

FED LOSES... NO, FED WINS... URK! TILT!

You will recall that in mid-June I expected a monster rally in stocks to arrive between mid-July and mid-August. What I did *not* expect was to have a monster decline before the monster rally. What I had in mind was, maybe, a bit more selloff through June, choppiness around the July 4 holiday, then a base-building quiet period leading up to the monster rally.

What we got instead was an experience rivalling the mother-in-law from hell. Actually, things proceeded pretty much as I anticipated through the first week of July. Virtually every technical indicator ever devised was flashing “extremely oversold, rally is imminent” signals even as the market averages progressed to new lows. Though the NYSE “Timer’s Trend” had given a SELL signal on June 1, I was reluctant to switch out of stocks because of the many indicators that indicated a major (at least intermediate-term) bottom was being put in place. Might as well wait for the monster rally, I figured, because if I wasn’t positioned for it, I would miss out on the first 5% to 10% rebound. Surely stocks were so oversold, we couldn’t be too far from the bottom, I thought.

That was valid logic, maybe, up to the second week of July.

Then we saw something that I have never before seen in all of my years of investing, not even in the depths of pessimism in May 1970, December 1984 or October 1987: With all of the oversold indicators already beyond the historic levels reached in the

aforementioned bear-market bottoms, there began two weeks of relentless (but reasonably orderly) selling. The oversold indicators became simply more so, reaching extremes never before seen.

A long time ago, I had decided that the biggest loss I would ever tolerate in my retirement plan before taking action was 5% of the plan’s value at the beginning of the year (which includes my monthly contributions, plus a sum socked away in TIAA in the regular retirement annuity before switching was permitted in 1988, neither of which appears in the results shown in **The Contrarian’s View**). This, I figured, translated to a value of about \$50 for the CREF Equity Index unit.

In mid-June I was not terribly concerned even though the bear market was “eating” my monthly contributions.... because I figured the portfolio would recover in the rally, and the fund units bought at the more-depressed prices would add a little extra kick to the return.

In early July, I was getting a little more worried. Just where *was* that bottom, which was now long overdue? Then, as the value of the CREF Equity Index unit kept shrinking toward \$50, I knew I might have to make a difficult decision.

The fateful day arrived on Monday, July 22, after a disastrous two-day plunge which included the previous Friday and that Monday. I could see that the

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value of the Equity Index unit would be near or below \$50 by the end of the day. I knew if I sold, I would have to *eat the loss*; a loss that was then on paper only would become very real.

Not only had traditional indicators been flashing oversold for the previous four weeks, but anecdotal evidence, such as seeing the stock market make front-page headlines in what passes for a local newspaper here in Worcester, the financial backwater of America, surely pointed to a bottom which could not be much further away either in time or price.

Should I wait for the bottom?

I went over the reasons why stocks might be taking such an unexpected pounding. Recession on the horizon?nope, no evidence of that yet. Fed tightening?hah, fat chance, monetary policy is still very friendly. Rising interest rates from systemic risk?no, that didn't seem to be a problem. Sinking dollar?not significant. Foreigners selling?yes, but not appreciably more than usual. Demographics in reverse?no, the baby-boomers are in their prime earning years and should, in theory, be socking away a lot of money for retirement, the reversal isn't due until about 2008. Overvaluation?yeah, sure, but what else is new, this has been the case since 1994.

None of the usual culprits could be found. The only reason I could see remaining was the conclusion I desperately did not want to reach.... *the Fed has lost control of its ability to manipulate consumer and investor opinion*, at least for the short term. In this case, it was the loss of confidence in business ethics caused by the crooked accounting tactics of a few companies, which then mushroomed into a media and political feeding frenzy, eventually causing enough disgusted small investors to dump their mutual funds in a somewhat-controlled panic.

Because this is a deflationary bear, I knew that the Fed could lose control at any time without warning (or any obvious trigger), just as happened in 1929 or in Japan in 1990. But I really, really did not expect it to happen so soon. The Fed's aggressive easing so early in the stages of the popped bubble would, I thought, perk up (or fool, maybe) consumers long enough to carry a bullish jag well into 2003, and perhaps as far as 2008 when the demographics start working against stocks. I was, and am, really, really

surprised to find that the post-bubble trajectory of our stock markets is quite closely following the steps of the Japanese in the 1990s.

So I had to admit to myself that I was wrong about the Fed's ability to at least partly reflate the bubble. (September 2001 to April 2002 wasn't much of a reflation, certainly not for the aggressive easing which preceded it.) Ain't gonna happen now, not without some more investor pain and suffering first. It's always painful to admit error (especially when I've been right about the very-long-term outlook), but I'm not stubborn enough to lose money to try to prove a point.

Admitting my error, I looked for a probable bottom. Stocks had broken through their mid-September 2001 lows, and all I could see was air below. In past bear markets, even those that have eventually gone to undervalue, "fair value" was generally a significant stopping point, from which a rally would ensue. (The 1987 Crash is an excellent example.)

Thus I looked at various measures of fair value. Before the Fed embarked on its bubble-feeding spree.... that is, pre-Greenspan.... the big-cap averages would trade at levels where their dividend yield was about two-thirds the yield of six-month T-bills, within a wide band. Let's see, S&P yield is currently about 2.2%, T-bill yield is about 1.7%, that one doesn't work at all, the Fed broke that one with its aggressive easing of short-term interest rates.

Then there's stock-market capitalization as a percentage of GDP. Currently it's about 79%; the historical mean is 48%. That implies a "fair value" Dow of about 5200..... still a long way down.

Nobody pays much attention to the price/dividend ratio much any more, but there is a historical record.... about 25:1 average, in excess of 35:1 during most of the 1990s if one wants to argue that the trend toward lower dividend payouts is permanent. Currently the ratio is in excess of 50:1, which implies a "fair value" Dow of about 5700 (at 35:1) or 4050 (at 25:1). Again, a long way down.

The price-to-book-value ratio may also be less significant that it was in the post-WWII 1900s because of the shift from a manufacturing to a service economy. But it also has a historical record.... about

2:1, during the 1990s about 4:1. Currently it's