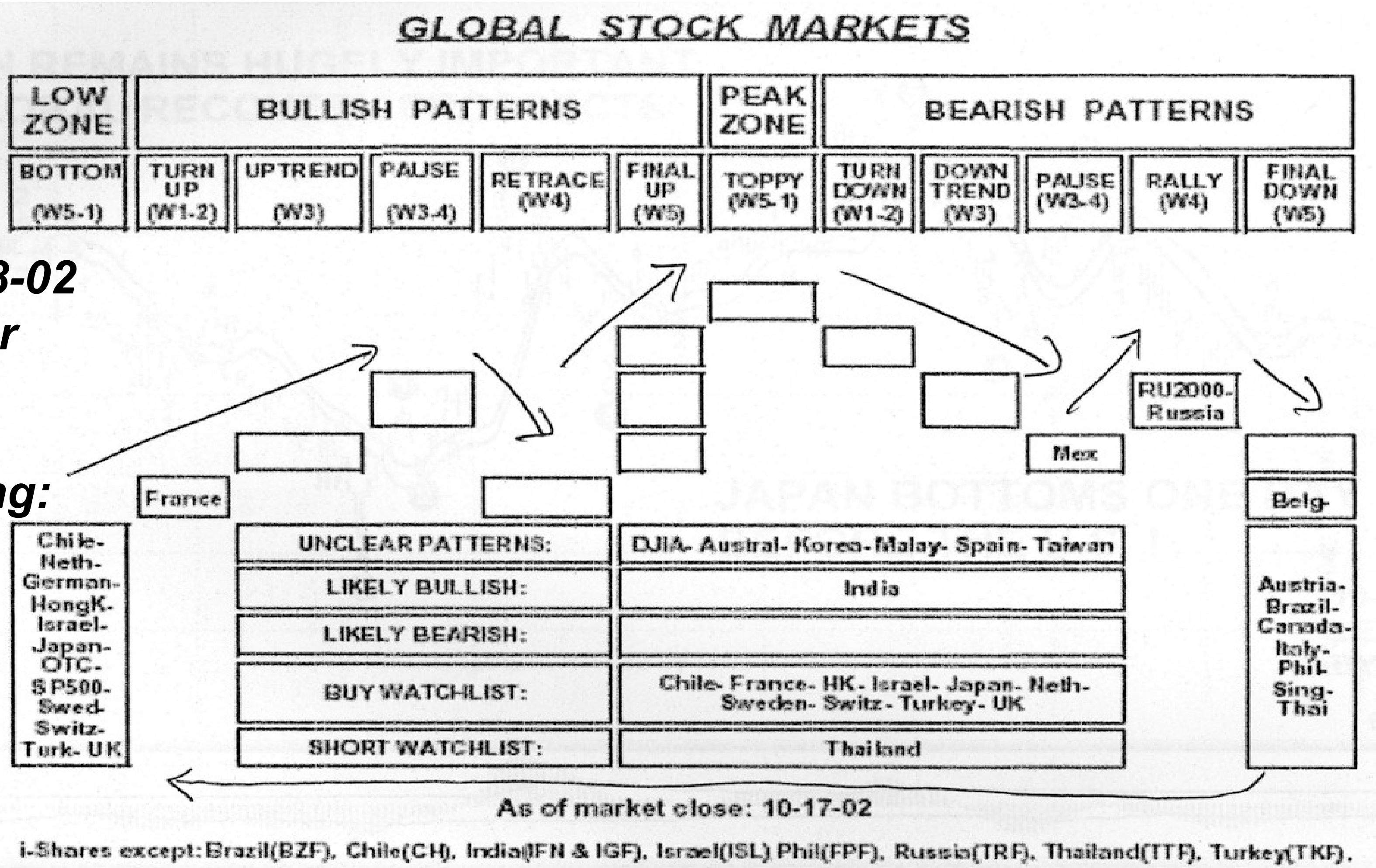
COMPONENTS of the OCT. 10 LOW:

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

10-02: GLOBAL STOCK OUTLOOK HAS GREATLY IMPROVED

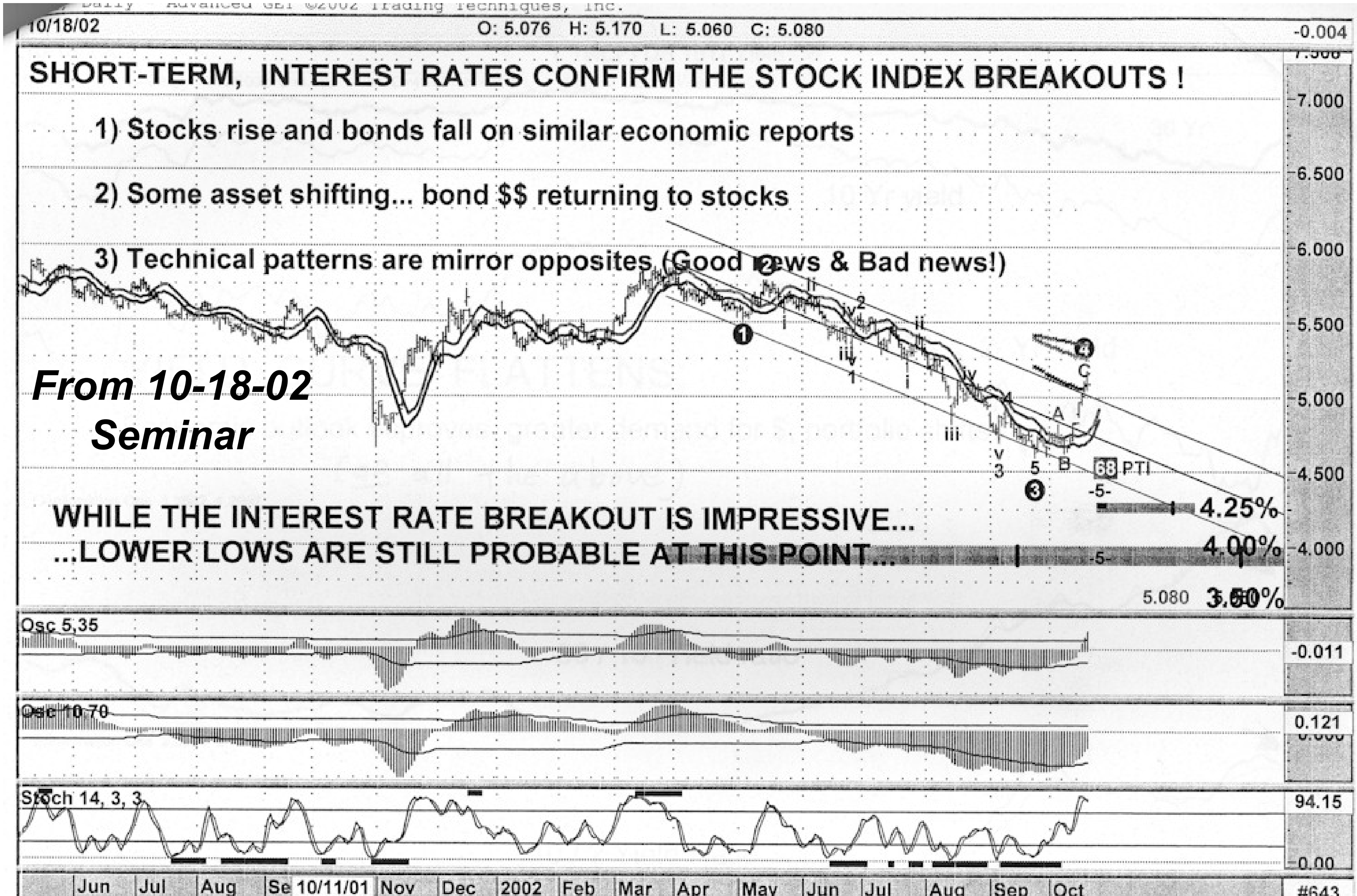
From 10-18-02 Seminar

Bottoming:

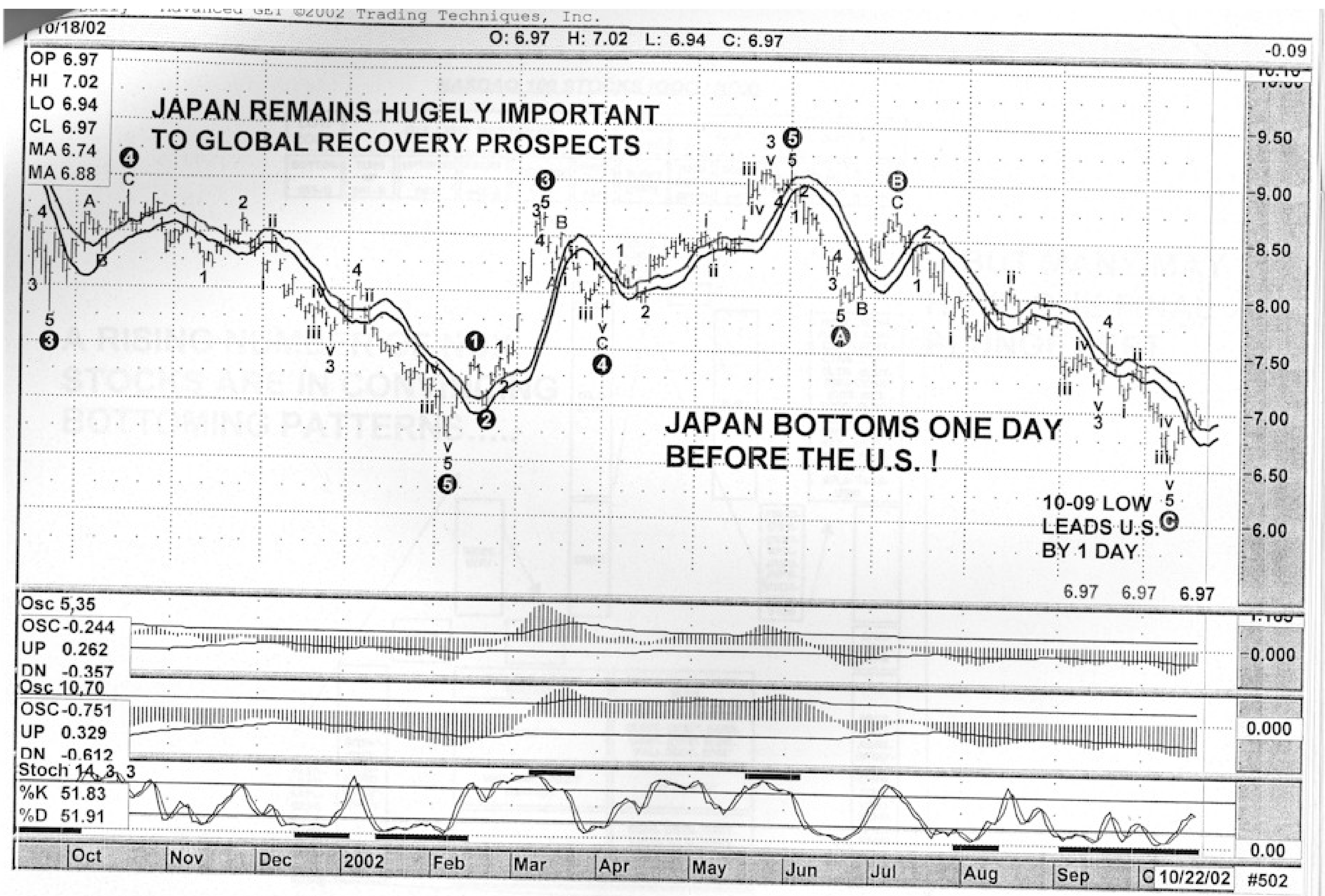


GLOBALLY, STOCK MARKET PATTERNS ARE FAIRLY CONSTRUCTIVE AND POISED FOR MEANINGFUL RALLIES.
THIS IS VERY SUPPORTIVE of A U.S. RALLY!

10-18-02 FORECAST: INTEREST RATES WILL GO LOWER



OCT. ’02: JAPAN BOTTOMS BEFORE THE U.S.



10-18-02: STOCKS CONTINUE TO LEAD THE ECONOMY!

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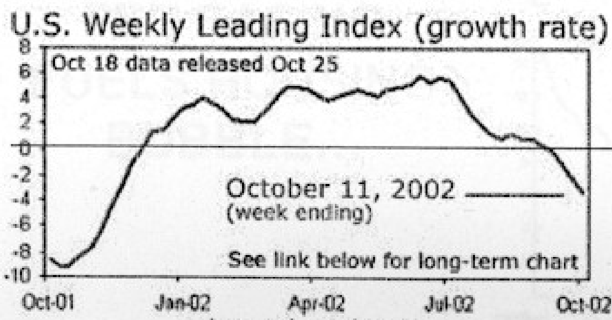

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October 12, 2002

Singapore Business Times

"(WASHINGTON)...The Economic Cycle Research Institute (ECRI), meanwhile, said yesterday that the US economy will skirt a return to recession as long as sagging business confidence does not push employers into embarking on a fresh round of corporate layoffs.

The institute's weekly gauge of US economic activity inched up to 118.2 in the week to Oct 4 from 118.0 the previous week. But its growth rate fell to minus 2.1 per cent from minus 1.2 per cent in the preceding week.

Dismal business confidence stemming from the recent sharp stock market slide is offsetting mild improvements in the real economy, said Lakshman Achuthan, ECRI managing director."

Leading Indicators growth Rate drops below zero…

…"dismal business confidence stemming from the recent Stock market slide is offsetting mild economic improvement.."

THE STOCK MARKET IS NOW MORE THAN A PREDICTOR OF ECONOMIC GROWTH…. IT IS ESSENTIAL FOR GROWTH !

See G. Soros' "Theory of Reflexivity" in <u>Alchemy of Finance</u>

STOCKPICKS FROM THE 10-18-02 SEMINAR

STOCK WATCHLIST

SYM	PRICE 18-Oct	Min. Target	2nd Target	3rd Target	Initial Stop	Min. Risk/ Reward	Earnings Release
BEAS	$6.57	$9.30	$15.00	$20.00	$5.50	2.6	11/14/02
BGEN	$36.81	$48.00			$31.00	1.9	10/18/02
BMET	$31.17	$36.00	$41.00		$28.00	1.5	12/17/02
ELX	$12.90	$20.00	$25.00		$10.00	2.4	10/24/02
GILD	$34.25	$41.00	$46.00		$30.50	1.8	10/31/02
GMST	$4.46	$7.30	$11.00		$3.10	2.1	11/13/02
INTC	$14.46	$20.00	$25.00	$30.00	$13.25	4.6	10/15/02
LLTC	$27.60	$33.00	$39.00	$45.00	$22.00	1.0	10/15/02
MERQ	$24.15	$30.00	$40.00		$19.28	1.2	10/17/02
MU	$14.00	$17.00	$22.00	$28.00	$11.90	1.4	12/17/02
NOK	$16.39	$20.00	$25.00		$13.90	1.4	10/17/02
SLB	$40.69	$45.00	$60.00		$37.10	1.2	10/16/02
TXN	$17.10	$21.50	$25.00	$35.00	$14.65	1.8	10/21/02
VRTS	$15.46	$19.00	$25.00		$13.60	1.9	10/21/02
XLNX	$17.28	$22.70	$32.00		$15.23	2.6	10/17/02
	Stocks from: SP 100, Nasdaq 100, & SSF "80"						

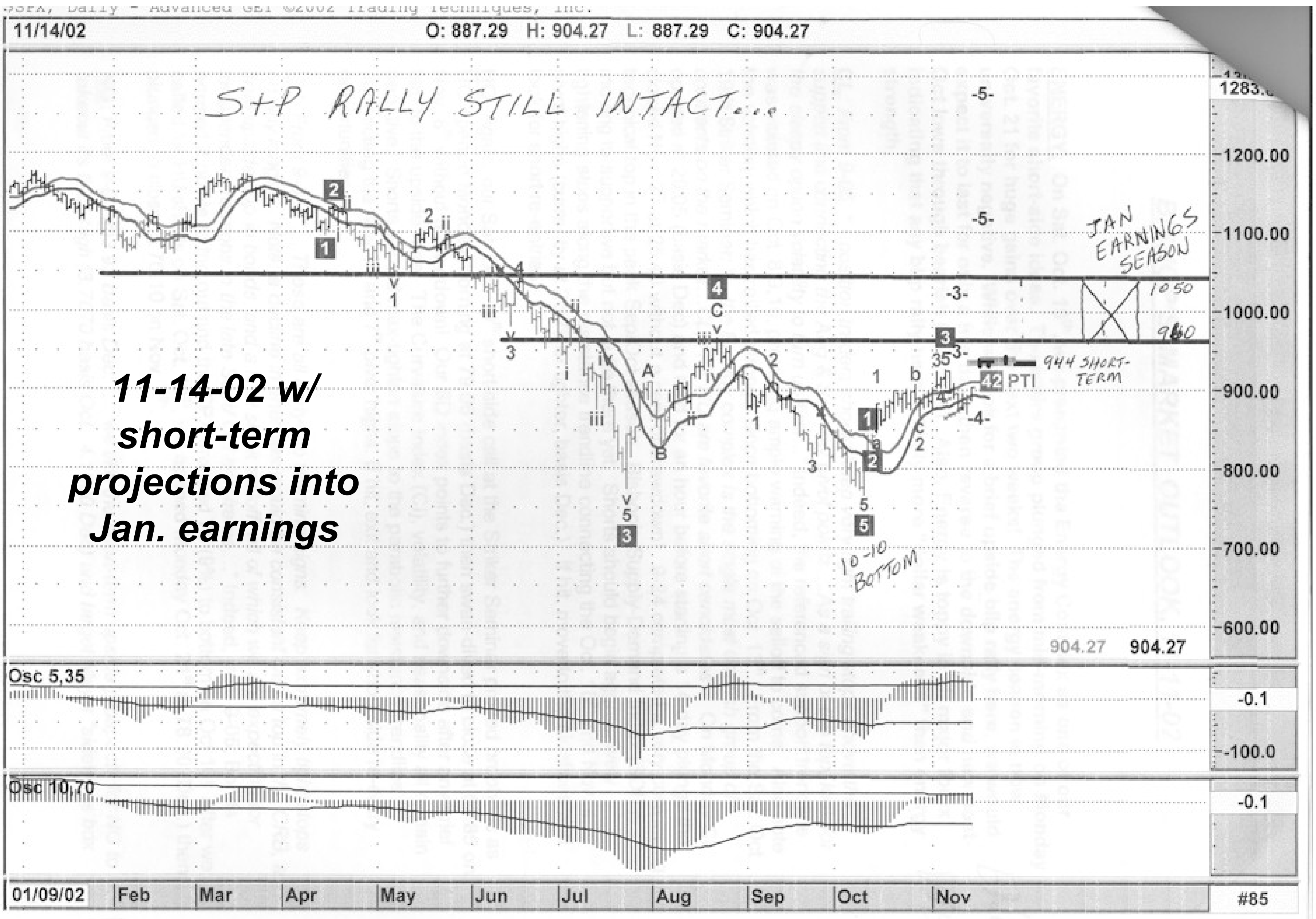
USE CAUTION WHEN TRADING AHEAD OF ANY EARNINGS RPT.!

26

Our 15 stocks averaged 61.65% gain vs. 18.31% for SP and 50.12% for OTC. Diversification benefits: 5 failed to top the SP and 6 didn't beat the OTC

STOCKPICKS FROM OCT. 2002 SEMINAR					
	PRICE				***PCT.***
	10/18/02		***10/31/03***		***CHANGE***
BEAS	**$6.57**		**$13.90**		**111.57%**
BGEN	**$36.81**		**$40.42**		**9.81%**
BMET	**$31.70**		**$35.86**		**13.12%**
ELX	**$12.90**		**$28.30**		**119.38%**
GILD	**$34.25**		**$54.55**		**59.27%**
GMST	**$3.65**		**$4.69**		**28.49%**
INTC	**$14.46**		**$32.95**		**127.87%**
LLTC	**$27.60**		**$42.61**		**54.38%**
MERQ	**$24.15**		**$46.61**		**93.00%**
MU	**$14.00**		**$14.34**		**2.43%**
NOK	**$16.39**		**$16.99**		**3.66%**
SLB	**$40.69**		**$46.97**		**15.43%**
TXN	**$17.10**		**$28.92**		**69.12%**
VRTS	**$15.46**		**$36.08**		**133.38%**
XLNX	**$17.28**		**$31.77**		**83.85%**
			Average:		**61.65%**
S&P	**884.40**		**1046.34**		**18.31%**
OTC	**1287.00**		**1932.00**		**50.12%**

11-14-02: RALLY REMAINS INTACT



11-14-02 w/ short-term projections into Jan. earnings

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

U.S. STOCK MARKET OUTLOOK

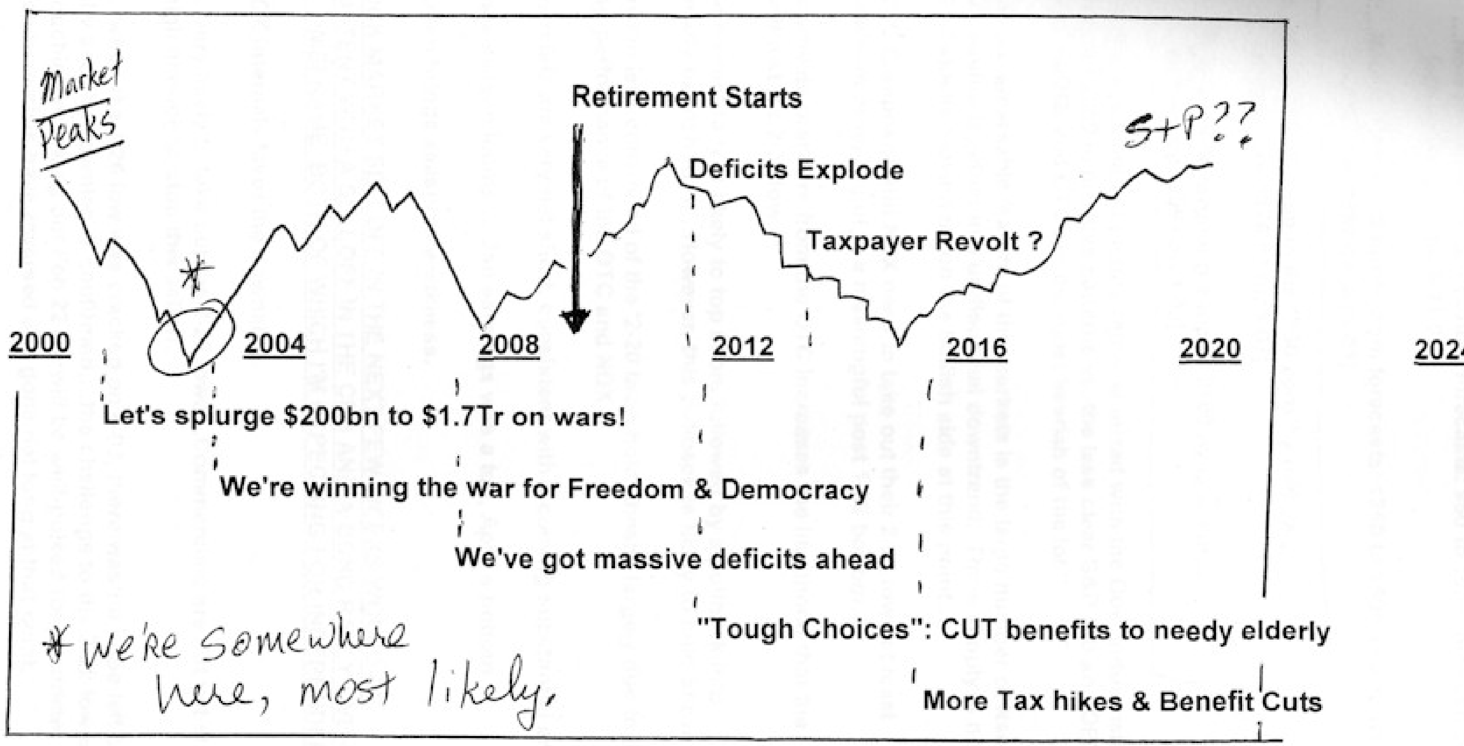
COMPARING THE ALTERNATIVES

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		

519

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??

S20

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."

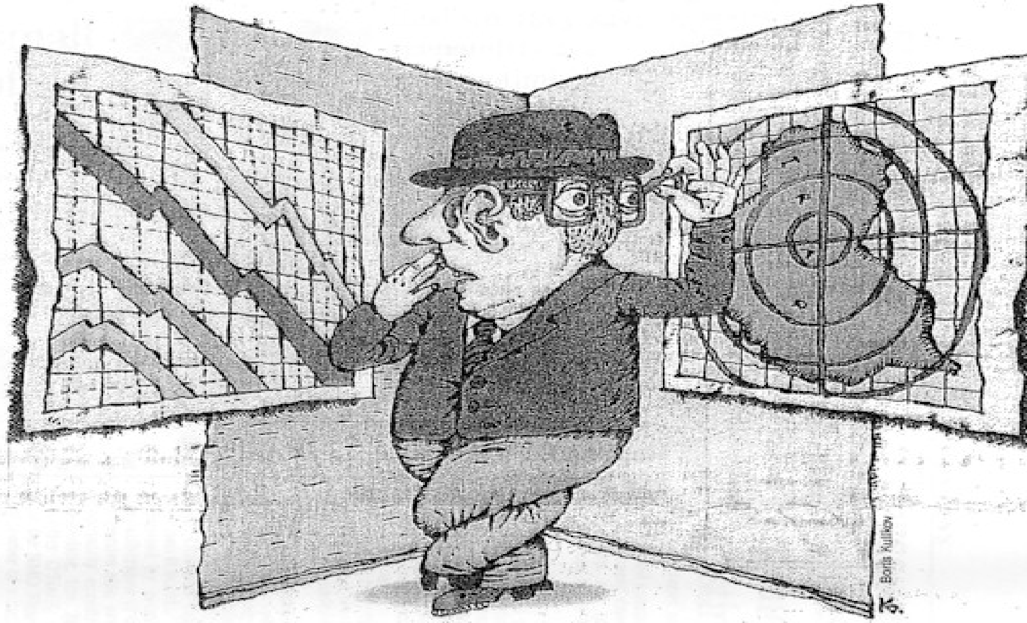
Earnings expectations will become irrelevant, of course, if something goes badly wrong in Iraq or North Korea. But few investors can predict that. As it is, they are finding plenty to worry about on the earnings front.

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.

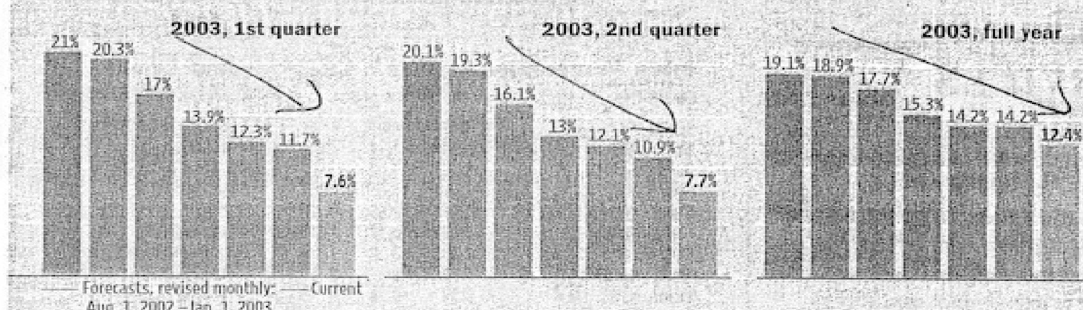
Just as worrisome, companies in the past few weeks have issued an unexpectedly large number of warnings that their performance won't meet even

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.

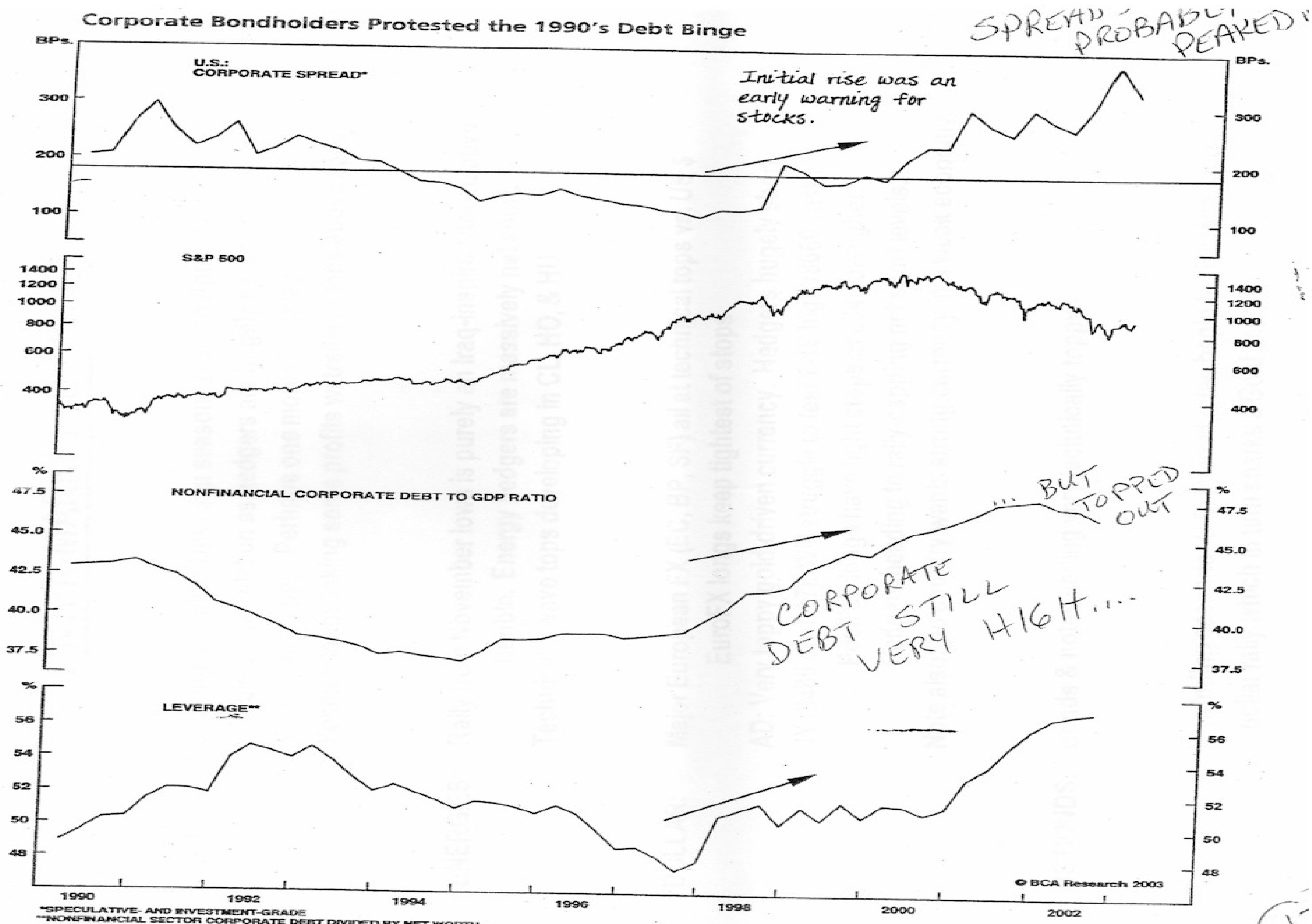


Forecasts, revised monthly: Aug. 1, 2002 – Jan. 1, 2003 —— Current

Source: Thomson First Call

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

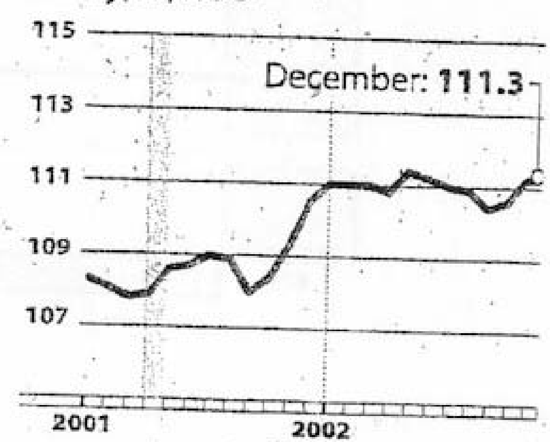
Analysts continue to slash estimates for corporate earnings, reflecting downbeat forecasts by companies, despite improvements in the index of leading indicators, a gauge of future economic activity, and business investments.

Although indicators show potential recovery...

KEY: Recession begins: March 2001

INDEX OF LEADING INDICATORS

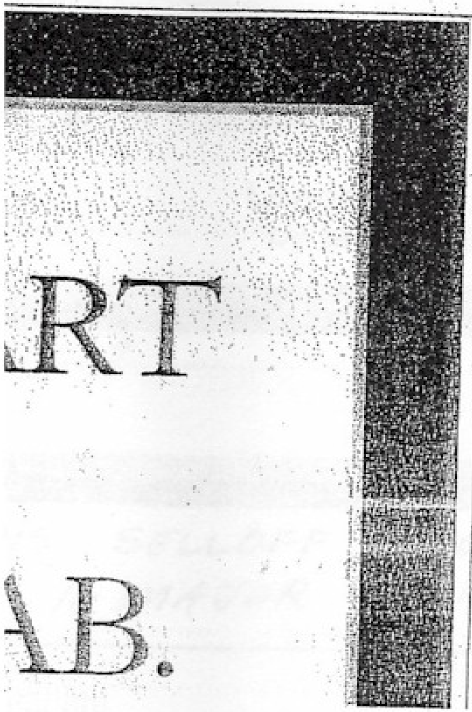
Base year, 1996



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.

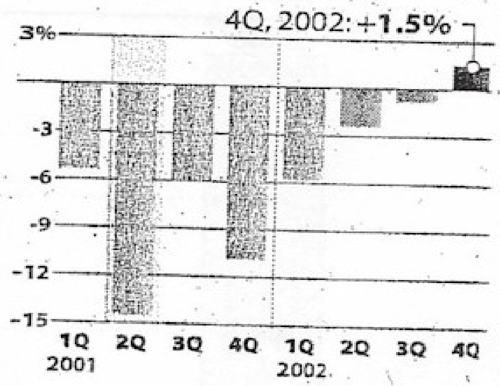
Analysts, who take their cues predominantly from companies rather than economists, still are aggressively cutting their estimates for corporate earnings in the first and second quarters, said Chuck Hill, research director for First Call, a data firm.

"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

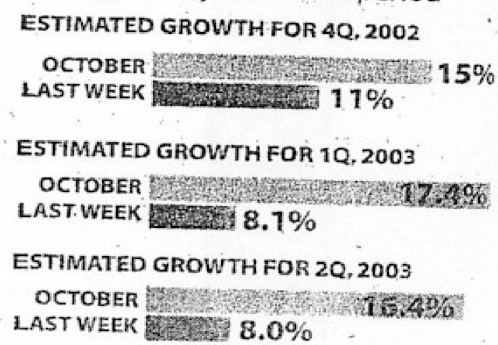
Percent change from previous period



...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

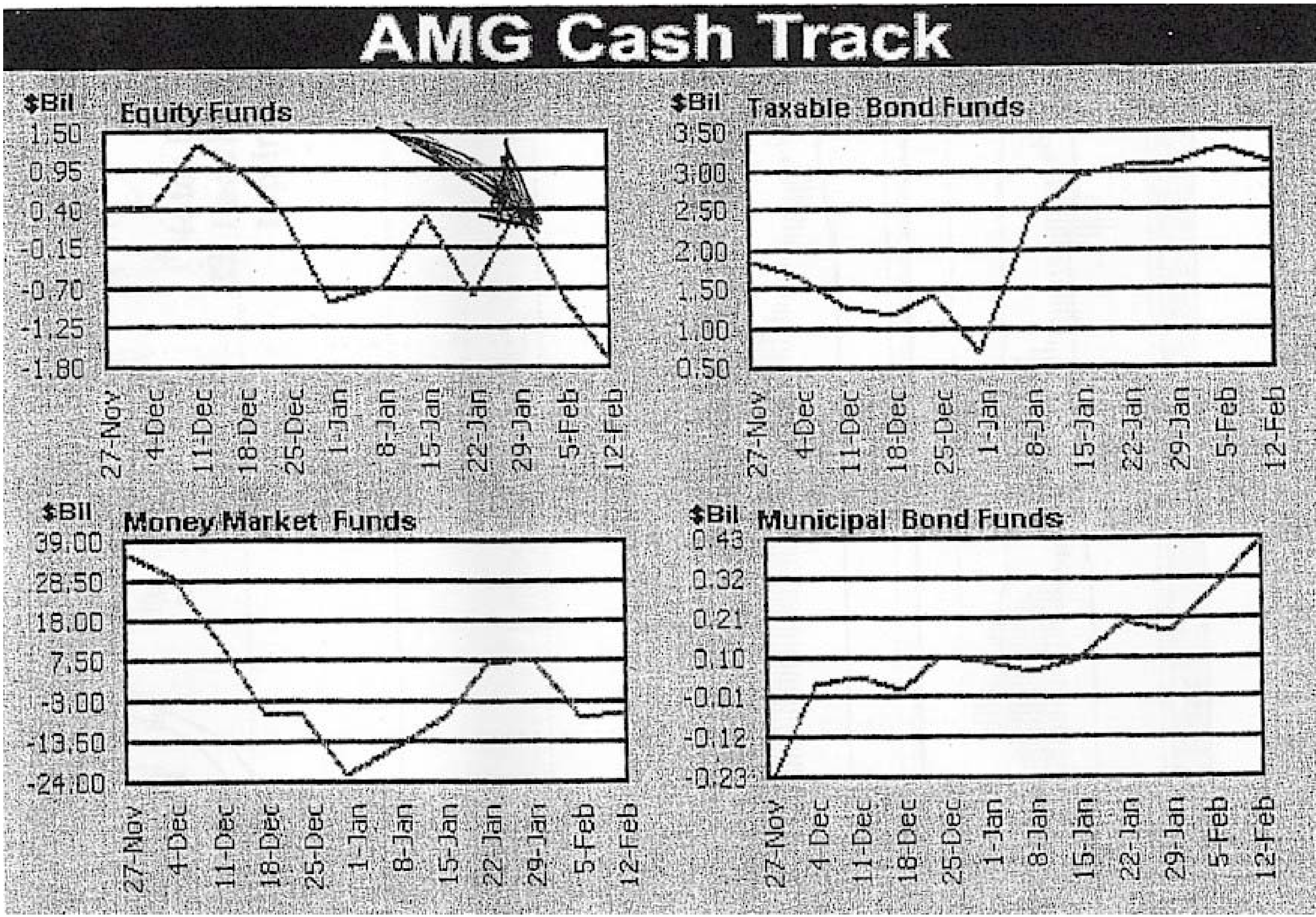
Chicago Tribune

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

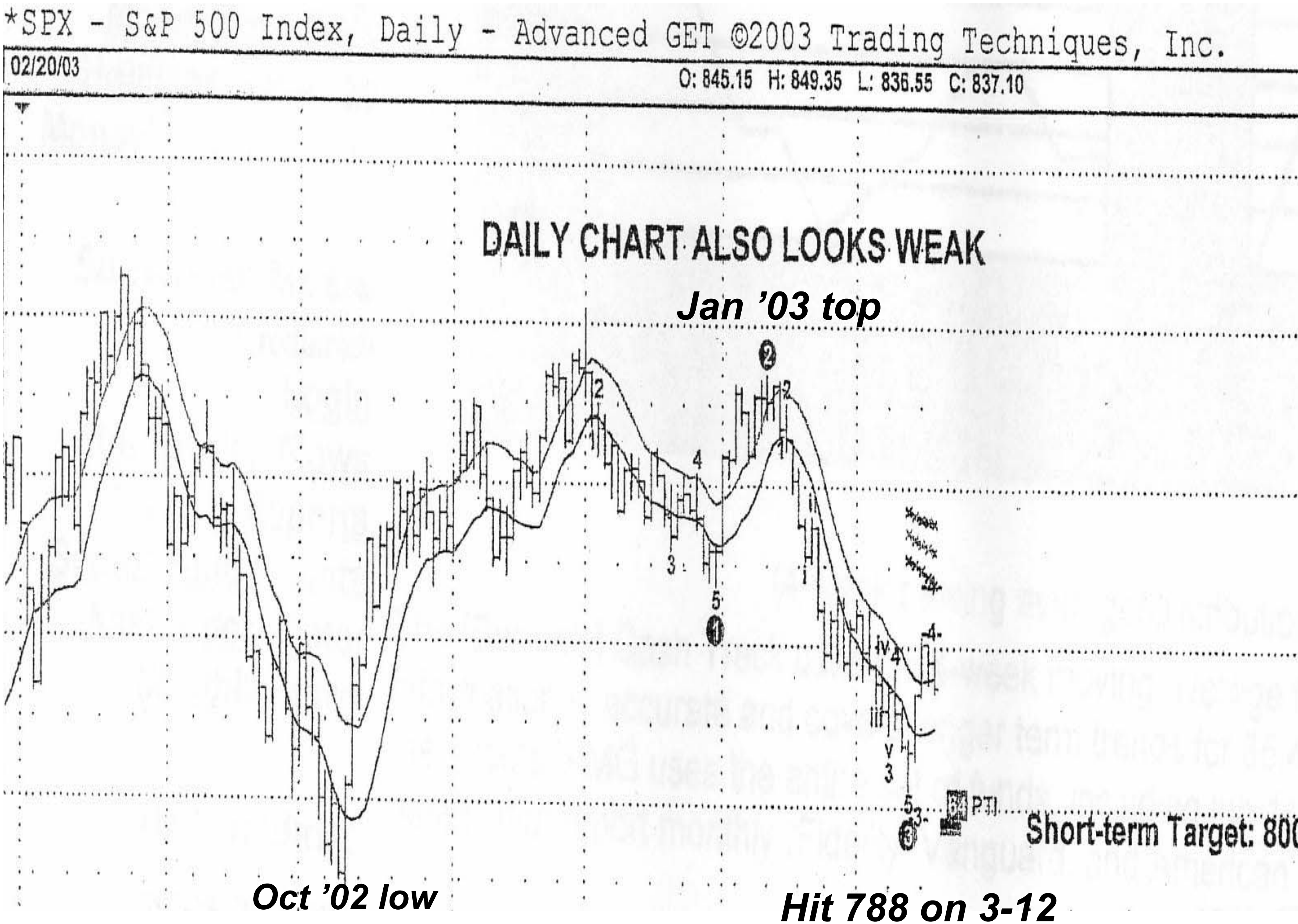
"Executives have always been jokingly referred to as lagging

2-9-03
Estimate
Cuts !

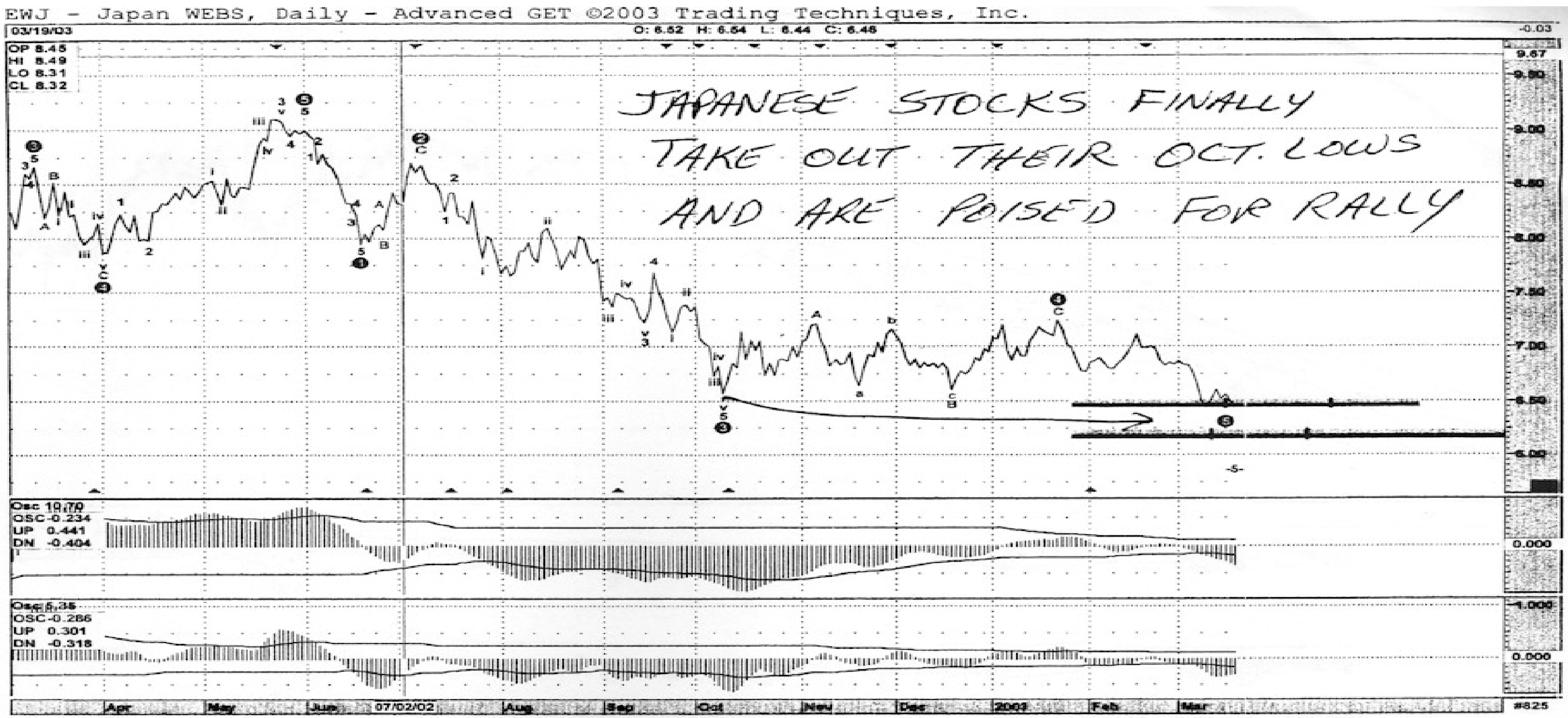
As market falls from Jan '03 earnings, Equity mutual fund cash flow remains bone dry

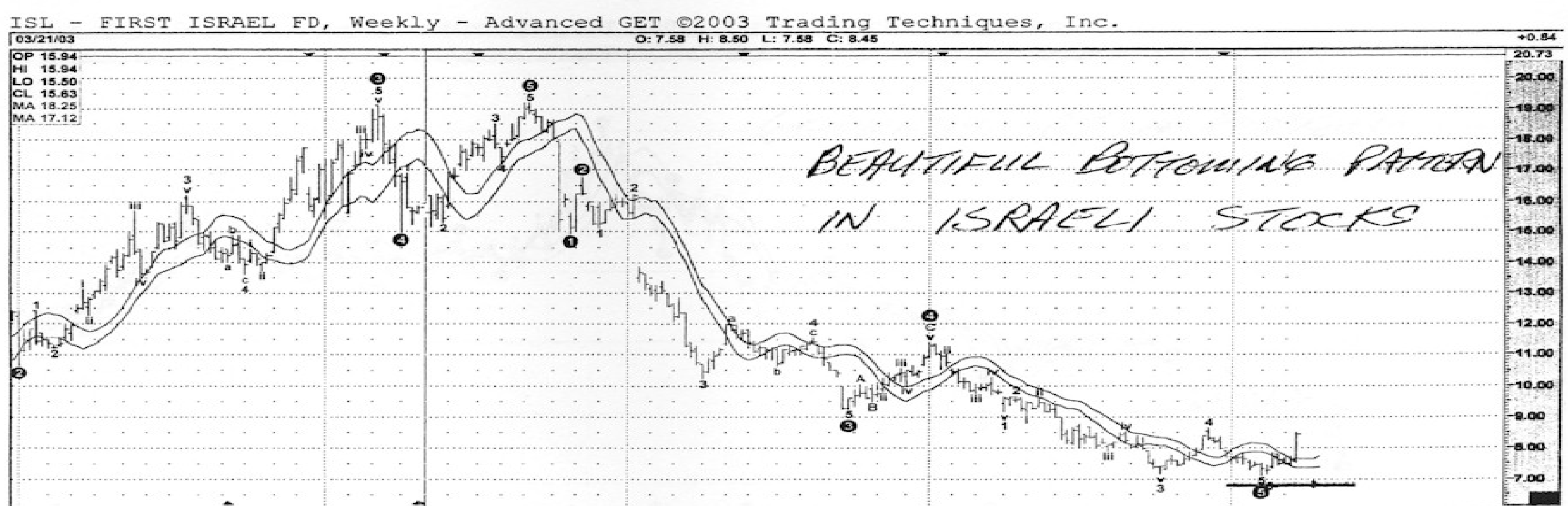


Our 2-20 Short Term Forecast: 800 in coming weeks

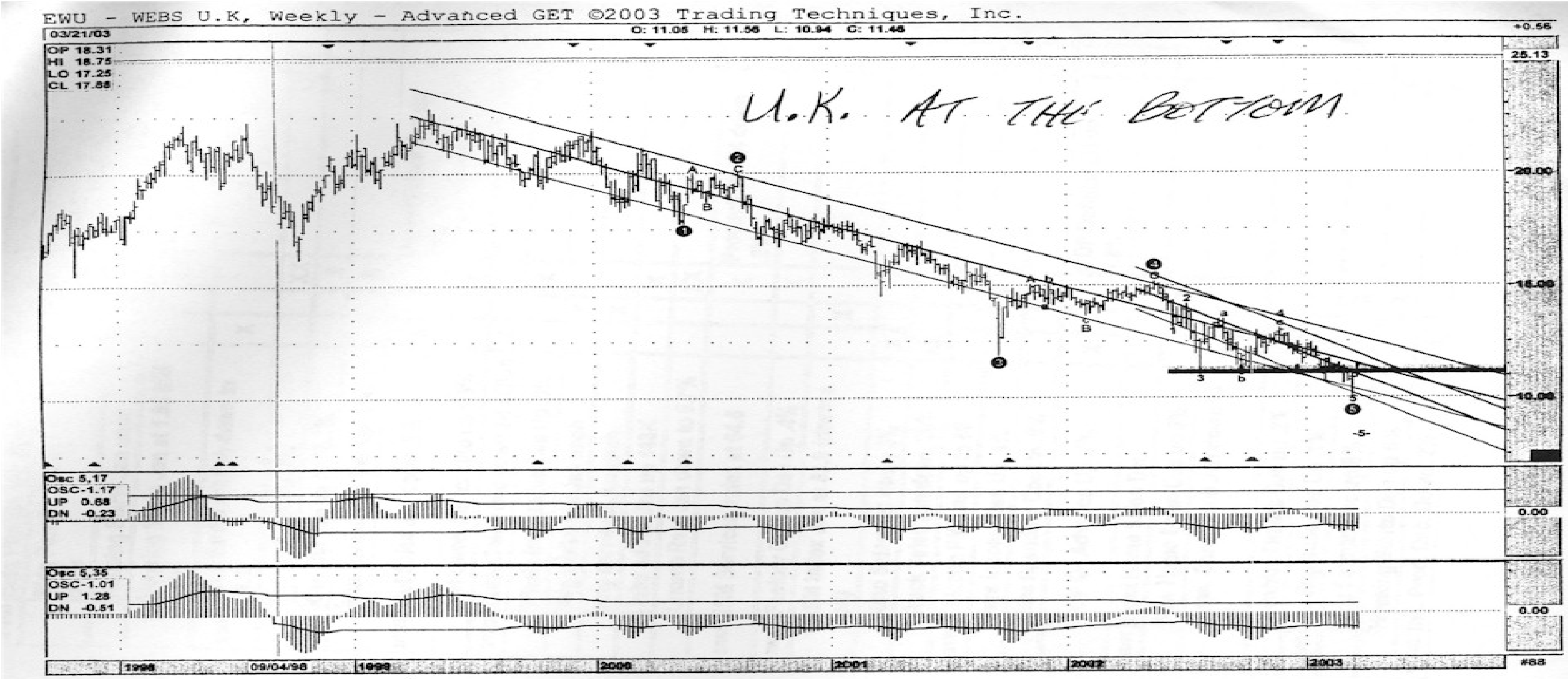


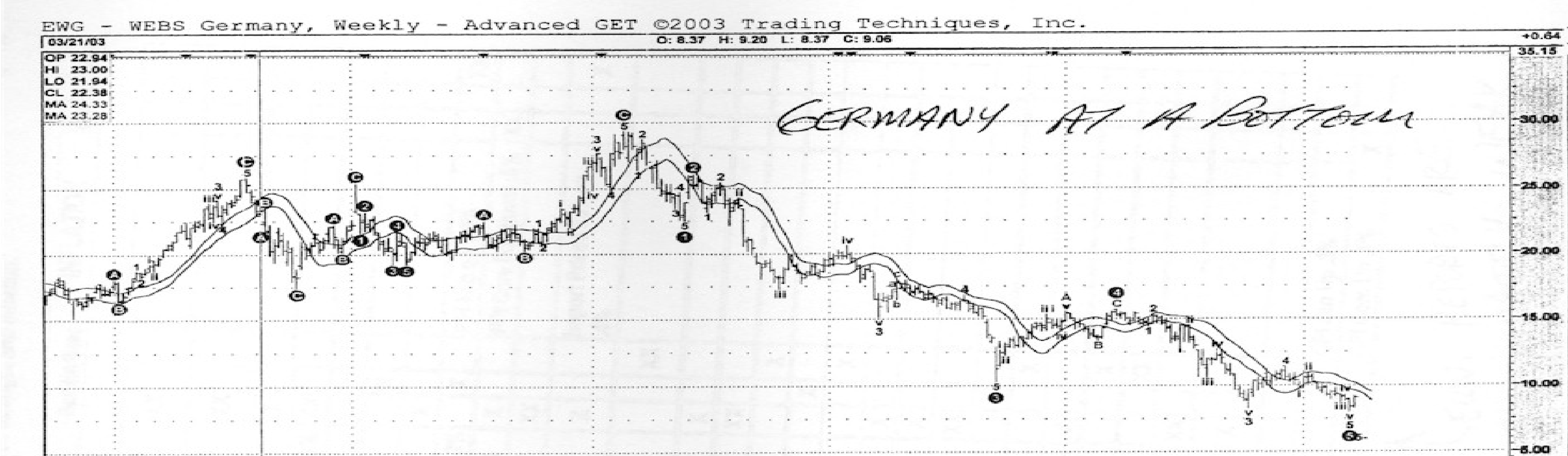
3-19-03: JAPAN FINALLY MAKES NEW LOWS & CAN BEGIN TO BOTTOM!





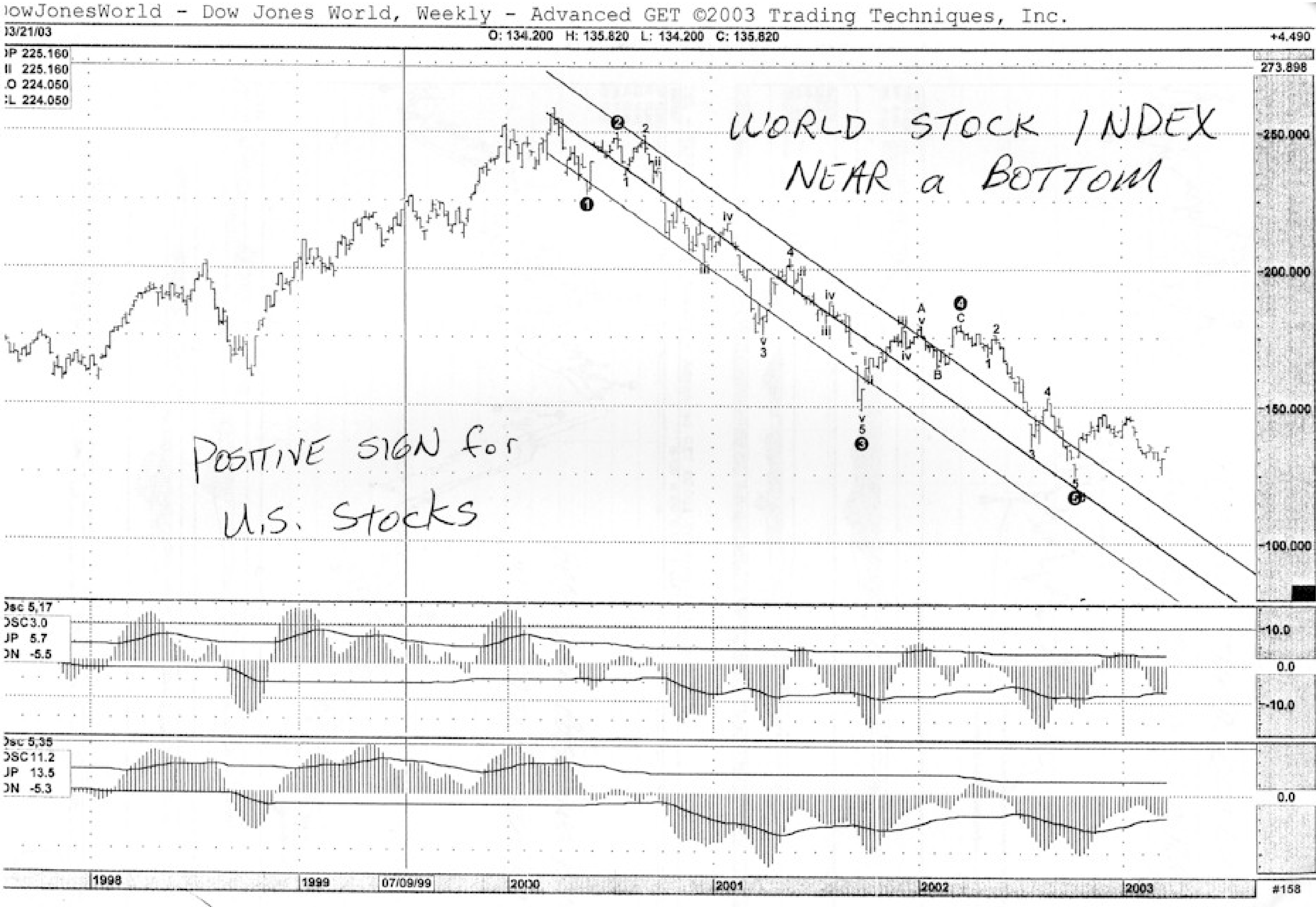
3-21-03: MAJOR GLOBAL STOCK MARKETS HAVE BOTTOMED OUT!





DOW JONES WORLD INDEX in BOTTOMING PATTERN !

3-21-03



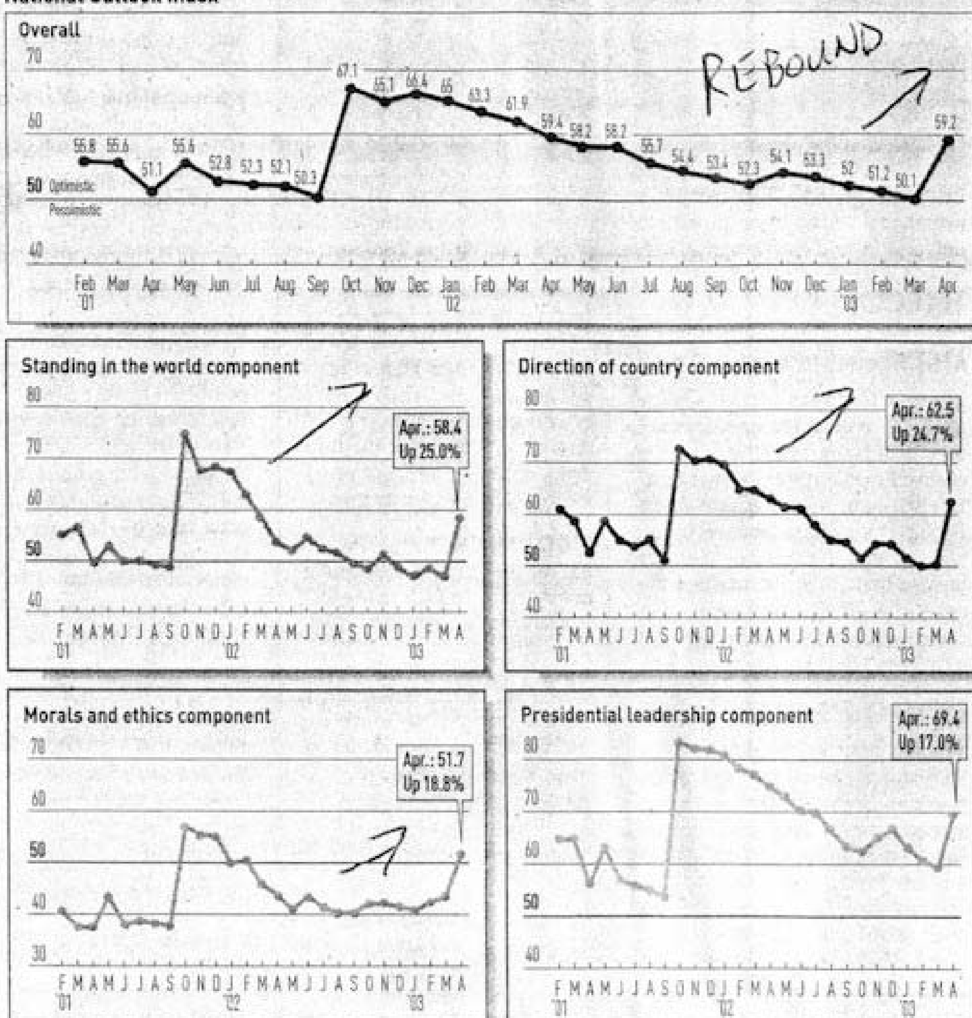
HUGE! CONFIDENCE INDEX RALLIES: 1ST TIME IN 14 MOS!

April, '03

Big Bounce In American Confidence And Self-Esteem

Reflecting the same positive feelings about the war effort that lifted its Economic Optimism component, the IBD/TIPP National Outlook Index jumped 18% in April to hit a 12-month high and pull out of a 17-month downtrend. The improvement was led by 25% increases in the components that gauge Americans' opinion about the country's direction and standing in the world. The IBD/TIPP Poll is the first major economic indicator released each month and this month represents the first confidence reading since the war began.

National Outlook Index



Battlefield Success Rallies Public Take On Nation's Course

Broad Gauge Of Our Psyche

View of standing in world, direction of country climb with gains from the front

BY TERRY JONES
INVESTOR'S BUSINESS DAILY

Americans are feeling pretty good about themselves these days, in large part due to U.S. troops' dramatic gains in the war in Iraq.

Just ask Suzette Glaze.

"This is when we show we fight, we don't buckle," said Glaze, a federal immigration detention officer in Washington state. "I'm very proud of our troops. I have a sister over there, and a cousin."

Glaze isn't the only one who feels good about America and its role in ousting Saddam Hussein from power.

Indeed, the latest IBD/TIPP National Outlook Index, a broad gauge of how Americans feel about their nation and the direction it's taking, jumped 18.1% in April to a reading of 59.2 — its highest level since last April.

vidual components — quality of life, standing in the world, economic optimism, presidential leadership, direction of the country, and morals and ethics.

For April, all except "quality of life" experienced double-digit gains. But even "quality of life" rose a solid 8.7%, reversing a two-month slide.

The biggest move came from the "direction of country" and "standing in the world" subindexes, which rose 24.7% to 62.5 and 25% to 58.4 respectively.

"Buoyed by a stream of positive news on the war front, Americans who were pessimistic prior to the start of war now share an optimistic view that the nation's standing as a world leader will improve in the future," said Mayur.

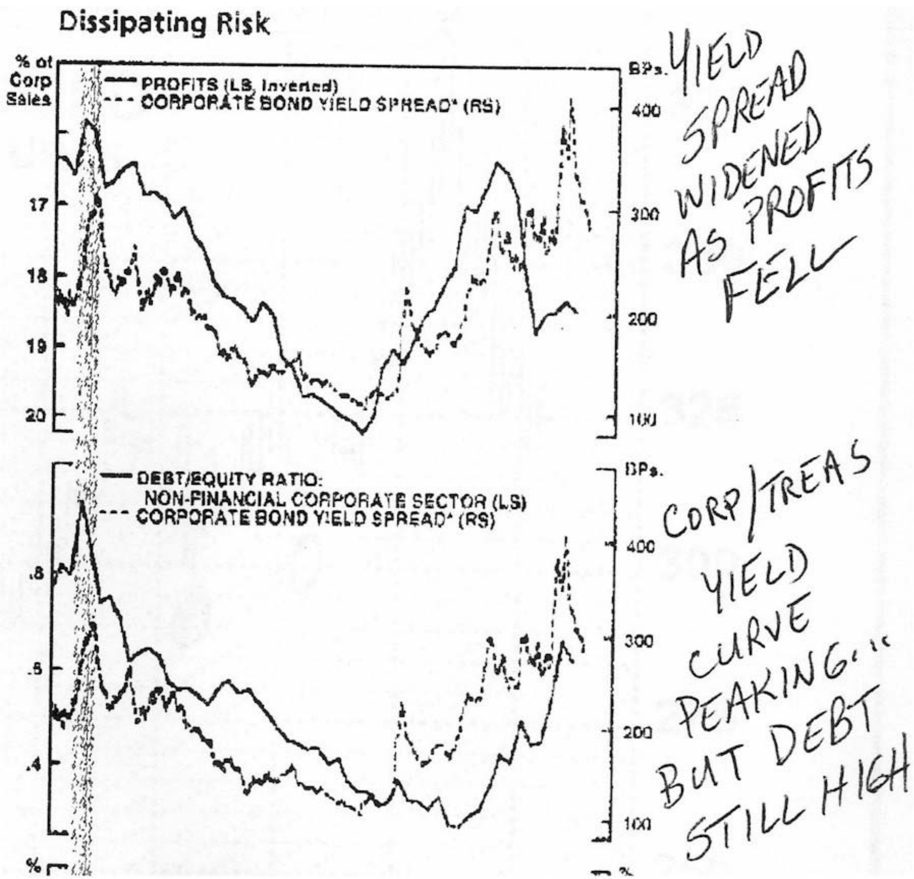
Bullish On Bush

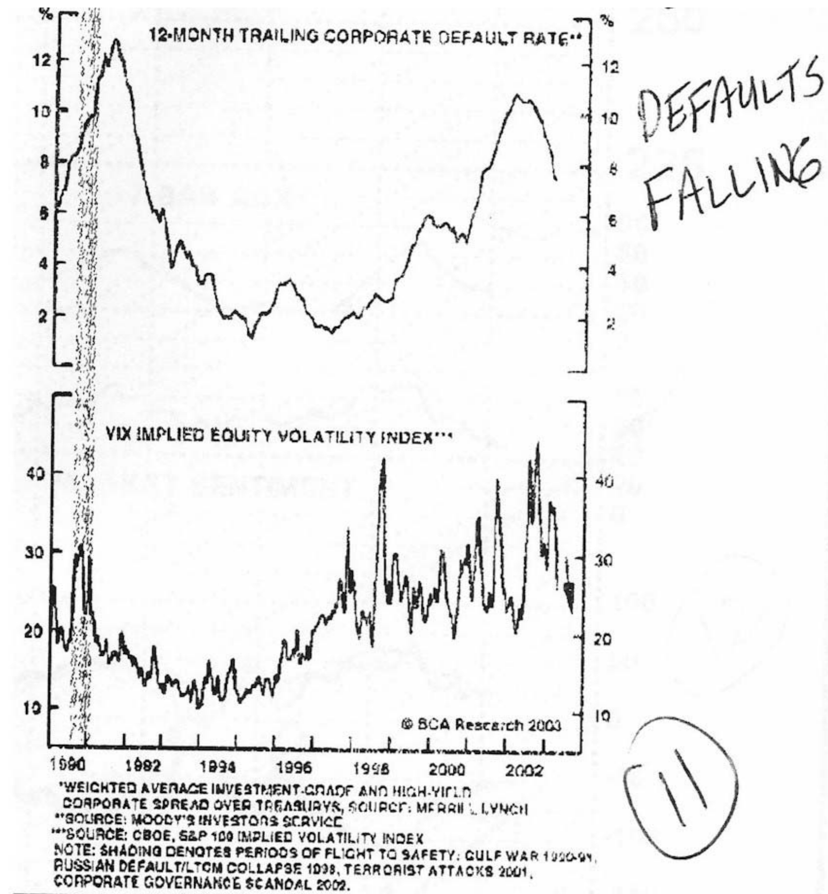
A key beneficiary of this national sigh of relief has been President Bush, whose handling of the war in Iraq, terrorism and tough diplomacy earn him high marks.

"The Presidential Leadership Index got a boost of nearly 10 points, less than the post-9-11

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

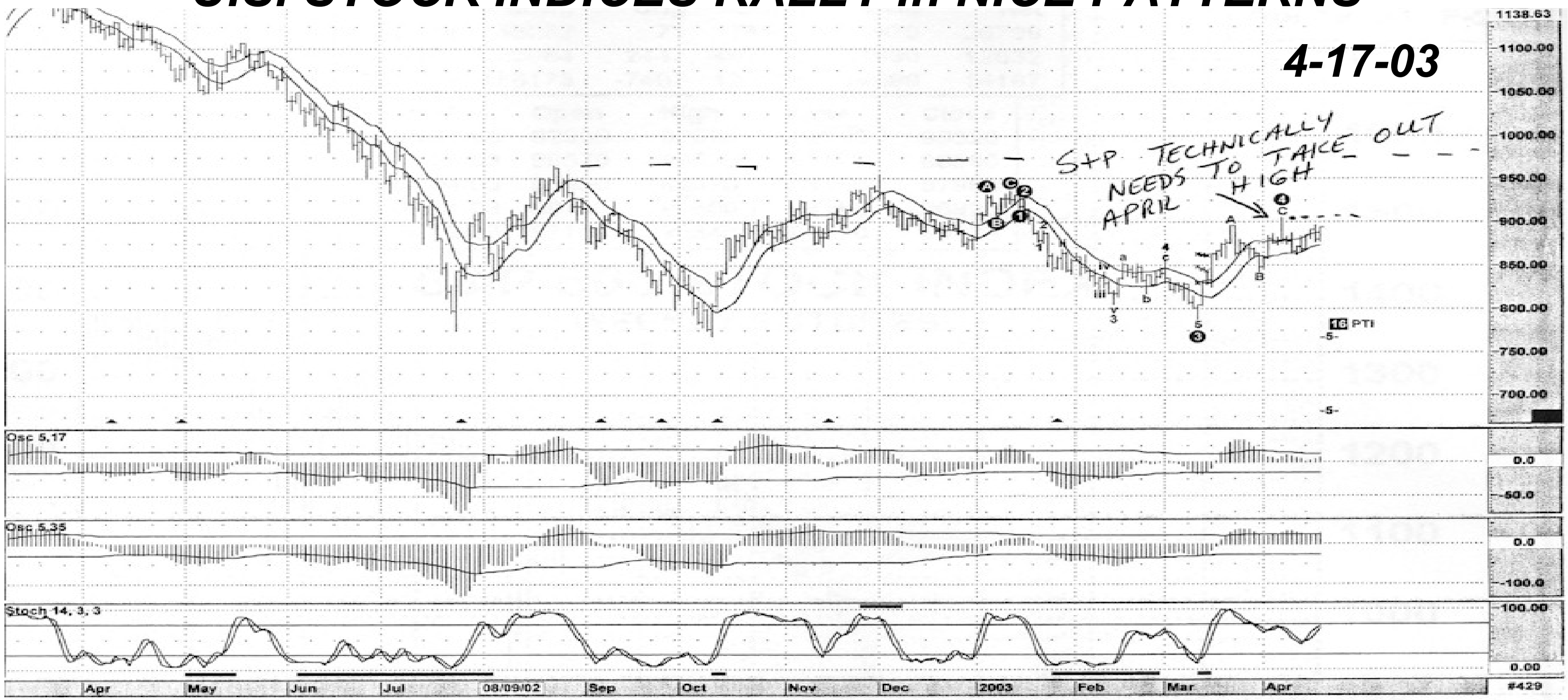
April 20, '03



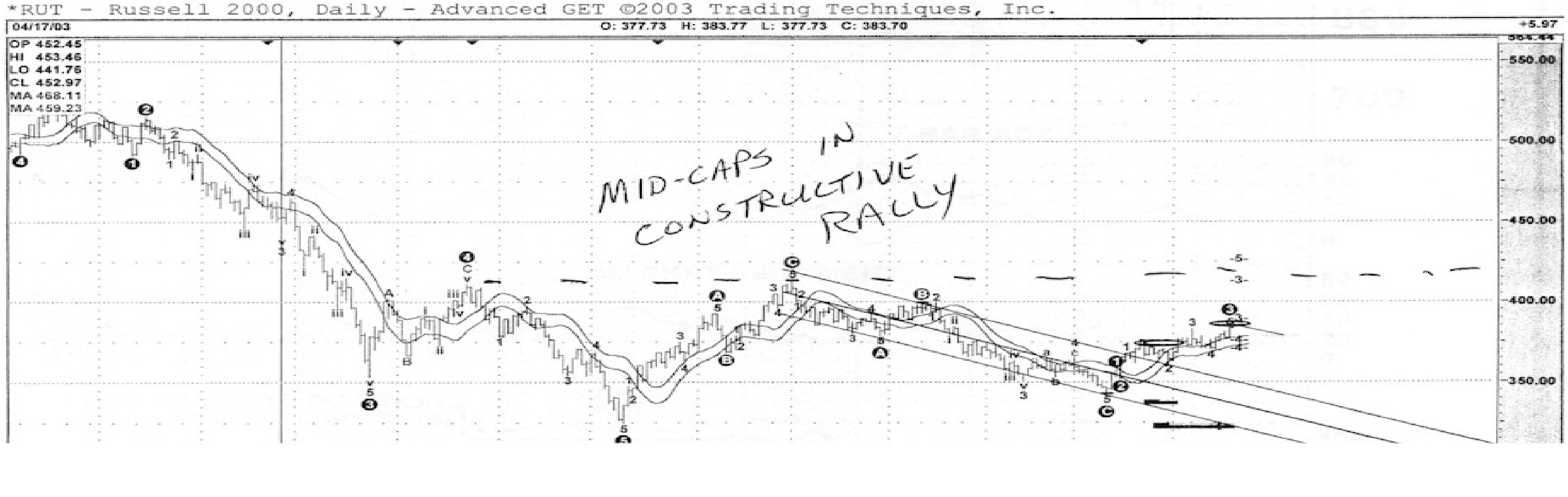


…CONFIDENCE IN BONDS INCREASES CONFIDENCE IN EQUITIES !

U.S. STOCK INDICES RALLY in NICE PATTERNS

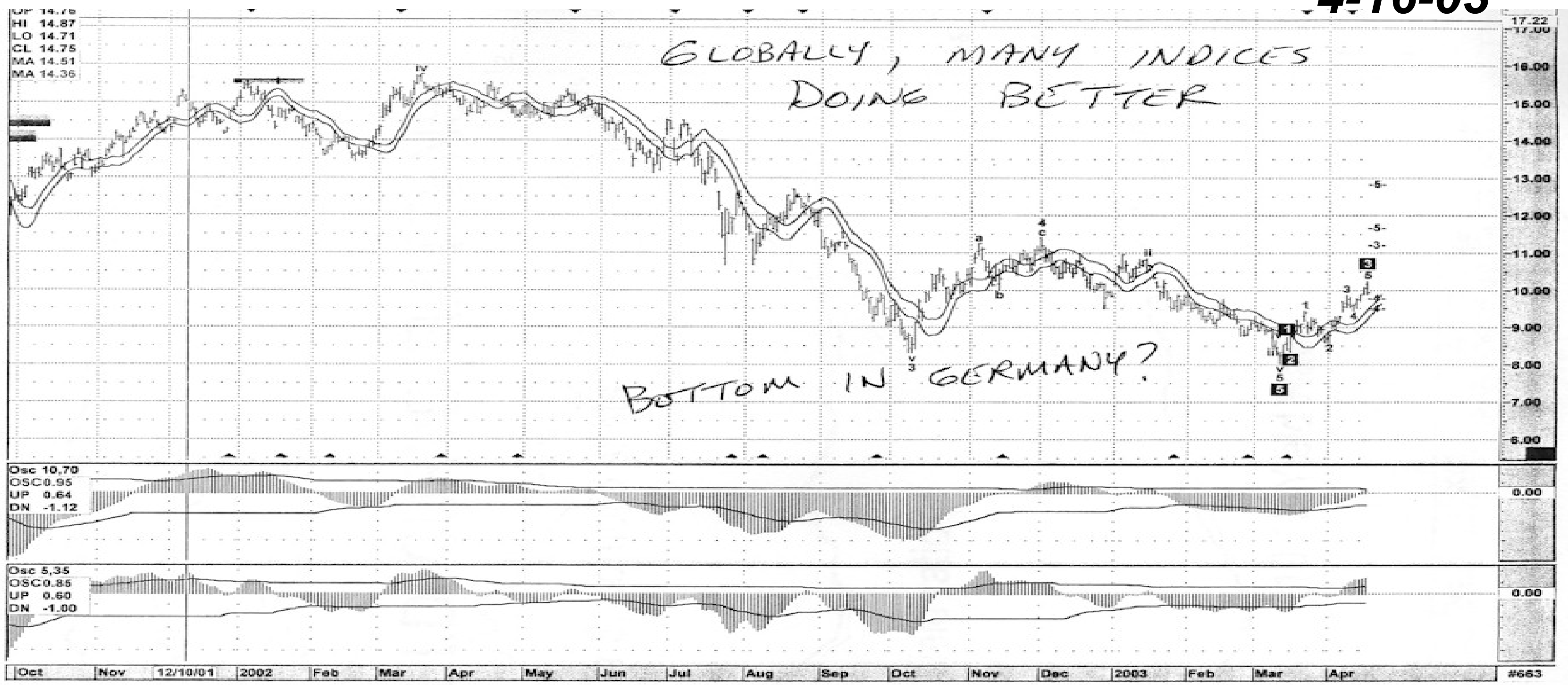


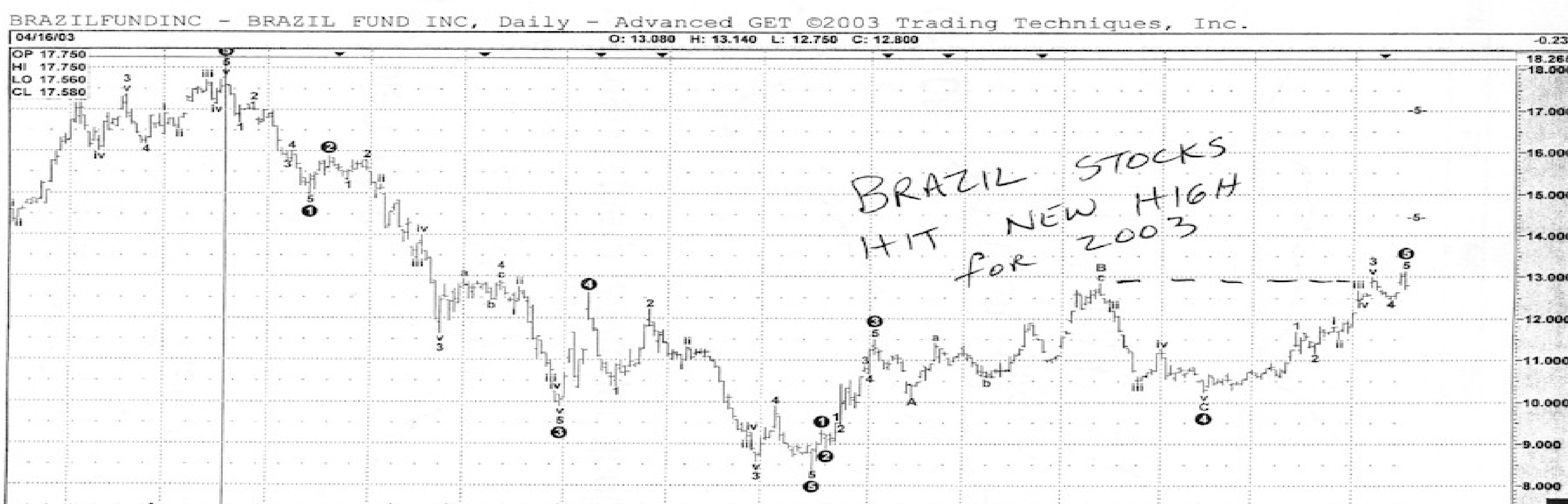
*RUT - Russell 2000, Daily - Advanced GET ©2003 Trading Techniques, Inc.



GLOBAL MARKET RALLIES CONTINUE

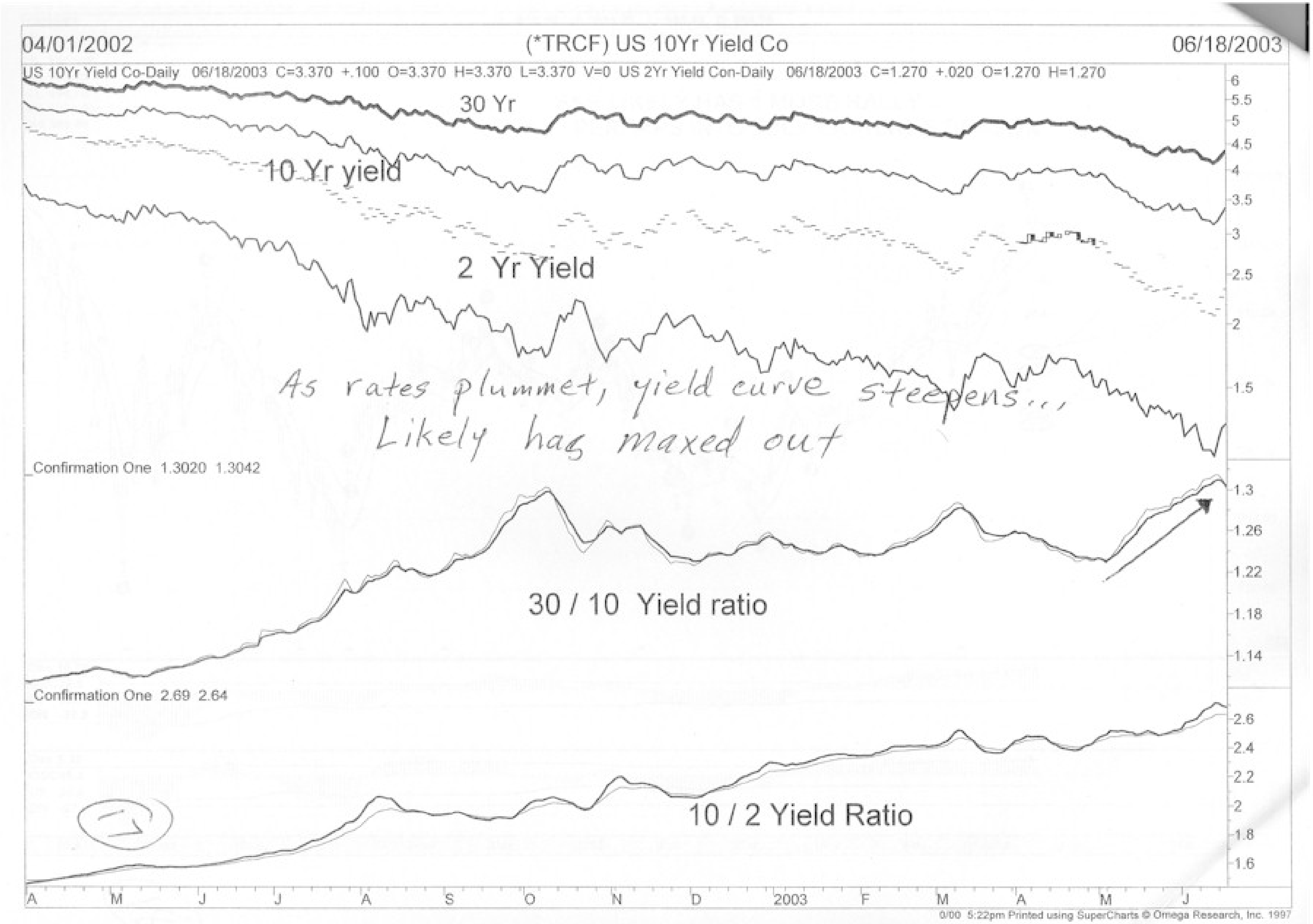
4-16-03



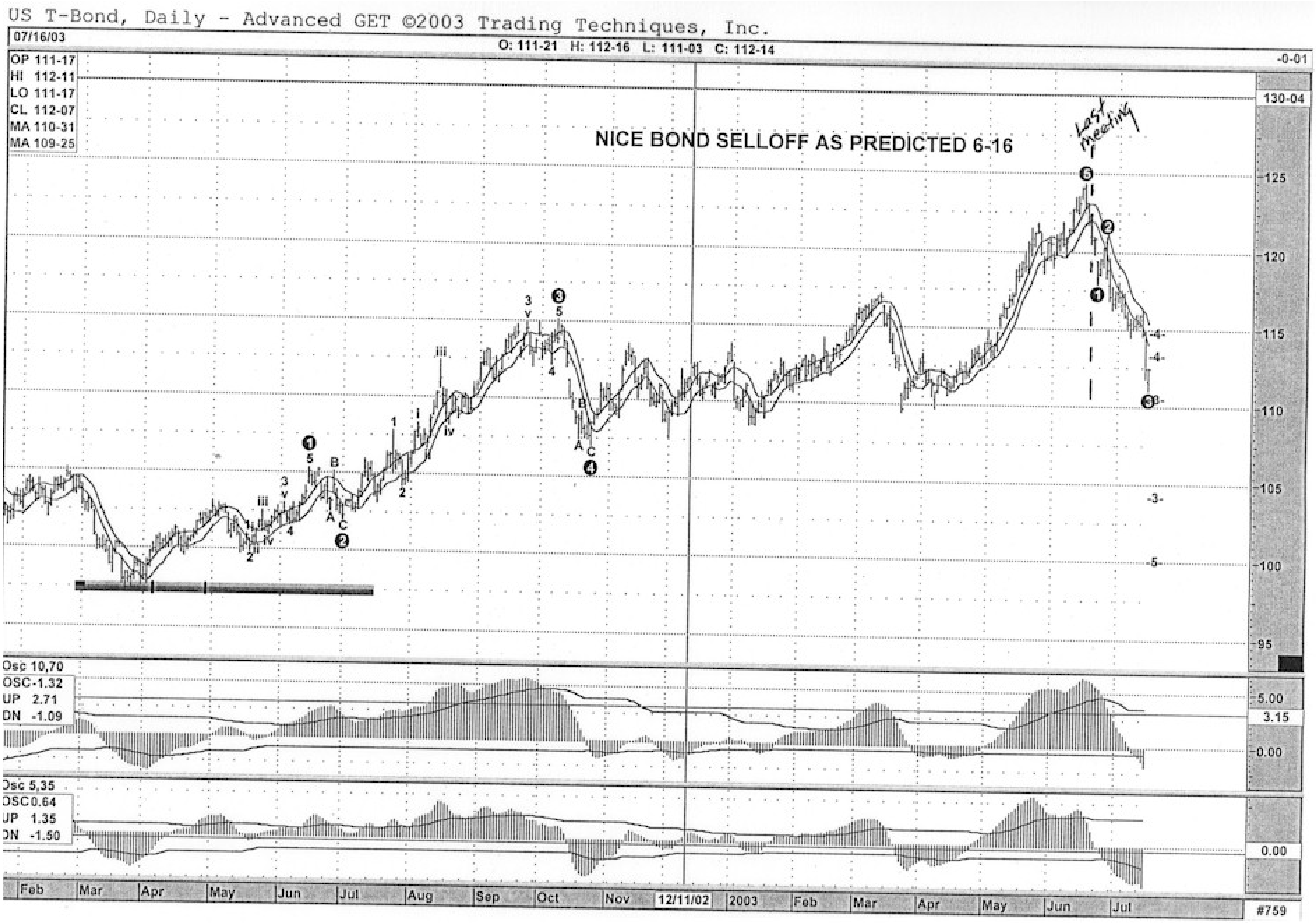


6-19-03: CALLING A MAJOR TOP IN BONDS

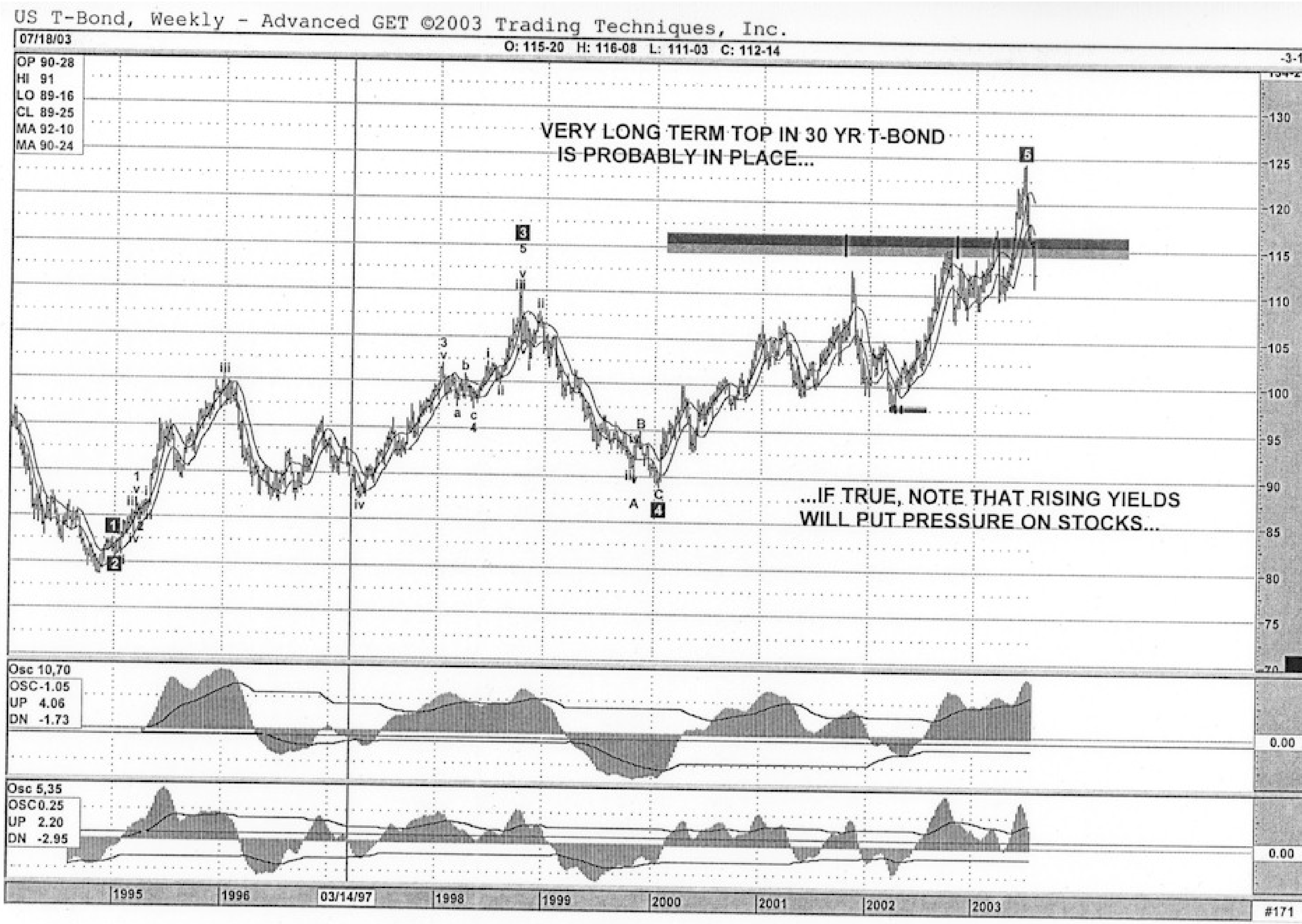
6-18-03: CALLING A TOP in YIELD CURVE STEEPNESS



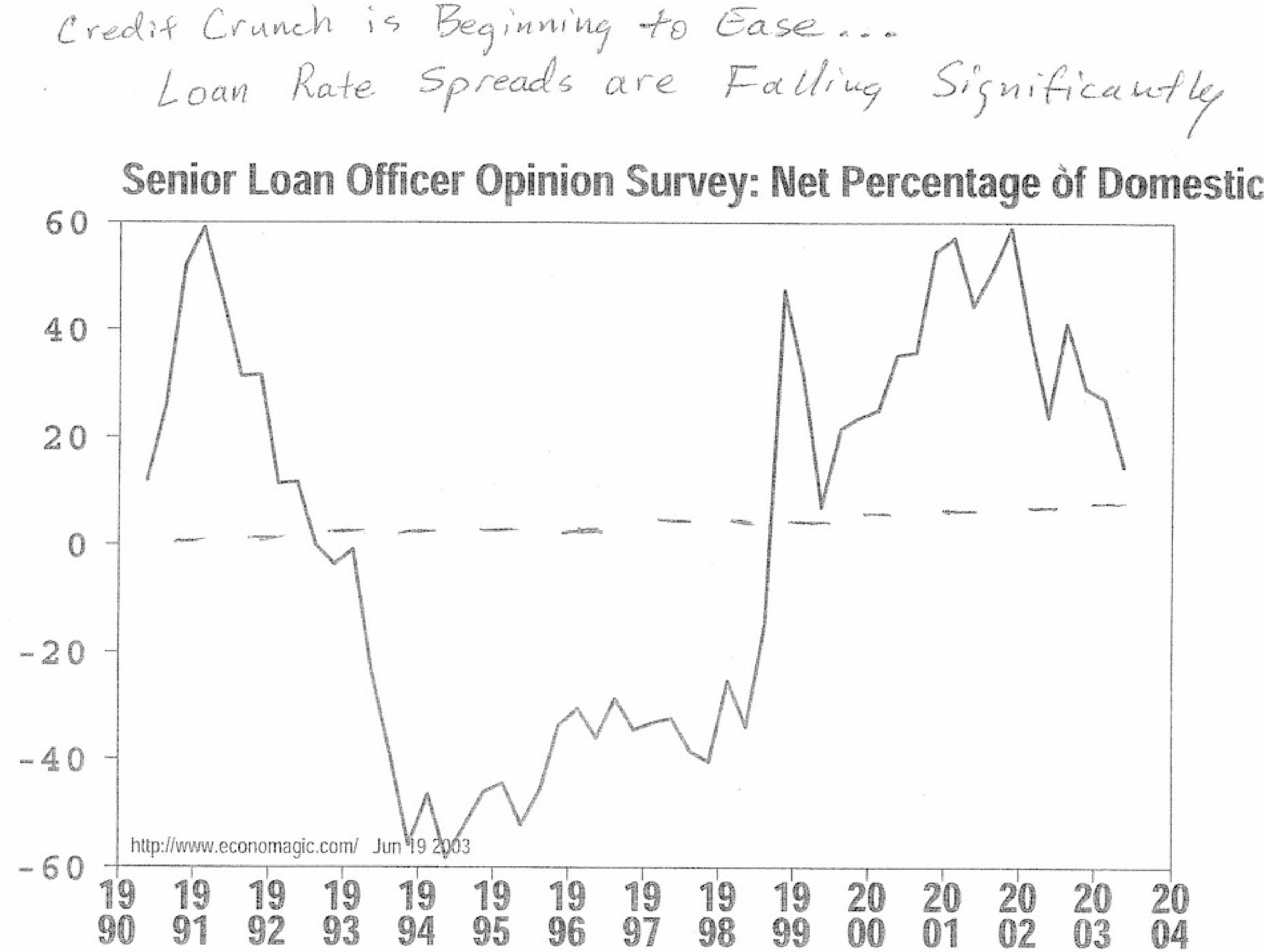
7-16-03: DRAMATIC BOND SELLOFF CONTINUES



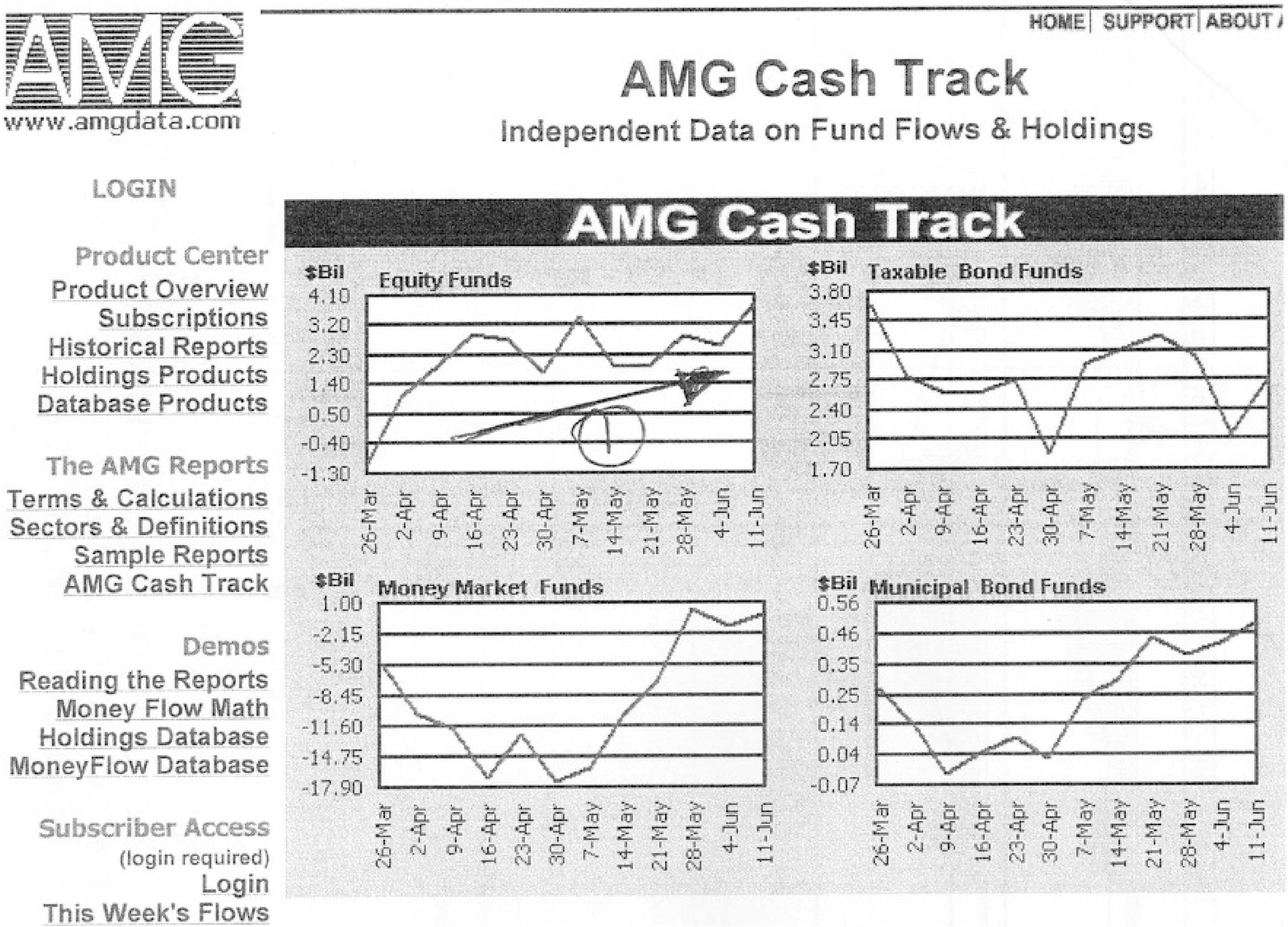
7-18: SELLOFF LOOKS LIKE a MAJOR BOND TOP….
….NOTE POTENTIAL PRESSURE ON STOCK P/E's!



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

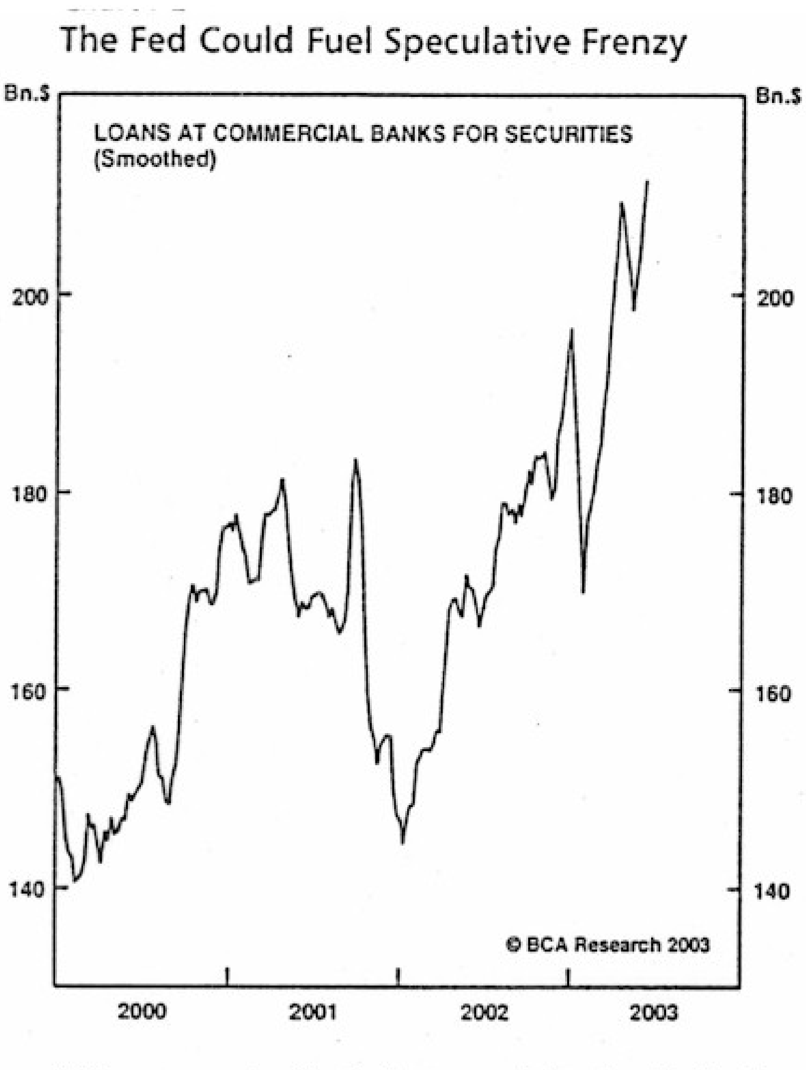


6-11-03: EQUITY MUTUAL FUND CASH FLOWS RISING

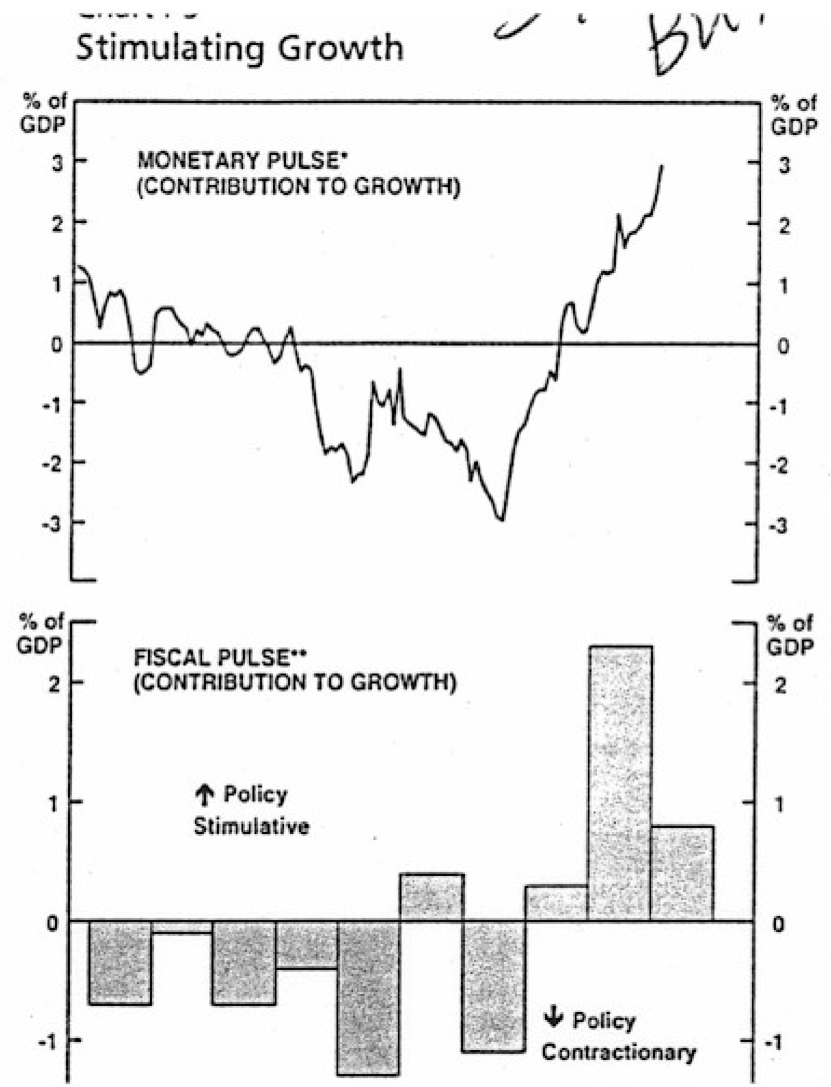


Jul. '03: POTENT REGULATORY STIMULUS PACKAGE!

MARGIN LOANS UP



MONETARY & FISCAL POLICY



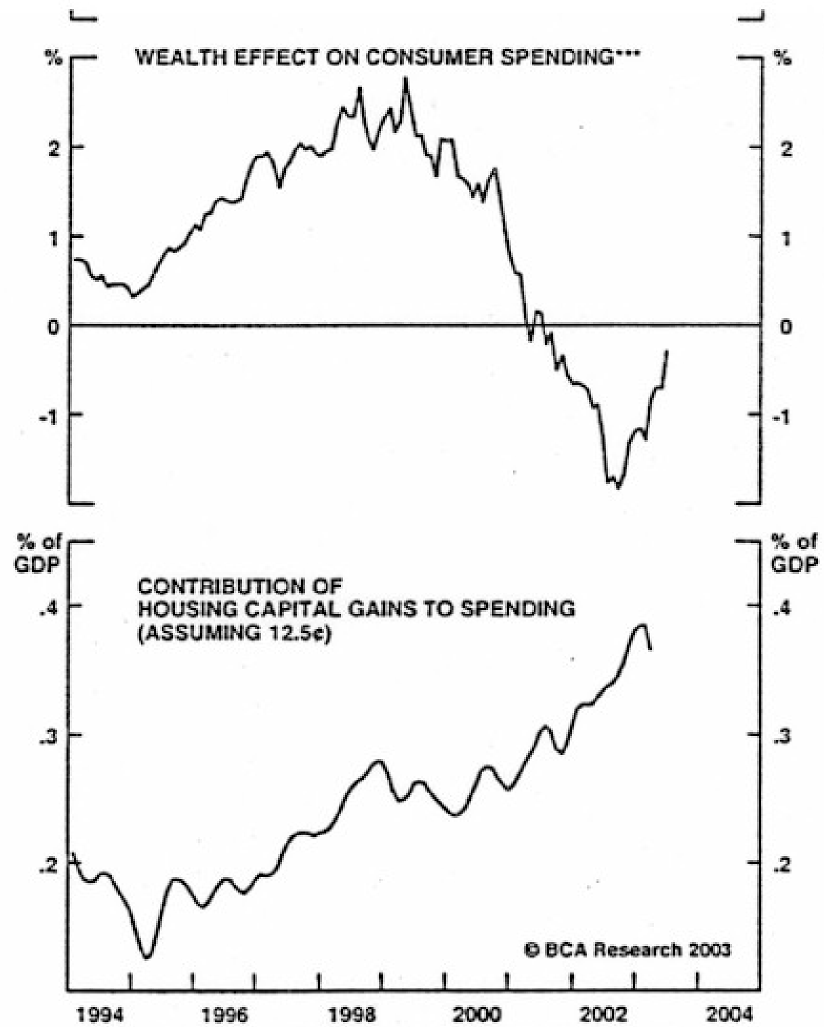
Jul ’03: IMPROVING WEALTH EFFECT on CONSUMERS…
…WEALTH UP = CONFIDENCE = SPENDING & INVESTING

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

BUSINESS CAPITAL OUTLAYS PICKING UP…NEEDED to TAKE THE LOAD OFF INDEBTED CONSUMER & HOUSING

BRIGHT SIGN

Jul '03

Toolmakers Prepare to Chip In

Companies Get Ready for Rise in Semiconductor Demand

By Don Clark

THROUGHOUT A THREE-YEAR slump, semiconductor makers have invested in technology to make their products more powerful. So have makers of the esoteric manufacturing tools used in chip factories.

But orders for tools slowed to a trickle. Chip companies bought enough equipment to refine new manufacturing processes, but have held back from major purchases to prepare their factories for high-volume production.

"Our customers are really quite cautious about adding capacity," says Michael Splinter, chief executive officer of Applied Materials Inc., the largest maker of chip-manufacturing tools.

That caution could soon end. As the toolmakers gather for an annual U.S. trade show, dubbed Semicon West, industry executives point to signs of improved chip demand and are readying new tools and production techniques to exploit any resulting shopping spree.

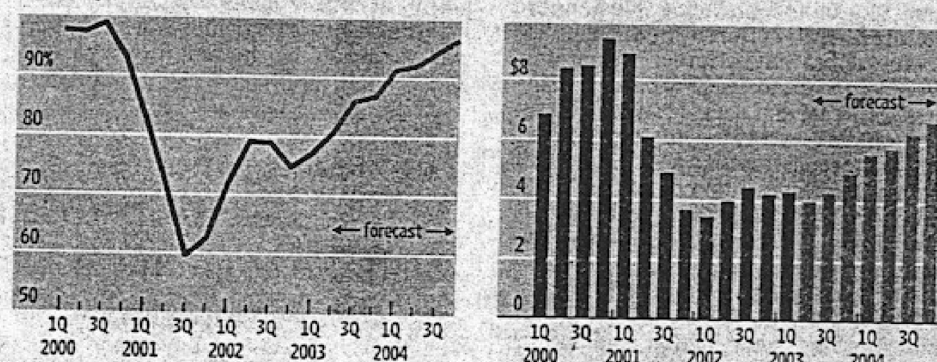
One piece of evidence: Factories are filling up, hastening the day that manufacturers will increase capacity to meet demand. Taiwan Semiconductor Manufacturing Co., a foundry that makes chips for other companies, last week said its factories operated at 86% of capacity in the second quarter, up from 67% in the first quarter.

Market-research firm Gartner Inc. puts plant utilization at 81% for the entire

One Optimistic Scenario for Semiconductors

Chip factory utilization
Percentage of industry manufacturing capacity in use

Chip factory equipment sales
Revenue in billions of dollars



Source: Gartner Inc.

much as 25% from last year.

Excess optimism is possible. TSMC and other companies began placing equipment orders in the spring of 2002, only to cancel many of them by last year's Semicon because chip demand proved illusory, says Klaus-Dieter Rinnen, a Gartner analyst.

Toolmakers never stopped developing products, however, for fear of losing market share. The fruits will be on display at Semicon, which fills convention centers in both San Francisco and San Jose with production systems costing millions of

wan, Ultratech's vice president of laser technology.

Another radical approach involves immersing the silicon wafers in water, using the liquid's refractive attributes to extend the ability of optical lithography systems to trace tiny lines of circuitry. A group of researchers who met Friday in San Jose, in a gathering sponsored by a consortium called International Sematech, concluded that there are no insurmountable barriers to the immersive approach, though tool-

AUG: INDICES HITTING HIGH P/E's AS MARKET RALLIES

Storm Warnings as Stocks Sail On

Valuation, Sentiment Measures Are at Caution Levels for Investors, But Trading Remains Strong

By E.S. Browning

THE STOCK MARKET'S warning lights are flashing.

Despite the rally in stocks so far this year, and widespread hopes that the economy is starting to turn, some important indicators are advising investors to slow down.

The two most insistent warning signs are coming from realms of stock analysis known as valuation and sentiment. Valuation simply measures whether stocks are cheap or expensive compared with companies' earnings and other measures of corporate performance. Sentiment measures whether investors are gloomy or enthusiastic.

ABREAST OF THE MARKET

Both measures have reached high levels. A common measure of valuation is the price of the broad Standard & Poor's 500-stock index compared with the earnings of the companies in the index. That ratio has hit 32 in recent weeks. That happens to be the same level at which the index traded when the stock bubble burst three years ago.

A common measure of investor sentiment, meantime, is a survey conducted by market-research outfit Investors Intelligence, which monitors whether investment newsletters are bullish, bearish or in between. That survey shows that bulls now represent about 70% of those who are clearly bullish or bearish, an unusually high percentage. Three weeks ago, before a brief market pullback, bulls were almost 80%, the highest level since the spring of 1987, a period that preceded the crash of 1987.

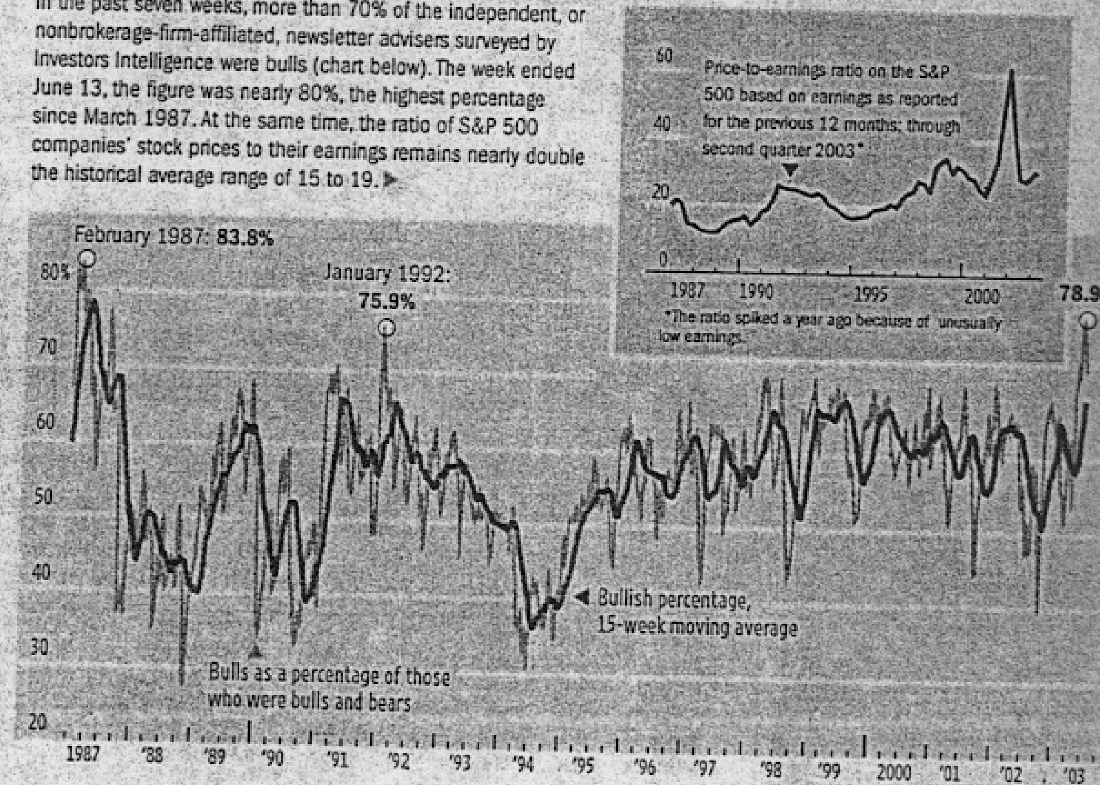
"It's a very risky situation," worries Michael Burke, the editor of Investors Intelligence, New Rochelle, N.Y.

So far, although many analysts and money managers have noted his findings, most don't seem to share his concern, and that was reflected in the stock market's performance last week. Despite a drop of 72.63 points, or 0.79%, to 9070.21 in pre-July Fourth trading Thursday, in the face of some bad unemployment news, the Dow Jones Industrial Average finished the holiday-shortened trading week with a gain of 81.16 points, or 0.9%. It is up almost 9% since the year began, and up 20% since bottoming out on March 11. The Nasdaq Com-

Please Turn to Page C3, Column 1

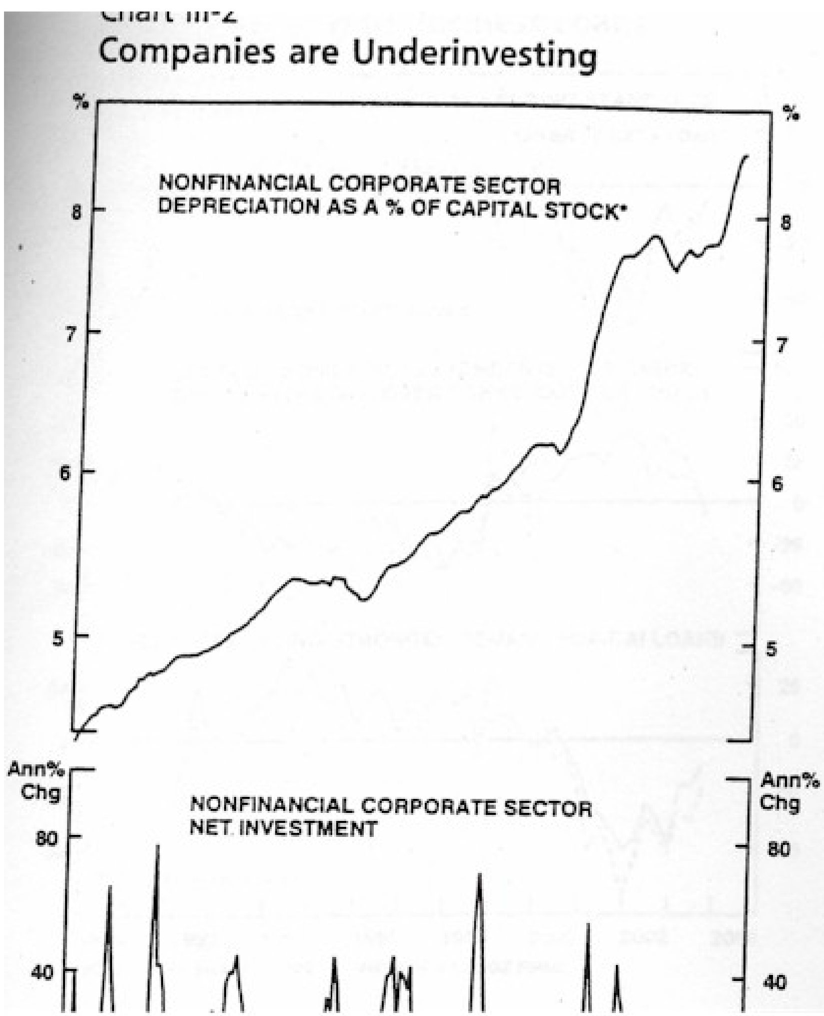
Stocks Are Expensive and Investors Are Exuberant

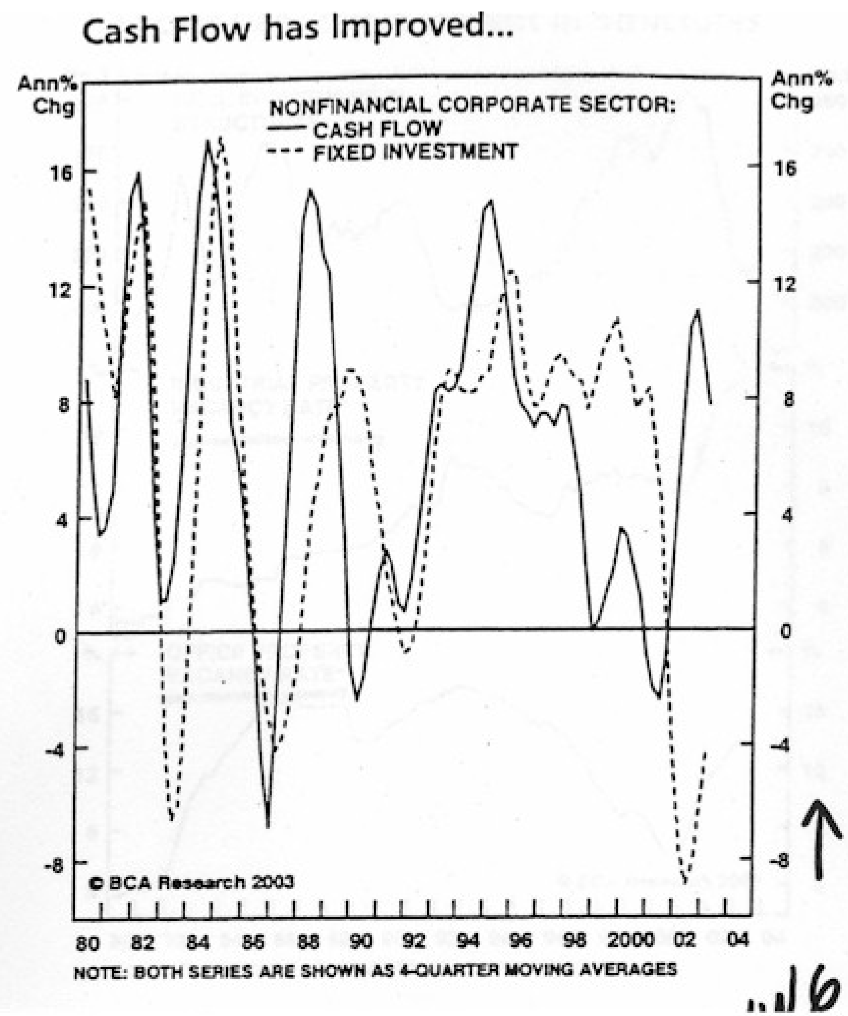
In the past seven weeks, more than 70% of the independent, or nonbrokerage-firm-affiliated, newsletter advisers surveyed by Investors Intelligence were bulls (chart below). The week ended June 13, the figure was nearly 80%, the highest percentage since March 1987. At the same time, the ratio of S&P 500 companies' stock prices to their earnings remains nearly double the historical average range of 15 to 19. ▶



Sources: Investors Intelligence; Birinyi Associates

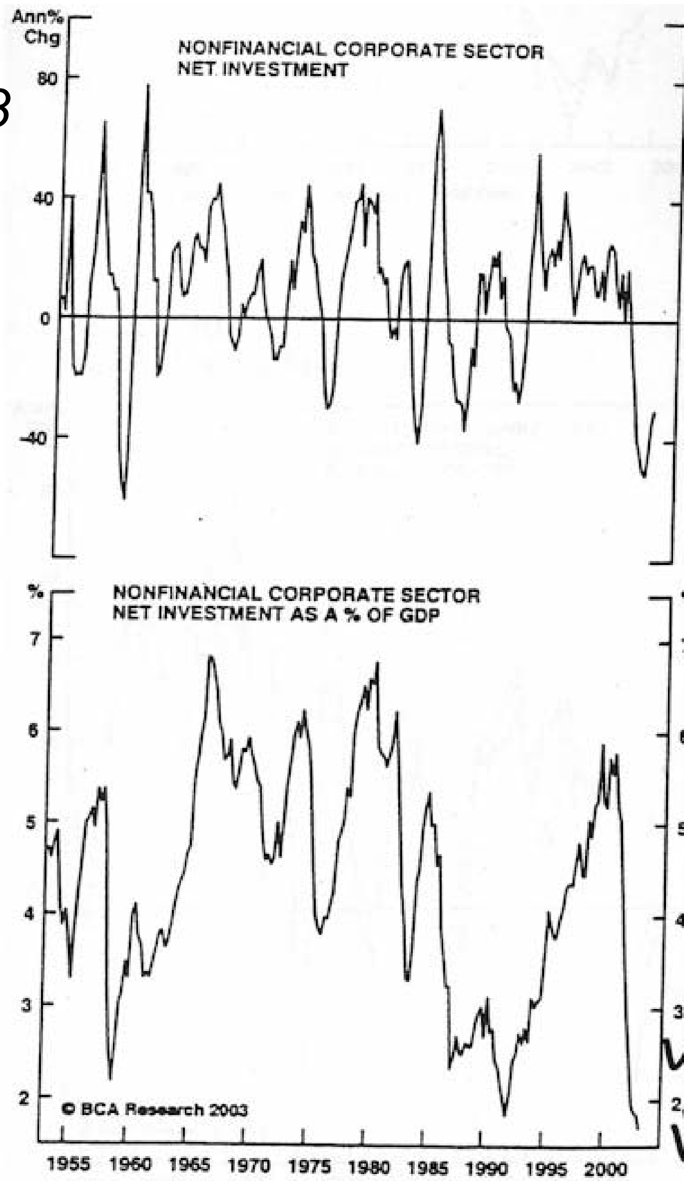
SEP ’03: CORPORATE CASH FLOW IMPROVES….
…BUT COMPANIES ARE RELUCTANT TO INVEST





IMPROVED FINANCIALS + (LOW INVESTMENT & HIRING) = HIGH PROFITS & PRODUCTIVITY…WILL JOBS FOLLOW?

9-03



LOW INVESTMENT

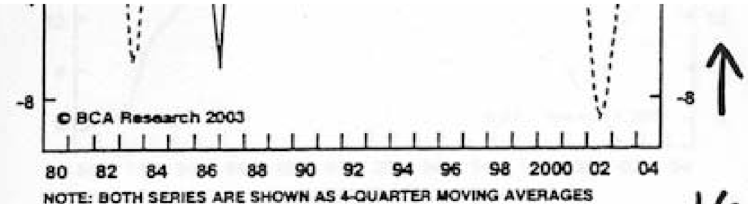
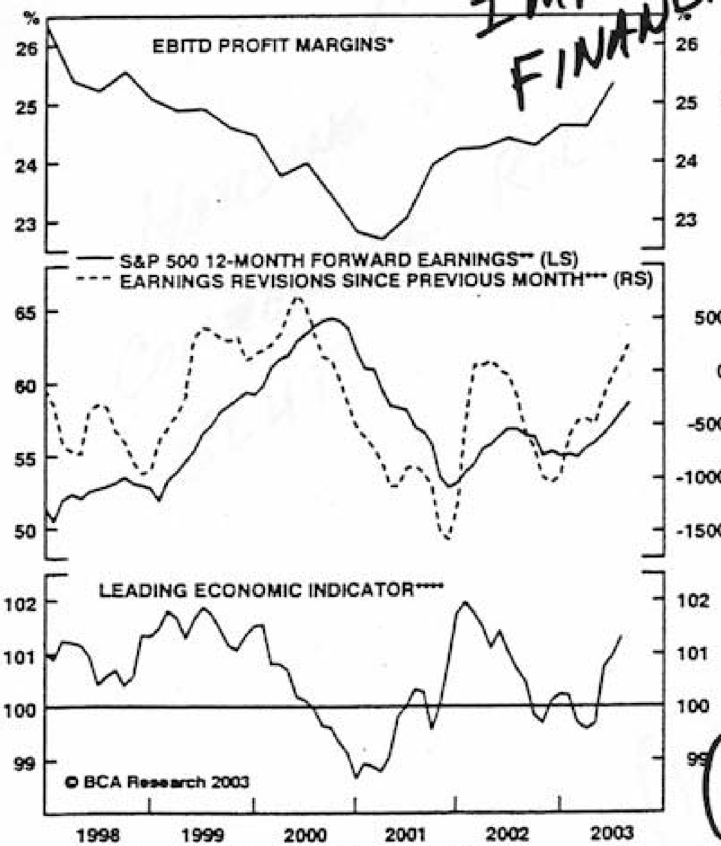


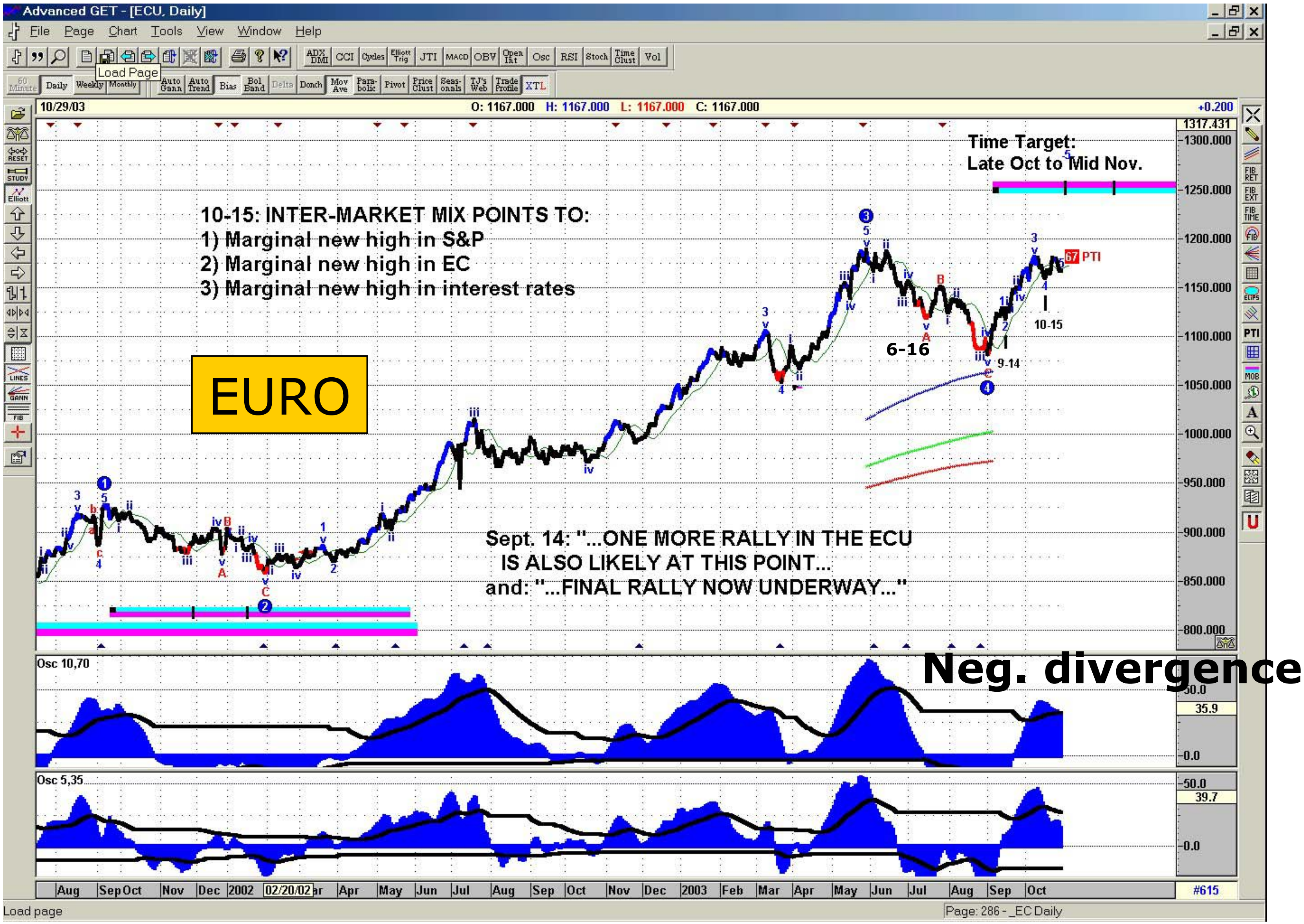
Chart III-7
… As Have Profits



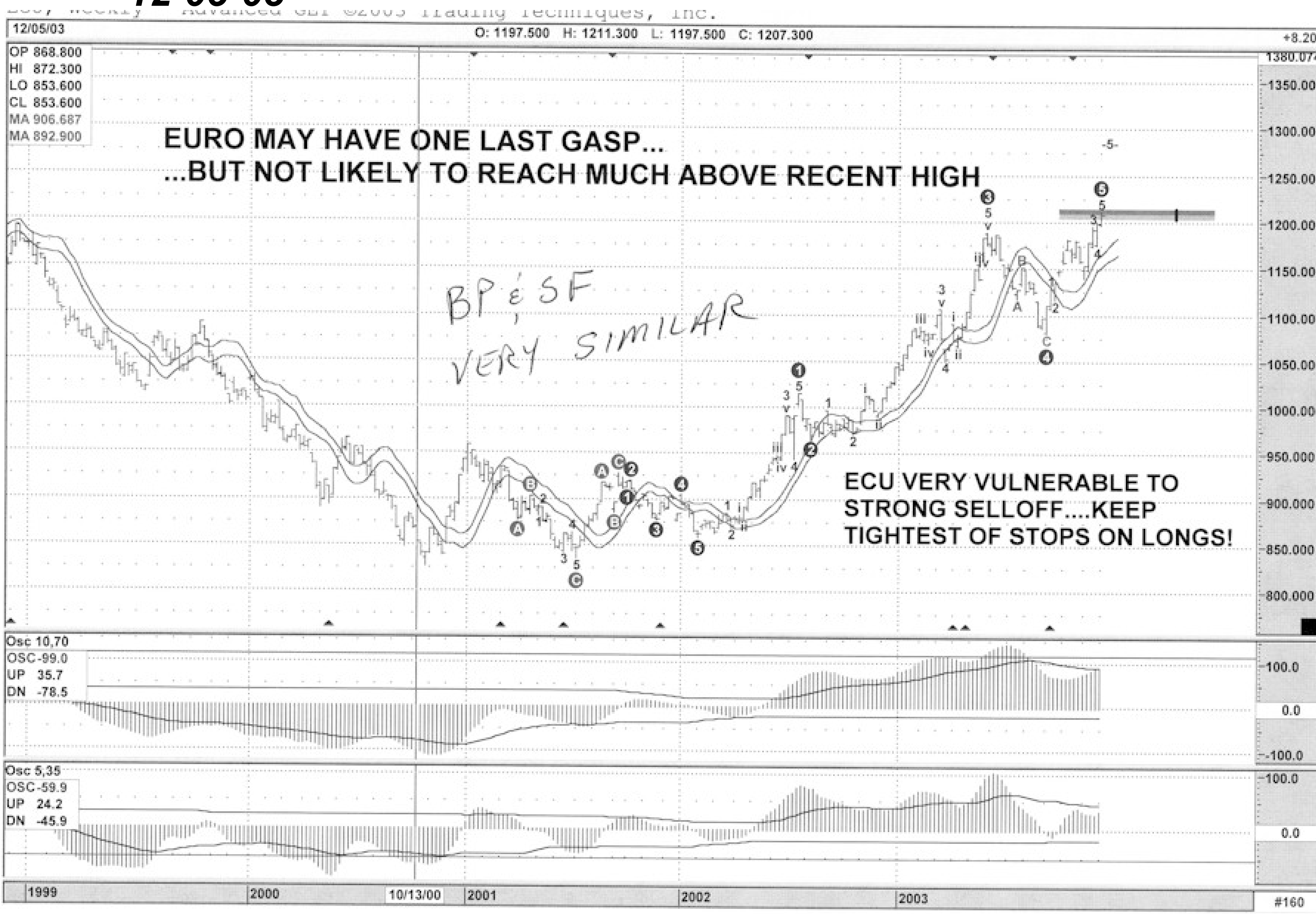
*EARNINGS BEFORE INTEREST, TAXES AND DEPRECIATION

IMPROVING FINANCIALS

10-15 Current Scenario: Inter-Market Mix = Marginal New SP & Forex Highs, Marginal New Bond Lows



12-05-03

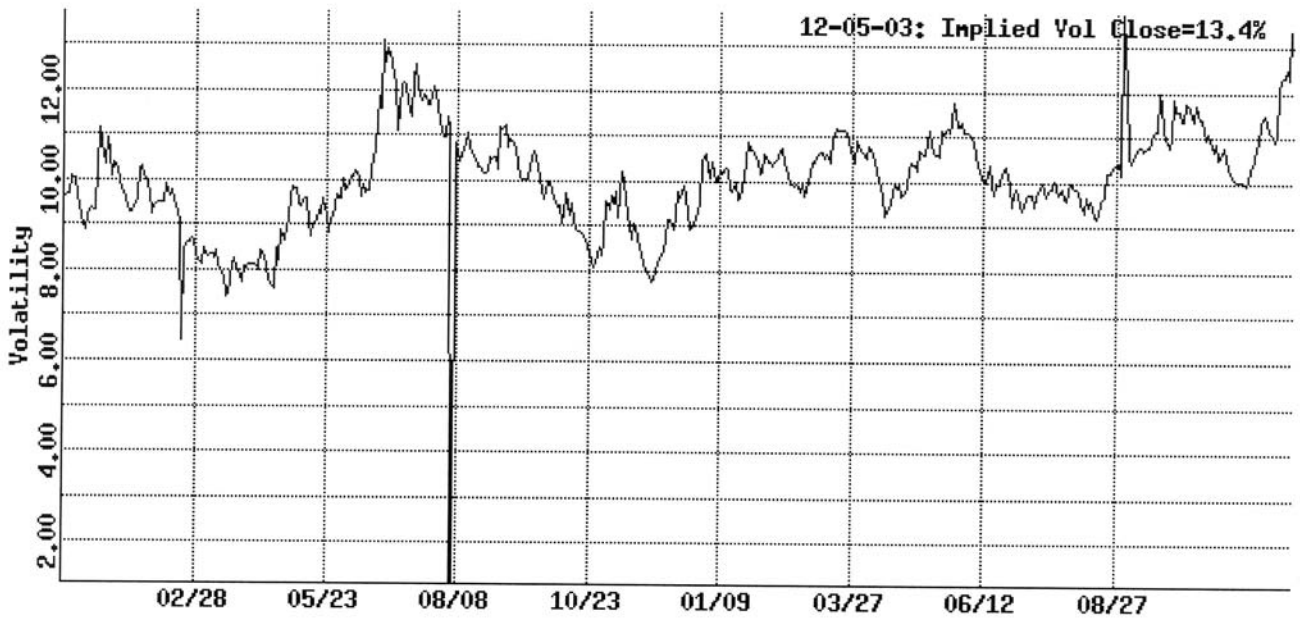


Advanced GET ©2003 Trading Techniques, Inc.
12/05/03
O: 1197.500 H: 1211.300 L: 1197.500 C: 1207.300
OP 868.800
HI 872.300
LO 853.600
CL 853.600
MA 906.687
MA 892.900
EURO MAY HAVE ONE LAST GASP...
...BUT NOT LIKELY TO REACH MUCH ABOVE RECENT HIGH
BP & SF VERY SIMILAR
ECU VERY VULNERABLE TO STRONG SELLOFF....KEEP TIGHTEST OF STOPS ON LONGS!
Osc 10,70
OSC-99.0
UP 35.7
DN -78.5
Osc 5,35
OSC-59.9
UP 24.2
DN -45.9
1999
2000
10/13/00
2001
2002
2003
#160

12-05-03

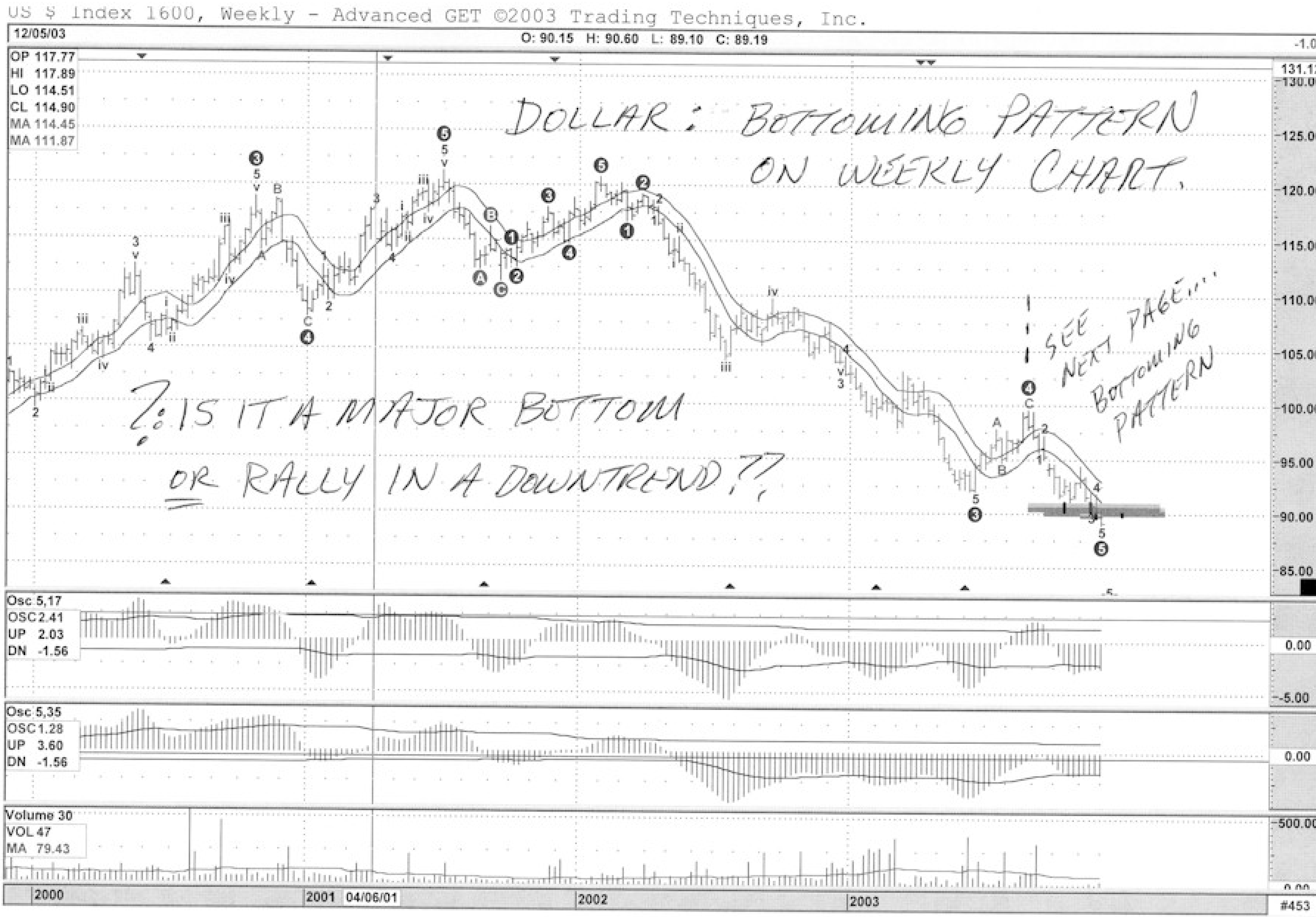
ECU, Daily - Advanced GET ©2003 Trading Techniques, Inc.
12/04/03
O: 1207.300 H: 1207.300 L: 1207.300 C: 1207.300
ECU IS VERY TOPPY NOW THAT
MAY HIGHS HAVE BEEN TAKEN OUT!
DITTO BP, SF
Keep tightest of stops on longs...
key support trendlines are shown
1 Note sky-high volatility
2 Very bearish speculation
3 Very toppy technical pattern
1244.451
Osc 10,70
65.0
Osc 5,35
44.3
#672

VERY HIGH VOLATILITY READINGS IN MOST FOREX: SIGN OF "UNCERTAINTY" & POSSIBLE TURNING POINT



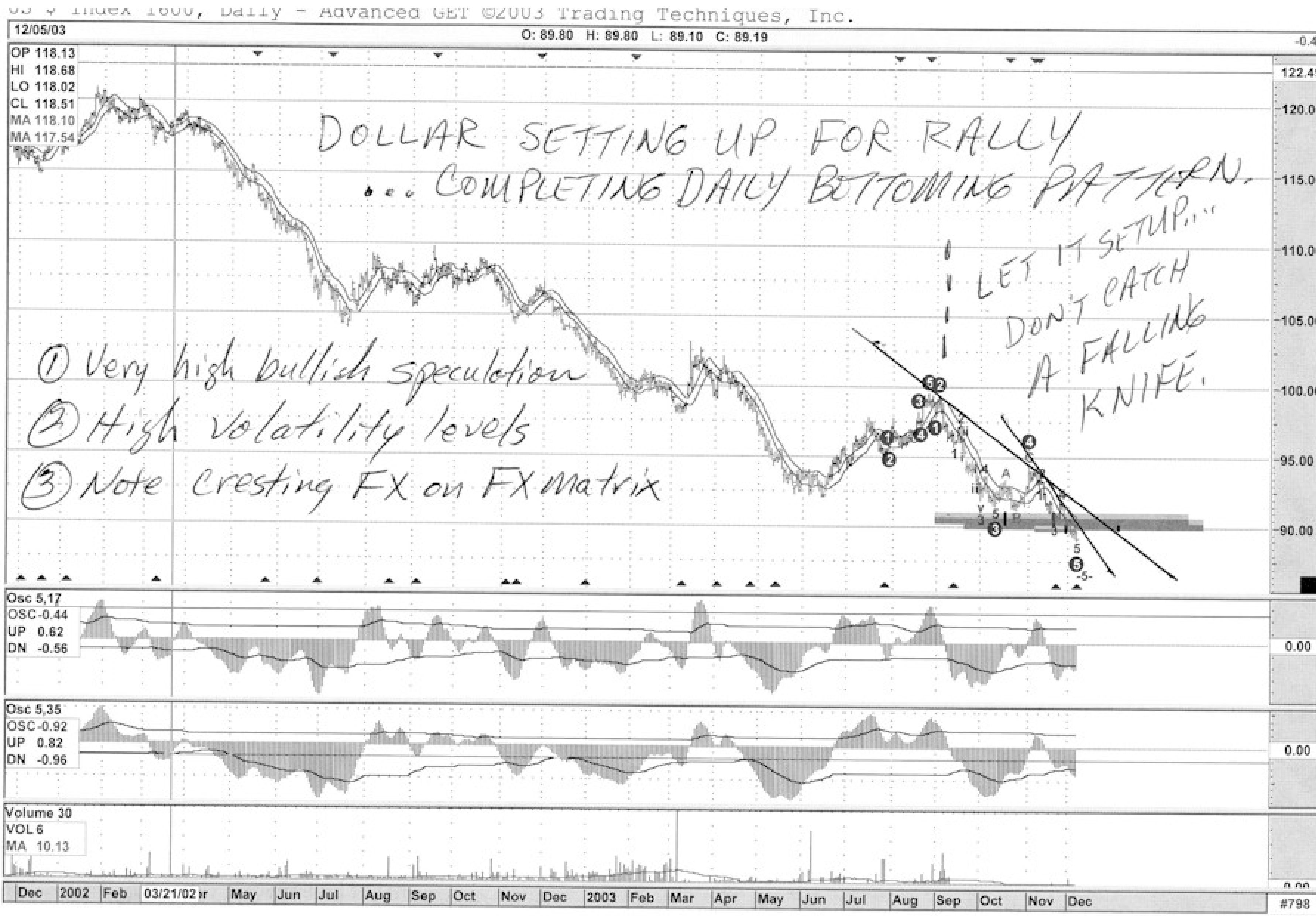
EURO VOLATILITY SKY HIGH
BP " " "
CD " " "

12-05-03



IF DOLLAR BOTTOMS, WILL IT HOLD ?

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



FOREIGN EXCHANGE MARKET TIMING SIGNALS

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)
						BP- CzKrona- ECU- HunForint- Sing$2- SwedKron					
					SF						
			Austral$- Can$- JYen- NZ$- SAfrRand- Sing$1	BrazReal- IndRupee-	IsrShek-						
		ChilPeso- NorKrona- ThaiBaht		Taiwan$							
											MexPeso

UNCLEAR, LIKELY BULLISH:	
UNCLEAR:	PolZloty - SKoreaWon
UNCLEAR, LIKELY BEARISH:	
BUY WATCHLIST:	
SHORT WATCHLIST:	

12-05-03

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

2 YEARS AGO WE CAUGHT THE SWAN DIVE IN THE PESO NOW CONDITIONS MAY BE SETTING UP FOR A RALLY

GOLD STRENGTH IS PRIMARILY vs. U.S. $…
GC is VULNERABLE TO A DOLLAR RALLY

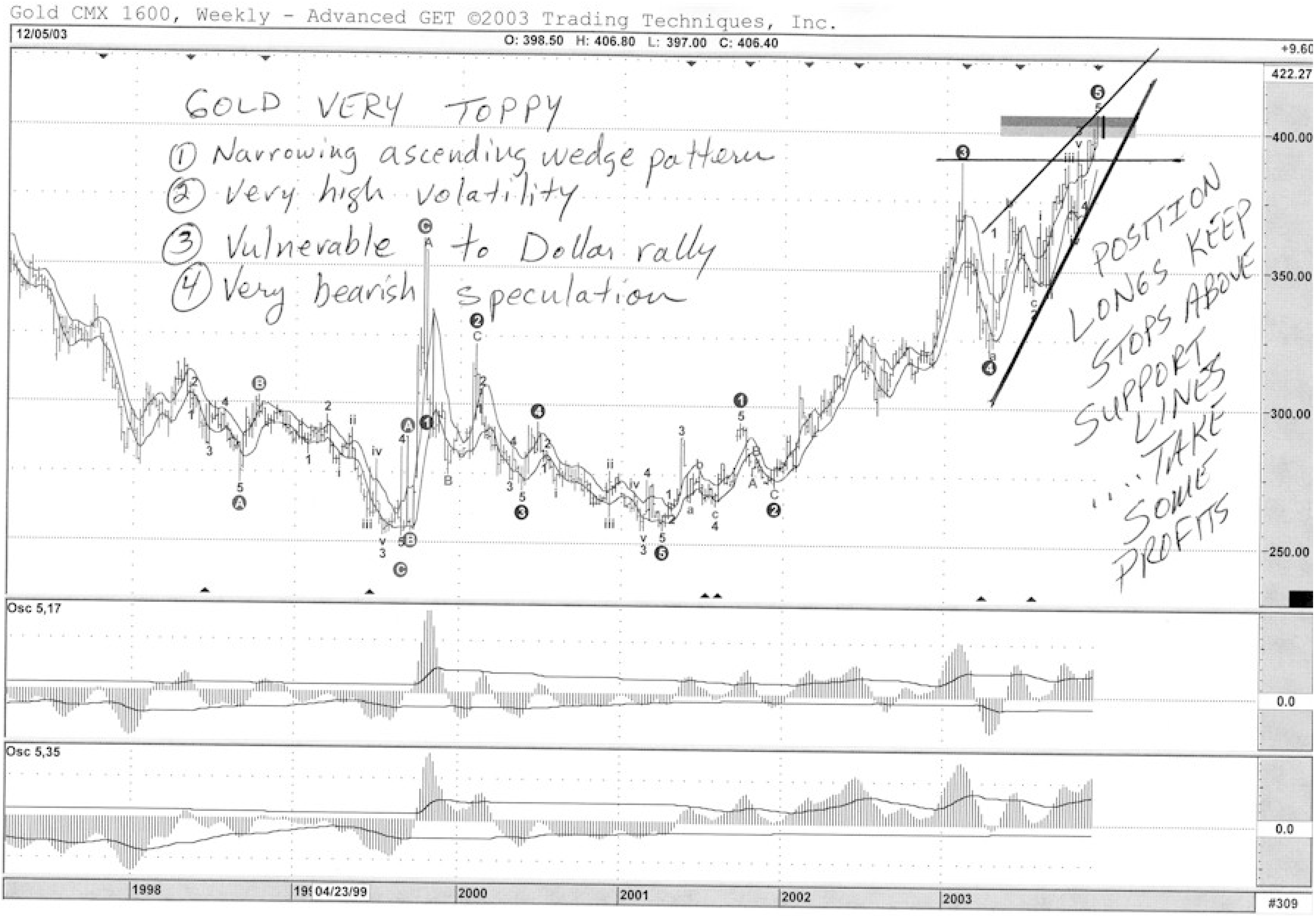
$

JY

EC

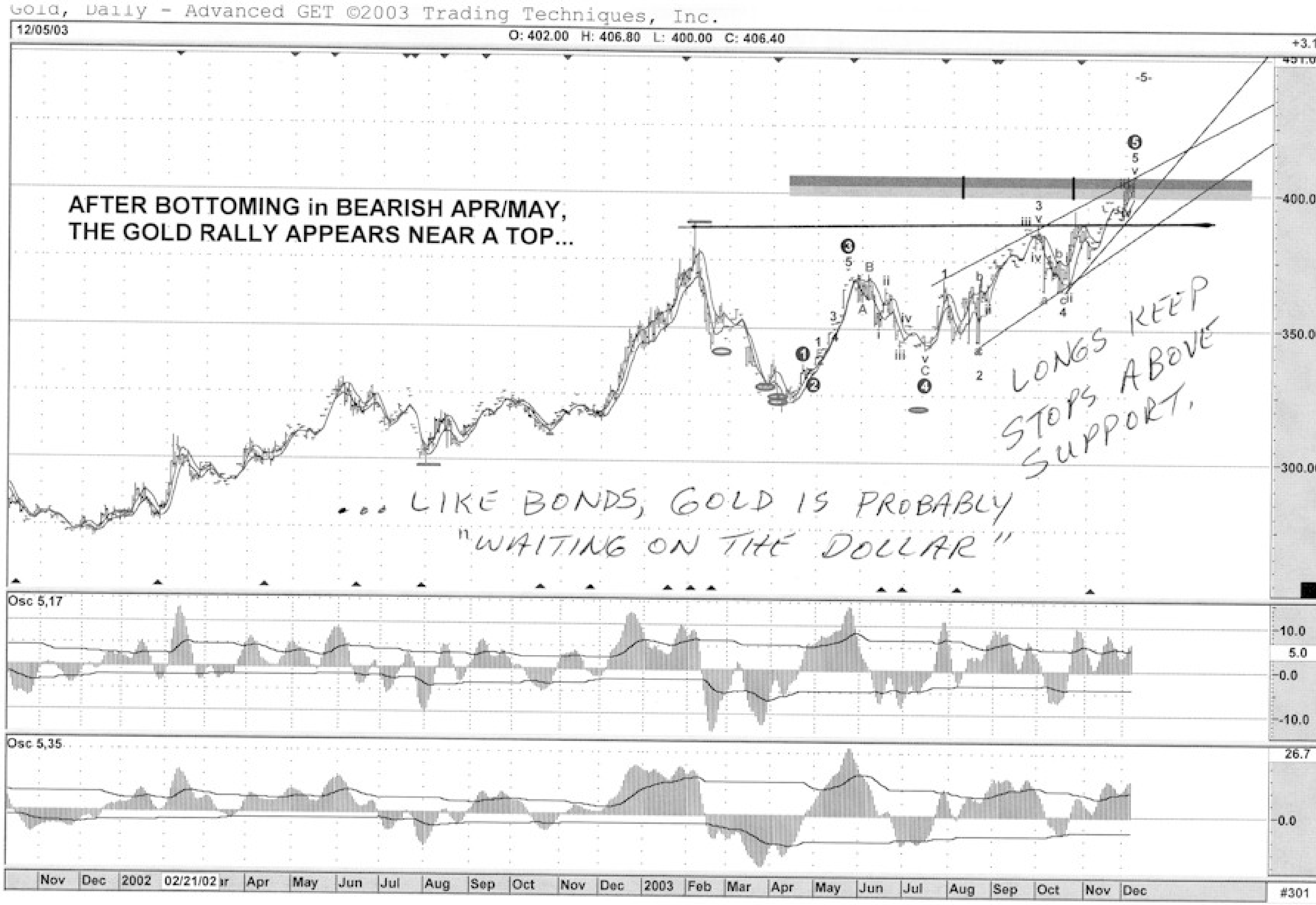
SF

BP



$64 QUESTION: After any pullback, then what ?

GOLD IS A CAPTIVE of the FOREX MARKETS



BOND PATTERNS ARE VERY ERRATIC

12-05-03

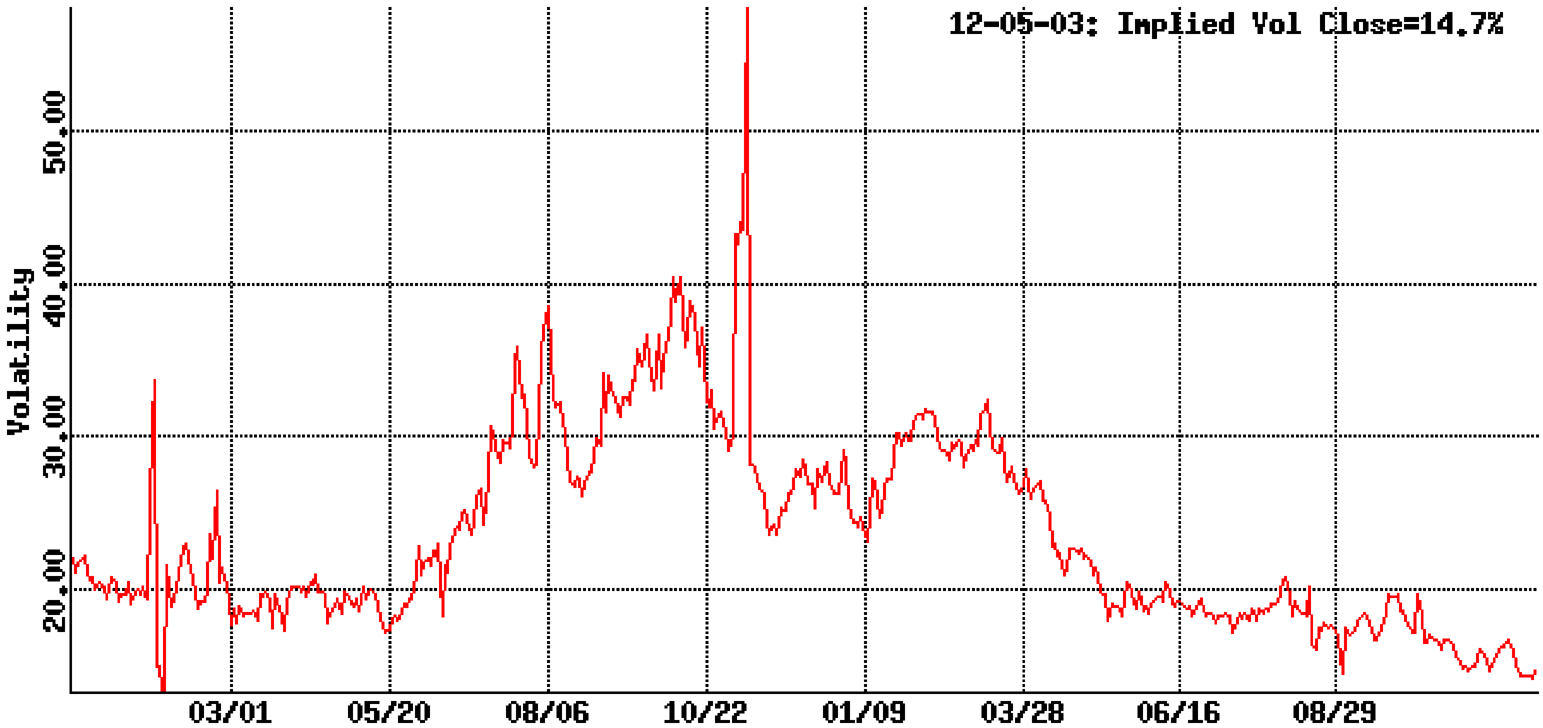
STOCK MARKET OUTLOOK MATRIX

	Roaring Bull	Moderate Upside	Tough Sledding	Market Crash
Bonds near a bottom	X	X		
Interest rates inverse to stocks		X	X	X
Dollar likely to rally	X	X		
Japan market & economy up	X	X		
Market's recent "laboring" on good econ news (ex: Nov. 6 jobs)		X	X	X
Advance/Decline holding up	X	X		
Internals of NASDAQ 100	X	X		
Internals of SP 100	X	X		
Global stock strength	X	X		
IPO Market picks up	X	X		
EPS Surprises are positive	X	X		
High PE's			X	X

WILDCARD: Consumer spending strength & jobs creation in 2004!

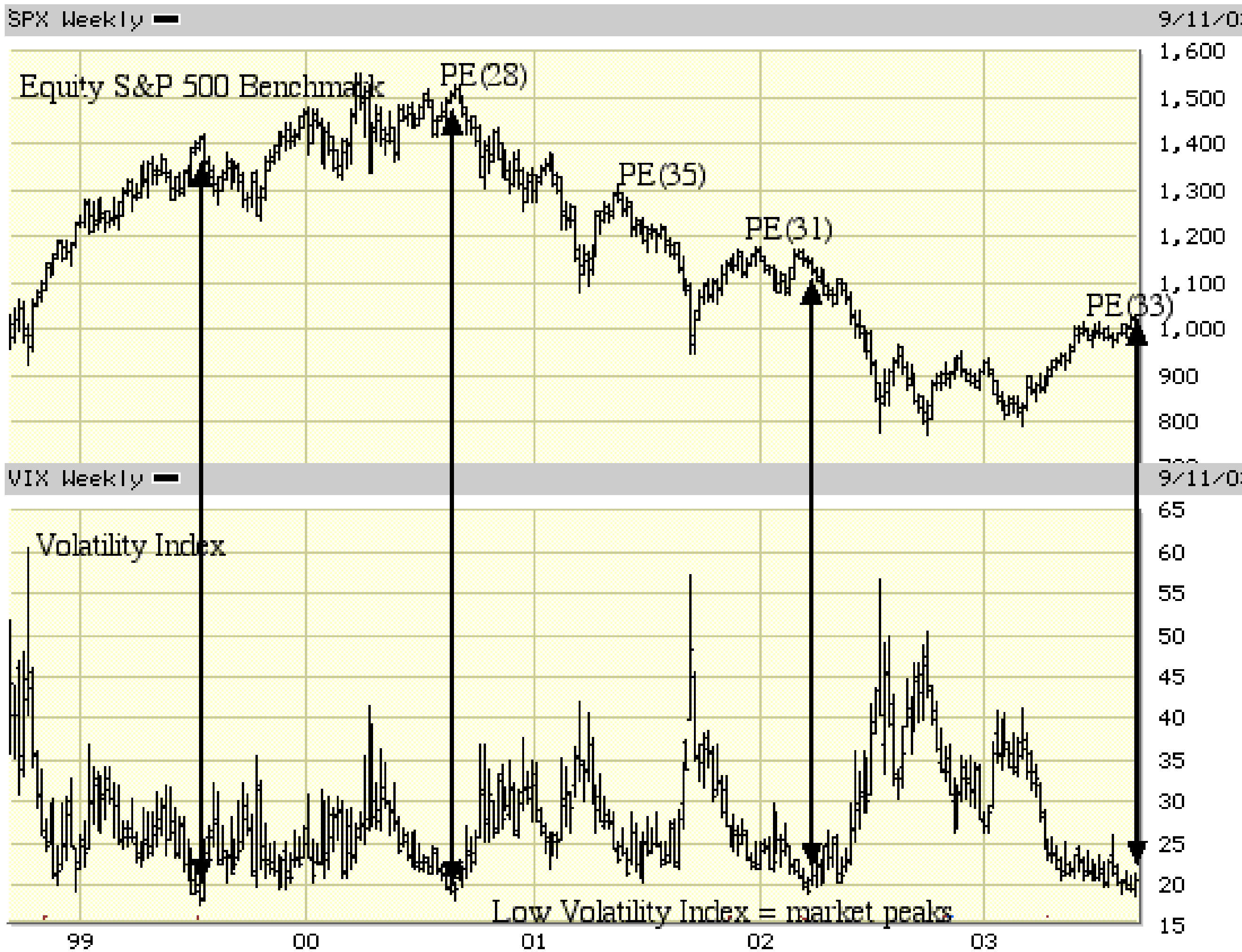
Conclusion: Short-term the U.S. market is very likely to follow Japan into the January EPS season. Thereafter 2004 is likely to be closer to moderate upside than tough sledding. Interest rates and P/E levels will continuously pressure stocks, even in best scenarios.

COMPLACENCY in the STOCK MARKET:
2 YEAR LOW VOLATILITY IN THE DOW JONES FUTURES!



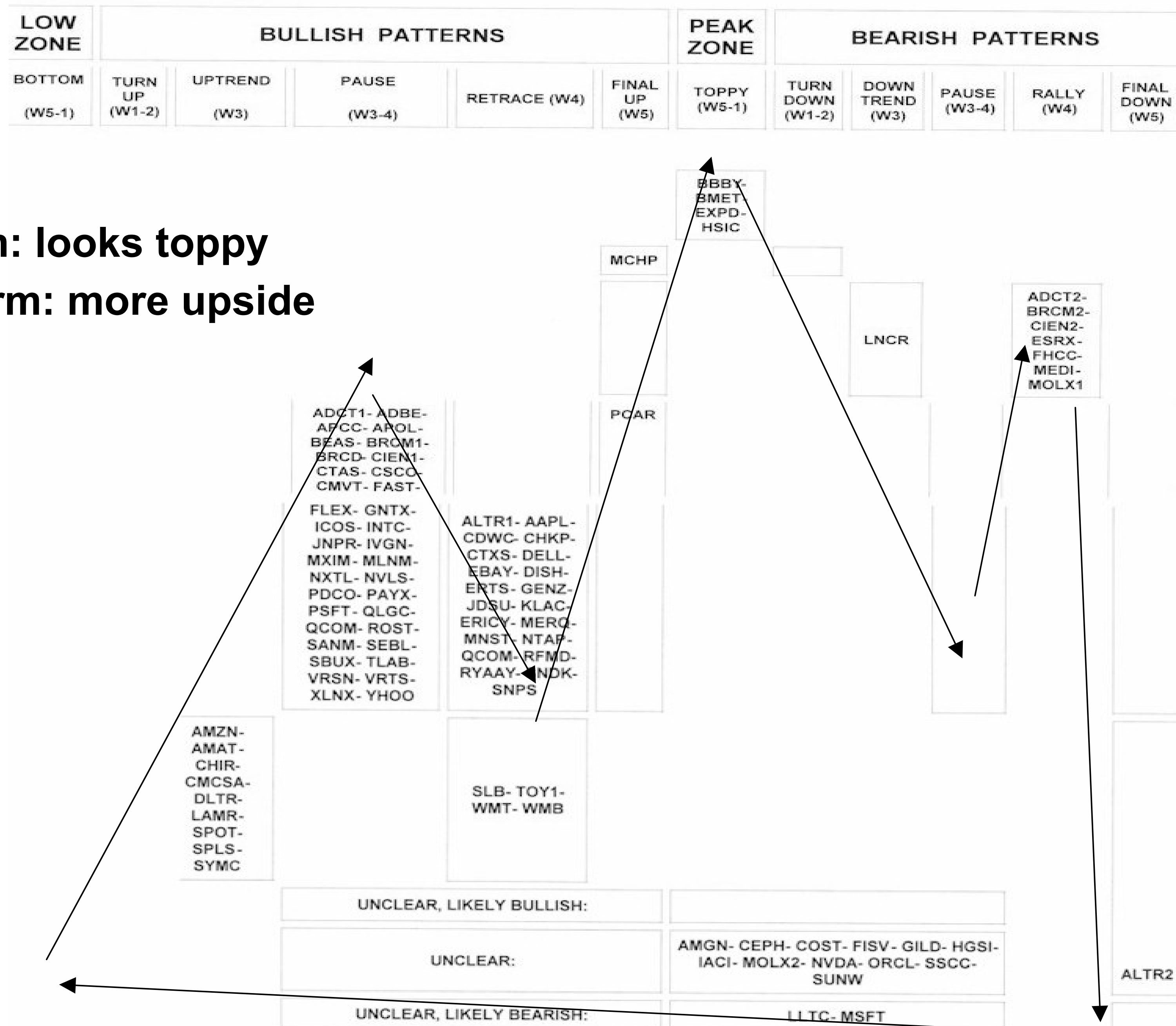
Sleepy markets often get "rude awakenings"… You can use e-Futures volatility as a gauge of market confidence, complacency, or uncertainty

FUTURE MARKET RALLIES WILL STRUGGLE WITH:
1) Rising interest rates 2) High P/E's



…the market needs rising earnings to sustain price growth

NASDAQ 100 STOCKS (NDX Components)



Short-term: looks toppy

Longer-term: more upside

S&P 100 STOCKS (OEX Components)

Short-term: very 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)
		LEH- LU- NSM- S- TWX-	MMM- AA- ALL- MO- ONE1- BDK- BNI- CSCO- CCU- KO- DOW- EMC- F- GS- HD- INTC- IBM1- JPM- LTD- MAY- MCD- MWD- NXTL1- PEP- RSH- ROK- TXN- TYC- USB- UIS- DIS- XRX	AES- T- AXP- AIG- BAX1- BA- BCC- C- CSC- XOM- FDX2- GD- GE- GM- HAL- HIG- HON- MER- ORCL- SLB- TOY1- WMT- WMB	HET- WY-	BUD- AVP- IBM2- NXTL2- PG- SO- UTX- WFC	ONE2- ETR- FDX1	BAC		MEDI	BAX2 BHI- TOY2- VZ EK- MRK

UNCLEAR, LIKELY BULLISH:	ATI- ALL- AIG- G- HCA
UNCLEAR:	AEP- AMGN- CI- DAL- DD- JNJ- NSC- PFE- RTN- SBC- SLE
UNCLEAR, LIKELY BEARISH:	CL- IP- MDT- MSFT
BUY WATCHLIST:	
SHORT WATCHLIST:	

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

INDUSTRY GROUP MATRIX

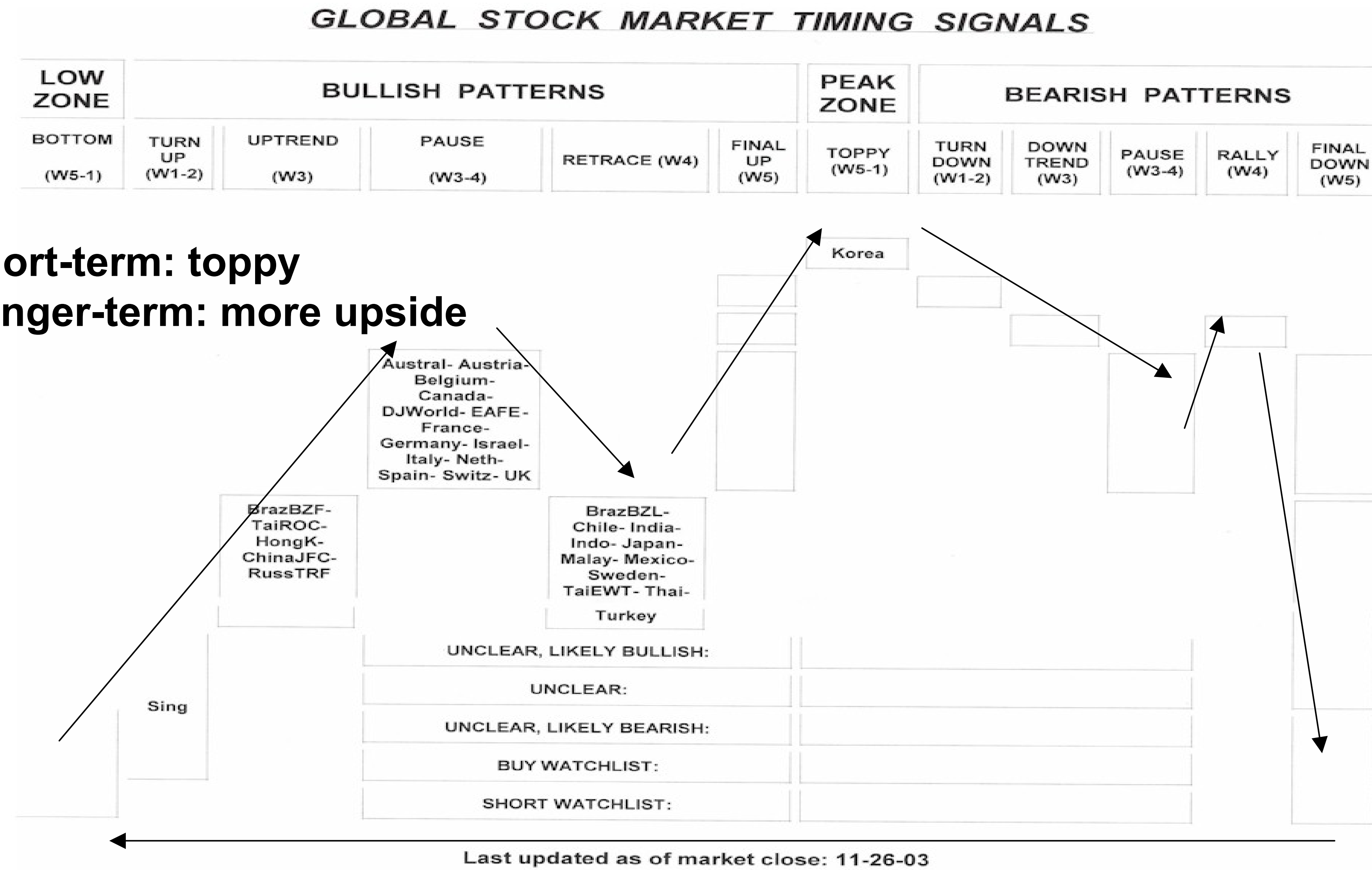
LOW ZONE	BULLISH PATTERNS					PEAK ZONE	BEARISH PATTERNS				
BOTTOM (W5-1)	TURN UP (W1-2)	UPTREND (W3)	PAUSE (W3-4)	RETRACE (W4)	FINAL UP (W5)	TOPPY (W5-1)	TURN DOWN (W1-2)	DOWN TREND (W3)	PAUSE (W3-4)	RALLY (W4)	FINAL DOWN (W5)
						Autos- Chem- HomeBldr2- Defense2- MedEqpt- REIT1- RegBank1- Trans					
					Food- HomeFin- Ins		AirTrans1				
					Gold- Paper-			Biotech2			
			BusServ- Chem2- Comp*- HomeBldr1- Consumer*- Defense1- Networks*- Electronic*- Energy*- Enviro*- Financial*- IndEqpt- IndMtrls- Leisure*- MedDelivery- NatGas- REIT2- RegBanks2- Retail- Software- Tech- Telecomm								
				AirTrans2- Biotech1- Brokers							

Groups marked * are most interesting for longer term

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

Last updated as of market close: 12-05-03

Short-term: toppy
Longer-term: more upside



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

JAPAN MARKET STILL RALLYING…

JAPAN OUT-PERFORMED U.S. IN '03 BULL MARKET

THE ECONOMIC OUTLOOK

VERY STRONG 2 MONTHS

	12/14	12/7	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec
GROWTH		VS	VS	P	N	VW	N	P	VS	P	VS	P	N	W
INFLATION		Low	Low	Low	Low	Low	Low	Rising	Very Low	Rising	Neu	Rising	Neu	Low

Growth key:	Very Weak	Weak	Neutral	Positive	Very Strong

ECONOMIC REPORT TRENDS AT-A-GLANCE

This table tracks the bond market implications of all major U.S. economic reports. The reports are divided into two categories: Economic Strength and Inflation. Weak economicresports are considered "Bullish" for bonds while strong reports are "Bearish"

Date	ECONOMY	Bull	NA	Bear	INFLATION	Bull	NA	Bear
12/5/03	Cons Credit Oct up .9 Bn	X			Hrly Earnings Nov up .1	X		
	Factory Orders Oct up 2.2%			X				
	Avg Workweek Nov unch 33.9		X					
	Unemp Rate Nov down to 5.9%		X					
	Payrolls Nov up 57K		X					
12/3/03	ISM Services Index down to 60		X					
	Productivity Q3 Rev to 9.4%							
12/1/03	Const Spend Oct up .9%			XX				
	ISM Index Nov up to 62.8							
	Truck Sales Nov up 5%			X				
	Auto Sales Nov up 9%			XX				
11/26/03	New Home Sale Oct down 4%	X						
	Help Wtd Idx Oct unch @ 37	X						

WEEK'S REPORTS ARE STRONG, EVEN WITH LOWER THAN EXPECTED JOBS NUMBERS

ALOT of ECONOMIC STRENGTH!

	Chicago PMI Nov up to 64.1			XX				
	Pers Income Oct up .4%			X				
	Pers Spending Oct unch	X						
	Jobless claims @ 351k			X				
	Durables Oct up 3.3%			XX				
11/25/03	Exist Home sales Octdn 4%	X			Deflator Q3 Prel @ 1.7%	X		
	Cons Confidence Nov @ 91.7			X				
	GDP Q3 Prelim @ 8.2%			X				
11/20/03	Phila Fed Nov down slightly		X					
	Leading Indicators Oct up .4%			X				
	Jobless Claims down to 355k			X				
11/19/03	Housing Start Oct up 3%			X				
	Bldg Permit Oct 1.97MM units			XX				
	Bldg Permit Oct up 6.5%			XX				
11/18/03					CP Oct unch	XX		
					Core CPI up .2%		X	
11/17/03	NY Empire St Idx Nov up to 41.0			X				
	Bus. Inventories Sep up .3%			X				
11/14/03	Ind Prod Oct up .2%		X		PPI Oct			
	Cap Util Oct up slightly to 75%		X		Core PPI Oct			
	Ret Sales Oct down .3%	X						
	Ret Sales ex Auto up .2%		X					
	Mich Sentiment Nov Pre up to 93.5			X				
11/13/03	Jobless claims @ 366K		X		Import price Oct - .1%	X		
11/07/03	Cons Credit Sep up to $15.1b			XX				
	Whsle Inventory Sep up .4%			X				
	Unemp Rate Oct dn to 6.0%		X					
	Payrolls Oct up 126K jobs			X				
	Hrly earnings Oct up .1%	X						

	Avg workweek Oct						
11/06/03	Productivity Q3 prelim up 8.1%	X				X	
	Jobless claims @ 348 K			X			
11/5/03	Factory Orders Sep up .5%			X			
11/03/03	ISM Index Oct up to 57.0			X			
	Const SPend Sep up 1.3%			X			
	Truck Sales Oct down 6.3%	XX					
	Auto Sales Oct down 5.5%	X					
10/31/03	Chicago PMI Oct up to 55.0			X			
	Pers Spending Sep down .3%	X					
	Pers Income Sep up .3%		X				
10/30/03	GDP Q3 Advanced up 7.2%			XX	Deflator Q3 Adv @ 1.7%	X	
	Help Wanted Index Sep unch		X		Employ Cost Idx Q3 1.0%	X	
10/28/03	Cons Conf Oct Up to 81.1			X			
	Durables Sep up .8%			XX			
10/27/03	New Home Sales Sep unch		X				
	Exist Home Sales Sep up 3.5%			X			
10/20/03	Leading Econ Indic Sep down .2%	X					
10/17/03	Housing Starts Sep @ 1.888M			X			
	Housing Starts Sep up 5%			XX			
	Bldg Permits Sep down 3%	X					
10/16/03	NY Empire State Idx Oct up to 33.7			X			
	Phila Fed Idx Oct up to 28.0			X			
	Indus Prod Sep up .4%			X			
	Cap Util Sep unch		X		CPI Sep up .3%		X
	Bus Inventories Aug down .4%	X			Core CPI Sep up .1%	X	
10/15/03	Ret Sales Sep ex auto up .3%		X				
	Retail Sales Sep down .2%	X					
10/10/03					PPI Sep Up .3%		X

ON-BALANCE
STRONG

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.

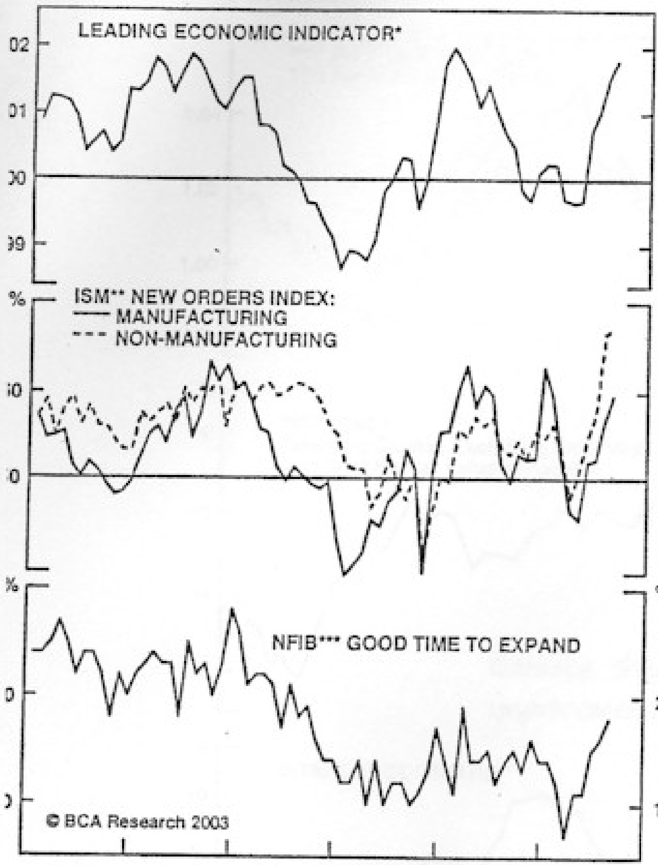
"As companies become more confident that growth in the economy will continue, that's

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

ECON OU…
IMPROVING

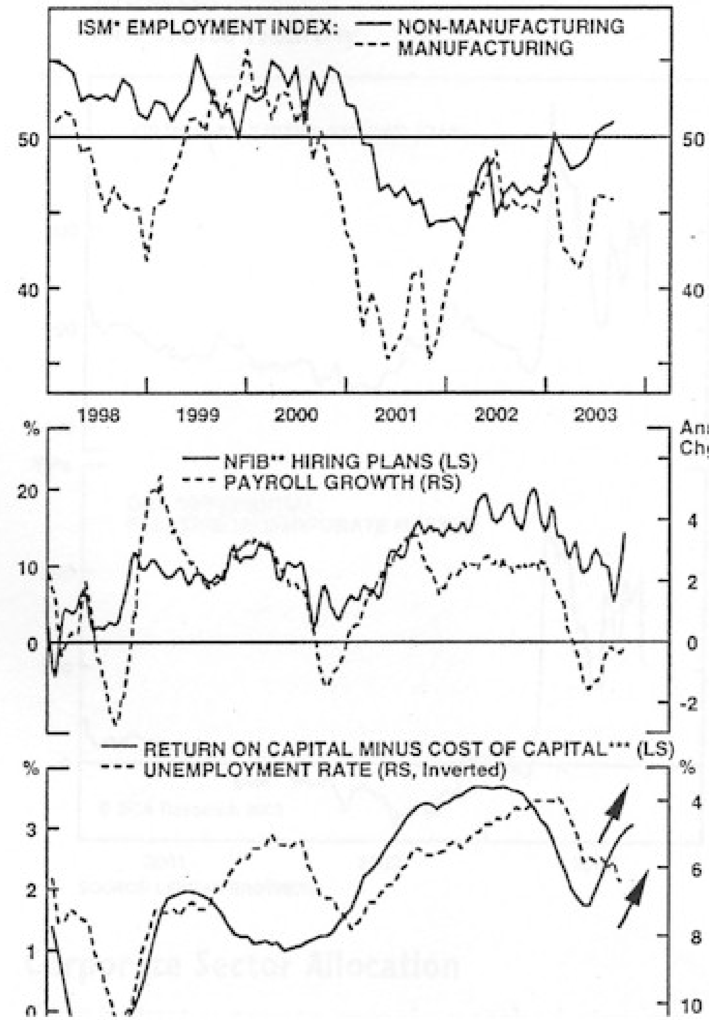
JOB OUTLOO…
IMPROVING

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



Interest in IPOs Is Picking Up Steam

Solid Performance Occurs As 21 Issues Come to Market; Biotechs Prevail in Pipeline

SJ
1-10-03

By RAYMOND HENNESSEY
Dow Jones Newswires

IN THE END, 2003 seems certain to go down as a pedestrian year for IPOs. But things are looking up.

Wall Street underwriters are hoping to at least finish the year on a high note—if the fourth quarter for initial public offerings of stock is as good as, or even better than, the third quarter. In the latest three months, 21 companies came to market, raising $4.08 billion, according to data from Thomson Financial.

The third quarter, by historical measures, was a slow one for new stock issuance. Yet it looked downright sizzling when compared with the first two quarters of this year, which yielded just five offerings apiece. It was even an improvement over the third quarter of 2002, when only 10 companies came to market, though they raised more in that quarter, with $5.49 billion in proceeds.

And after shrinking through much of the year, the backlog of companies filing plans to go public with the Securities and Exchange Commission grew by 46 in the latest quarter, including 35 just since the beginning of August. The latest quarter was the first time since the raised $65.3 million through **Société Générale**'s SG Cowen Securities Corp. in July, is also up 68% on Nasdaq, from its $17 offering price. Most of the other offerings in the latest quarter have posted gains.

All this has market participants more optimistic about the prospects for IPOs than they have been for more than a year. "IPOs aren't being looked at as orphaned children anymore," says David Menlow, president of IPOfinancial.com, a firm in Millburn, N.J., that tracks new issues. "People want them. They're not afraid of them, and they're finding value."

'Old-Fashioned Growth'

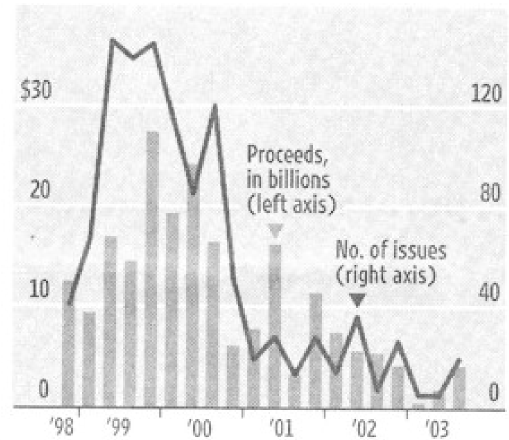
One thing will be different in the fourth quarter. For nearly two years now, no single sector has shown leadership. Rather, investors have backed a range of companies, usually looking only for profitability.

To a certain extent, that will still be the case. "Investors are looking for good companies with credible business plans which offer old-fashioned growth," says Bill Buchanan, managing director and head of equity capital markets at SG Cowen in New York.

But of the 32 companies filing to go public since the beginning of August, 12, or 38%, have been biotechnology companies, according to Thomson. That means the final number of IPOs in the fourth quarter will depend largely on how many biotech issues make it to market.

Looking Up

Quarterly dollar volume of global initial public offerings by U.S. issuers



Source: Thomson Financial

isting biotech stocks have done well this year. The Amex Biotechnology Index closed at a low of 311.69 on March 11 but has since risen 45%.

Plus, the biotech companies expected to go public are generally far along in their product development. Most are in final Phase III clinical trials with the Food and Drug Administration, and many have deals with larger drug companies to collaborate on sales and research.

'More Opportunities'

"There are more opportunities for early-stage companies like biotechs but

LOW INVENTORIES ASSURE RE-STOCKING IN EARLY 2004!

Slim pickings for holidays

Smaller retail inventories increase chances for sellouts

By Lorene Yue
Tribune staff reporter

Jackie Hines, like many consumers, is a last-minute shopper.

"I've done the shopping on the afternoon of Christmas Eve," said the Chicago resident. "There's not a whole lot open."

This year, retailers and industry analysts say there may not be a lot left in stores by then, either.

Across the industry, retailers have tighter inventories this season, which means there is a greater potential for sellouts of hot gifts before the December holidays hit. So shoppers like Hines, who like to play the waiting game to see how low prices will go, could be stuck picking through leftovers.

"The name of the game this year is buy it when you see it," said Ellen Tolley, a spokeswoman for the National Retail Federation in Washington. "This is not hype, this is not buzz, this is reality."

Merchandise buyers were more cautious when they placed holiday orders this year, stocking up heavier only on items they believe to be sure-fire sellers, such as electronics and toys. Sears, Roebuck and Co. said it tripled its inventory of DVD players from last year to ensure that it keeps up with consumer demand.

But move fast even if those items are on gift lists, said Diane Swonk, chief economist for Chicago's Bank One Corp. Some electronics retailers she has checked with are worried that if sales surge higher than expected, they may not have enough inventory to meet demand. And some manufacturers abroad say there's not much left in the pipeline to ship on short notice.

Shoppers scouring for gifts in other retail categories shouldn't hesitate either.

"I think the best product will be gone early in the season," said Gordon Segal, chief executive of Crate & Barrel. "We're tighter [on inventory] this year than last year."

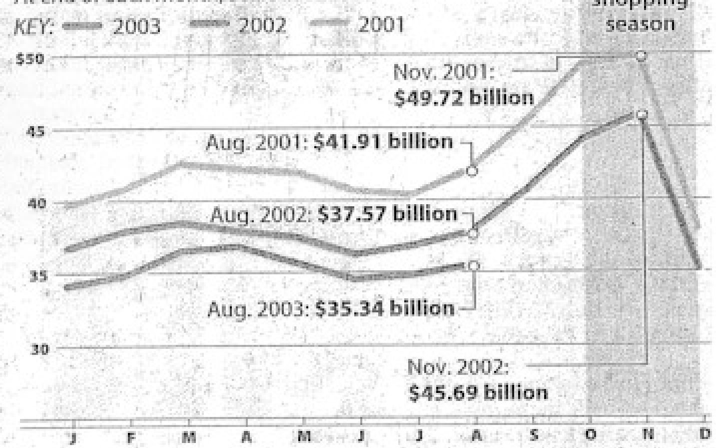
When most merchants were placing holiday orders, the economy was still shaky and consumers were reluctant to spend. Retailers didn't want a repeat of last year when high in-

PLEASE SEE **RETAIL,** PAGE 14

Tight supplies could affect shopping

Retailers traditionally boost their inventories for the holiday season, but concerns over the economy have pushed product levels to their lowest levels in three years.

VALUE OF U.S. DEPARTMENT STORE INVENTORIES
At end of each month; scale in billions



Source: U.S. Census Bureau

Japan's Mizuho Doubles Forecast For Net Profit

By Hiroyuki Kachi
Dow Jones Newswires

TOKYO—**Mizuho Financial Group** Inc. more than doubled its profit forecast for the fiscal first half ended Sept. 30, citing a rise in Japanese stock prices amid an improving economy.

The world's largest bank by assets expects net profit of 230 billion yen ($2.07 billion), up from an earlier forecast of 100 billion yen. The Japanese bank also raised its pretax-profit forecast to 450 billion yen from 230 billion yen. It left its revenue forecast unchanged at 1.6 trillion yen.

Japan's largest banks still haven't recovered fully from the collapse of property and stock prices during the 1990s. Growing bad loans led to several big government bailouts of the banks in the past five years.

But after two years of huge losses, prospects are improving for the sector, thanks to a stronger Japanese economy and the recent stock rally. Japan's gross domestic product grew at an annualized rate of 3.9% in the second quarter.

For Mizuho, the 30% rise in the Tokyo stock market during the six months to Sept. 30 boosted profit on shareholdings 110 billion yen.

The Japanese bank also got a windfall after settling a protracted dispute over taxes with the Tokyo government. Mizuho said the settlement resulted in the return of 58.1 billion yen in taxes it paid to the city government.

Bank Group In Japan Lifts Outlook For the Year

By KEN BELSON

TOKYO, Sept. 30 — The **Mitsubishi Tokyo Financial** Group doubled its profit expectations for the full year on Tuesday as a mending economy reduced the number of bad loans in the company's portfolio and the costs of writing them off.

The brighter forecast comes after Japan's major banks lost record amounts in the last two years as they disposed of trillions of yen in bad loans. The balance sheets at the banks have also been hurt by falling share prices, which have depressed the value of their stock portfolios.

This year, though, an emerging recovery has made it easier for companies to repay their loans and thus has reduced the number of loan defaults. Mitsubishi Tokyo, the third largest of Japan's four big banking groups and widely considered the strongest, has also more aggressively written off bad loans in years past.

Other major banks will probably follow Mitsubishi Tokyo's lead in the coming weeks by raising their profit forecasts.

THE NEGATIVES:

Consumer spending likely to shrink, economists say

Effects dwindle from tax rebates

TRIB 10-10-03

Reuters

NEW YORK—Economists say the government's report on September's retail sales, scheduled to be released Wednesday, is expected to show an inevitable slowing of consumer spending, as the impact of tax rebate checks and cut-rate incentives wanes.

Economists expect sales, excluding car and truck sales, to have posted a 0.4 percent gain, down from a 0.7 percent advance in August. They predict total sales dropped 0.1 percent, compared with a 0.6 increase in August.

These mixed forecasts may signal that consumer spending, which accounts for two-thirds of U.S. economic activity and has largely supported the current recovery, may be heading south as extra cash from tax rebates and mortgage refinancings dwindle.

over 6 percent for the third quarter. Is that sustainable? No. In the fourth quarter, we are actually expecting a little bit of a payback for that, with consumption dropping to 2.5 percent."

Sales of durable goods are expected to drop further in the fourth quarter, in sharp contrast to rampant spending earlier in the year and a sign that overall spending patterns are slowing.

"Even if September turns out to be an OK number in terms of spending, we might see a slowdown in October, November and December, especially in the durable goods category, which includes auto sales," said Elisabeth Denison, an economist at Dresdner Kleinwort Wasserstein.

Last week, chain stores reported the largest monthly sales gain in 18 months, easily surpassing expectations. The retail industry posted sales growth of 5.9 percent compared with the same period a year ago, the best performance since March 2002, according to the Bank of Tokyo-

> *'We expect for the consumer to retrench a bit going into the fourth quarter.'*
>
> —Drew Matus, senior financial economist at Lehman Brothers

omist at Morgan Stanley, said in a recent report.

But even the optimists agree that a rebound in the labor market is the main determinant of whether consumers continue to spend.

"We really need to see the job growth kick in here at some point. Wages and salaries account for about 55 percent for overall personal income," said Scott Brown, chief economist at Raymond James & Associates in St. Petersburg, Fla.

Last week, the Labor Department said the number of Americans filing initial claims for jobless benefits fell to the lowest level in eight months. However

HOW MUCH BUYING POWER DOES THE CONSUMER REALLY HAVE ?

They Spent the Tax Rebate. Now What W

NYT 10-5-03

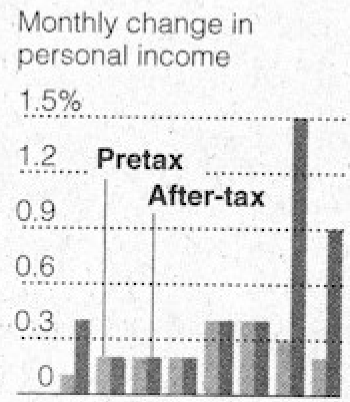
IF you send it, they will spend it.

The third quarter was a phenomenal one for the American economy, which probably grew at an annual rate of above 5 percent. Corporate profits soared.

As that growth occurred, economic optimism grew both in this country and overseas. There was talk that the American engine was again pulling the world back into acceptable growth patterns. Even American business leaders began to seem a little more optimistic, with capital spending plans starting to edge up. Only the negative job market outlook put a shadow on the sunny picture.

Overlooked in some of the analysis at the time was the most obvious fact of all: checks totaling $13.7 billion were being mailed out by Uncle Sam to millions of families. The checks, for the child tax credit, did not go to the poorest Americans, a fact that outraged liberal legislators who learned of the details only after the bill passed. And they did not go to wealthier Americans, who would have been more likely to save the money anyway. They went to the parents in between the two groups.

Now comes the aftermath. The checks were in the hands of Americans in July and August, and clearly lifted spending in the back-to-school season. We don't have September numbers yet, but there was probably some stimulative effect then. But it's over now.



Source: Bridgewater Associates

The New York Times

It was fun while it lasted. Personal income was growing slowly on a pretax basis, but after-tax disposable income rose more rapidly in July and August than at any time since early 2002, when tax cuts were also helping the economy along.

For business, that created a bonanza. Revenues leaped, but payrolls, the biggest part of most companies' expenses, stayed the same. A result was a surge in profits.

It would be nice to think the profit surge would lead to more investment and more hiring. There has been a gradual increase in capital spending, which was cut after the 1990's bubble burst. And there are reports of retailers stepping up Christmas orders after being favorably impressed by the back-to-school season. But hiring continues to lag and a big increase in Christmas orders could lead to a blue Christmas as retailers deal with excess inventory.

MORTAGE RE-FI BINGE IS LIKELY OVER: PERHAPS FOR THE BEST!

Mortgage party's ending; lenders brace for cutbacks

By John Handley
Tribune Staff Reporter 10-22-03

SAN DIEGO—For mortgage lenders, a two-year party is ending, raising worries about the hangover to come.

Bankers gathered here for an annual convention predict their business will fall by 50 percent next year, with an accompanying loss of industry jobs and smaller brokers.

"We think 100 to 200 mortgage companies will disappear in the next 2 to 2½ years," Douglas Duncan, chief economist for the Mortgage Bankers Association, said Tuesday.

Low interest rates have powered a record-setting home refinancing boom in the last two years, with lenders adding upwards of 150,000 new workers to help process paper, work with customers and arrange financing. But as mortgage interest rates have risen to more than 6 percent from a low of 5.2 percent for 30-year fixed-rate loans in early summer, refinancing has become less attractive.

Duncan estimates that mortgage originations will total \$3.3 trillion this year, with about 18 million to 20 million loans—a level he calls "not sustainable."

Next year, originations are expected to fall to \$1.6 trillion, with fewer than 10 million loans.

The result will be branch closings and job losses, up to 100,000 of the new positions added during the boom, Duncan said.

PLEASE SEE **MORTGAGE**, PAGE 2

CONTINUED FROM PAGE 1

"Not necessarily all the disappearing companies will go out of business. Many will be absorbed by mergers and acquisitions. You may even see some big guys go," Duncan said.

Duncan's comments come at a particularly sensitive time for U.S. economic policymakers. Since the late 1990s, the housing industry has been one of the few bright spots in an otherwise unenthusiastic economy where unemployment now hovers at 6.1 percent.

Refinancing and low interest rates are credited for much of the buoyant consumer spending in recent years, spending that propped up economic activity when business investment was slack and the stock market was falling.

Scott Anderson, senior economist with Wells Fargo and Co., said he has little doubt that refinancing will fall as interest

DO SOFT RETAIL SALES REFLECT TAPPED OUT CONSUMER ?

Many Stores Disappointed In November

Continued From First Business Page

can change, Kohl's posted a 25.9 percent gain in November sales just two years ago.

Kohl's stock has fallen more than 15 percent in the last month but rallied yesterday, closing at $46.96, up $1.67.

Sears, Roebuck also fell below what its executives had forecast for November. It said sales were down 3.6 percent last month; analysts had anticipated a 1 percent increase.

Shares of Sears dropped $2.27, or more than 4 percent, to close at $52.59.

The teenage retailing sector continued to have its runaway winners, led by the California-based **Pacific Sunwear**, which operates both PacSun and d.e.m.o. shops, reporting an 11.7 percent increase in November — three percentage points more than analysts had predicted.

Aéropostale, another winner, said its sales rose 10.3 percent last month — again, three percentage points above analysts' forecasts.

Abercrombie & Fitch posted another disappointing month, with sales falling 13 percent — more than twice the 5 percent decline that analysts had expected. **American Eagle Outfitters** also said same-store sales declined, but just slightly more than estimates for November — and far less than in October. Eagle said sales were off 6.2 percent last month, after a drop of 18 percent the month before.

Over all, luxury goods stores continued to rally. Analysts said that President Bush's tax cuts, a strengthening stock market and improving job security, as well as pent-up demand, drove affluent shoppers into stores like Saks Fifth Avenue, where $1,000 watches with diamond-studded bezels and green crocodile bands were big sellers.

Most stores, however, are no longer benefiting from the tax cuts or from the extra cash that many homeowners had after a wave of mortgage refinancings earlier in the year, Mr. Perkins of Thomson First Call said. "The benefits of the tax refunds are drying up," he said, "and the re-fi wave is ebbing."

Compounding the problem for discount stores, he said, is that "there isn't any must-have item for Christmas, especially among toys."

Retail Sales in November

Below are results for the four weeks ended Nov. 29, except as noted, compared with the period a year earlier. Companies are listed in order of 2002 sales. Kmart emerged from bankruptcy on May 6 but is not yet reporting monthly sales figures.

	SAME-STORE	OVER ALL	
COMPANY	Change	Sales	Change
Wal-Mart* *(4 weeks to Nov. 28)*	+ 3.9%	$17.61 billion	+10.2%
Costco *(4 weeks to Nov. 30)*	+14.0	3.79	+17.0
Target	+ 6.2	4.41	+12.1
Sears, Roebuck	– 3.6	2.46	– 3.2
Federated Dept. Stores	– 0.1	1.46	– 0.8
J.C. Penney *(4 weeks to Nov. 22)*	– 0.8	1.38	– 2.2
Gap	+ 6.0	1.40	+ 7.0
TJX	+ 1.0	1.27	+10.0
Kohl's	– 4.4	1.19	+ 9.3
Limited Brands†	+ 1.0	0.79	+ 4.6
Nordstrom	+ 7.4	0.63	+10.2
Saks	+ 6.7	0.62	+ 7.6

Source: Goldman, Sachs & Company, based on company reports.

*Figures exclude McLane.
†Figures exclude Galyan's and Limited Too.

The New York Times

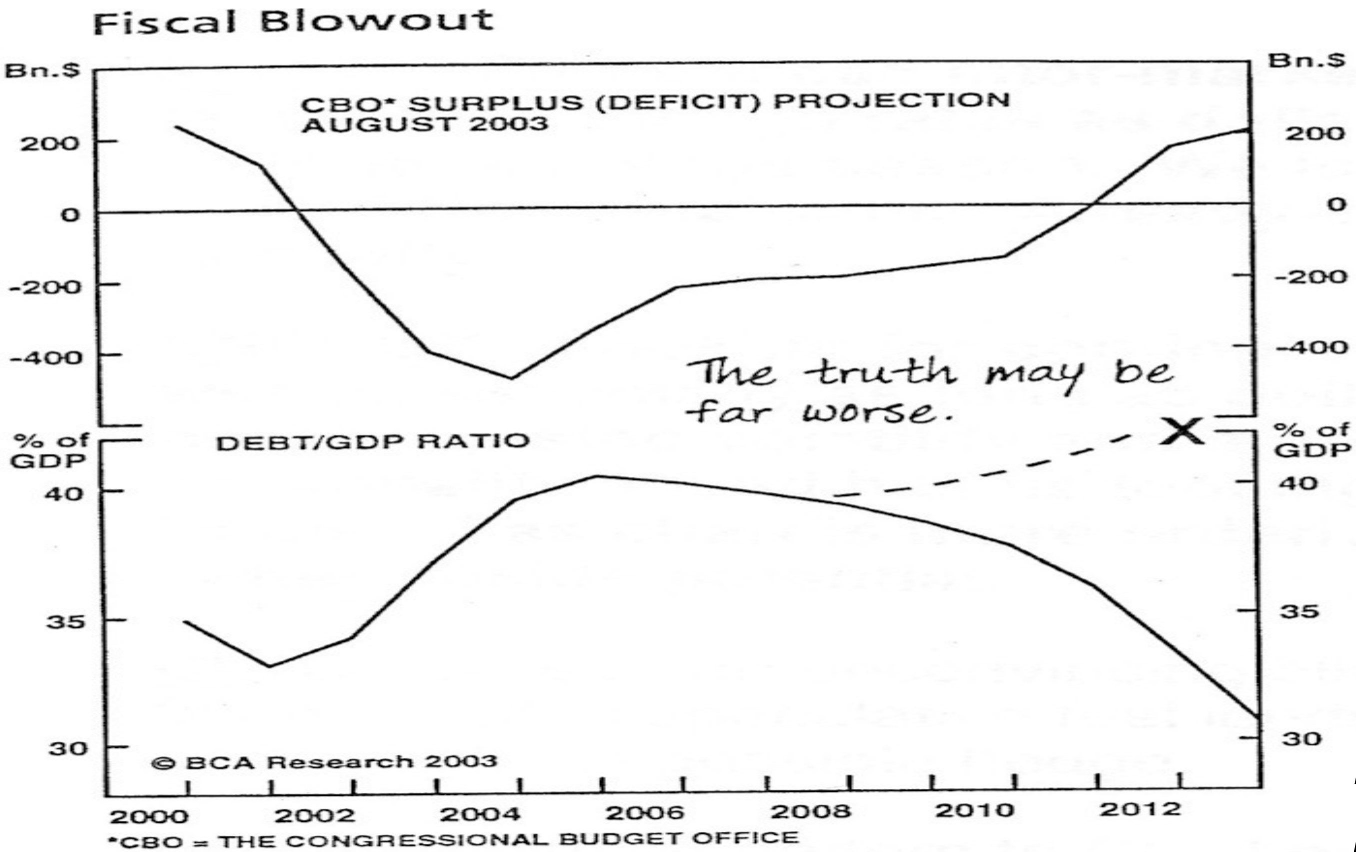
Company News:
Tuesday through Saturday,
Business Day

RE-FI's And TAX CUTS DWINDLE

ECONOMIC VARIABLES for 2004

OPTIMISTIC	PESSIMISTIC
A lot of Housing Construction	Building a Bubble
Job Growth is starting	Slow Growth & Permanently lost jobs
Fiscal Stimulus	Tax Cuts are wearing off
Manufacturer's Capital Outlays Increasing	Will remain cautious if the consumer re-trenches
Stock Market Rally	What if the Market Fizzles ?
Global Recovery	Can't argue with this
Don't need it because business will kick in	Mortgage Re-Fi's drying up
Consumers spending	Not that much & they're racking up more debt
Credit widely available	Corporations not borrowing that much
Corporate profits are up	Because of layoffs

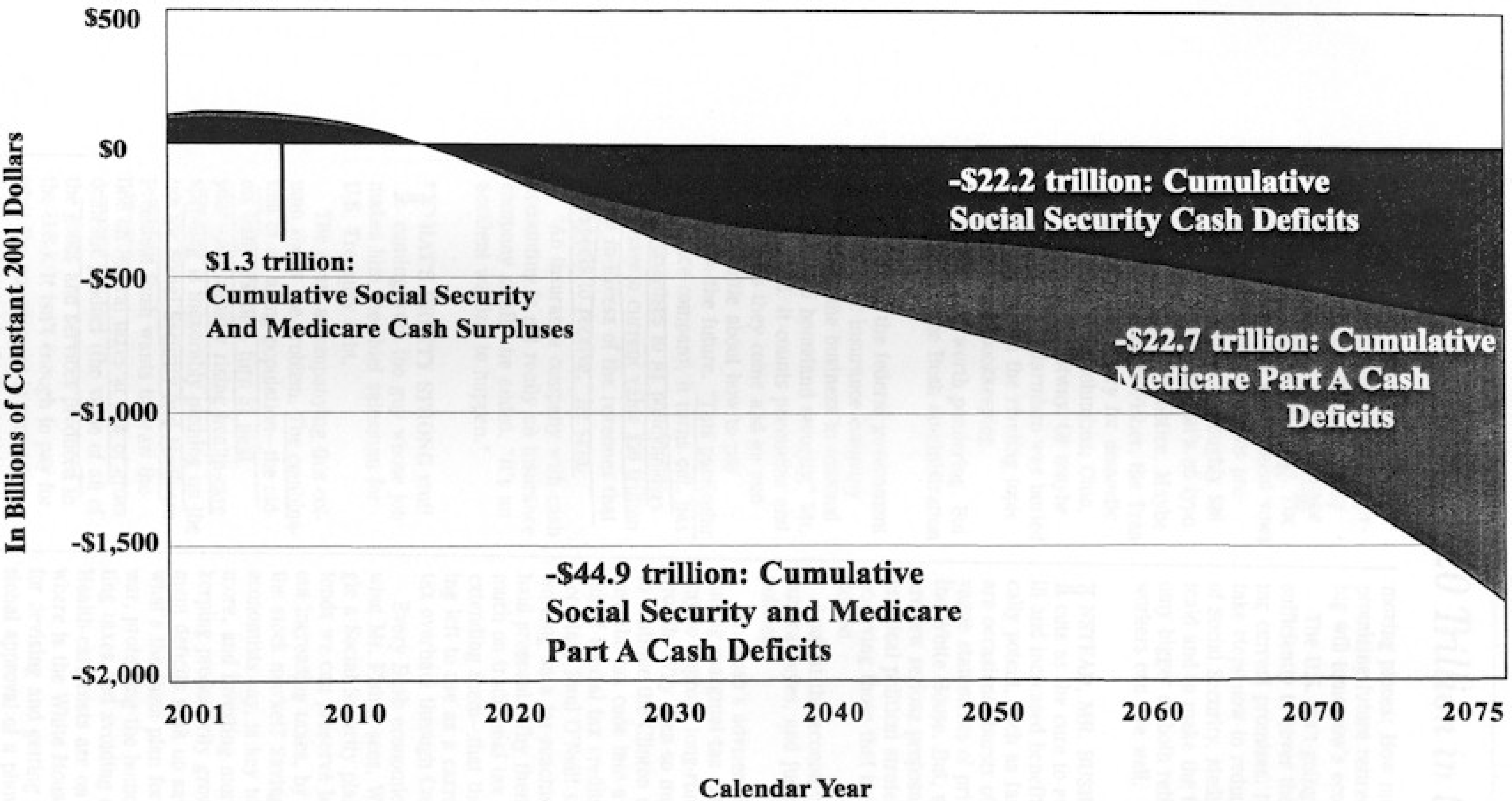
OUR BIGGEST NATIONAL CHALLENGE



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

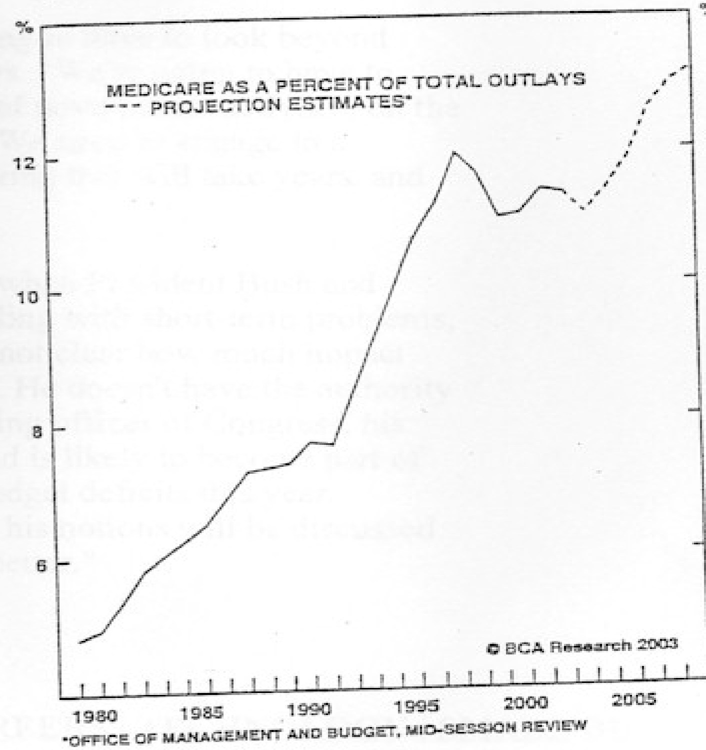
Jeffrey Birnbaum

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



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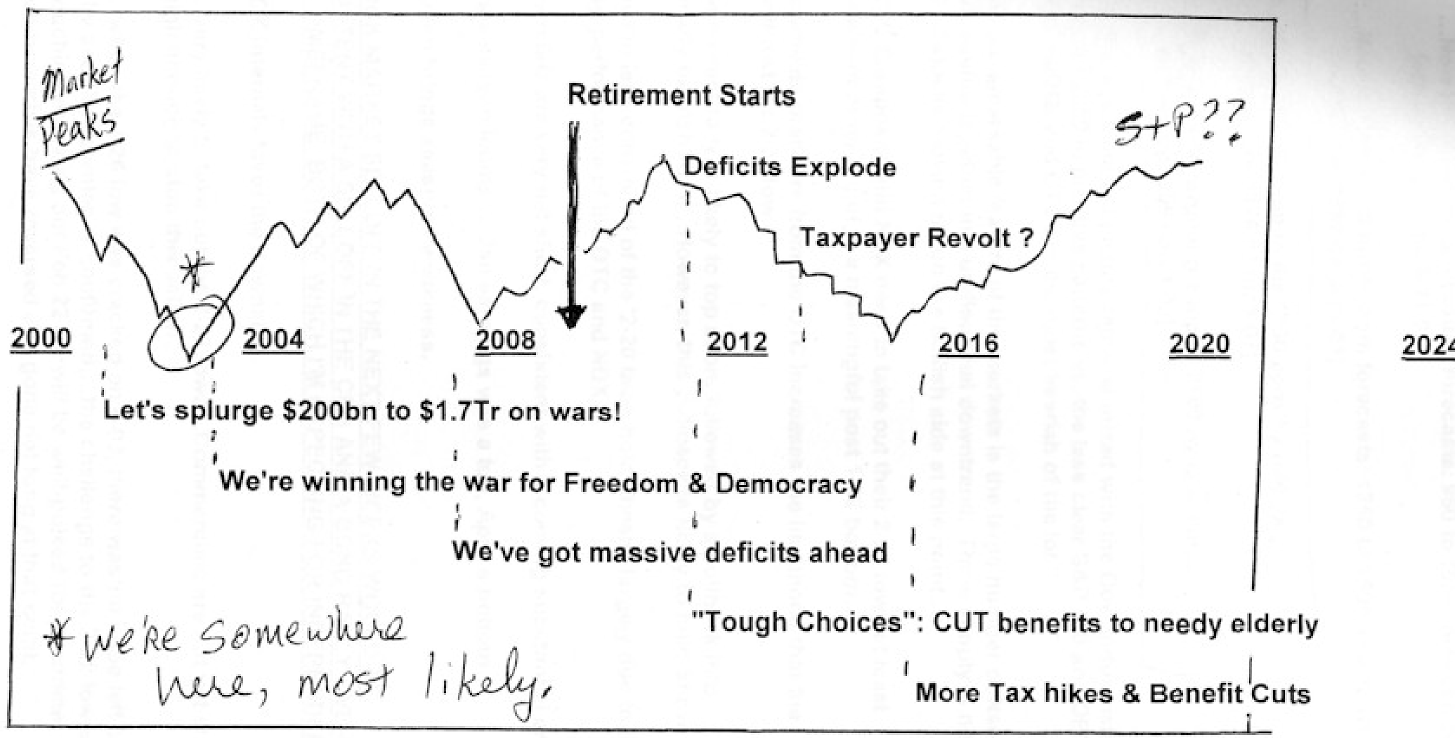
addressed," Walker says. "We would have to have tens of trillions of dollars invested at Treasury rates today to make good on those promises and we just don't have it." And the gap between incoming revenue and expenditures on these programs "is too great to simply grow our way out of the problem," he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

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.com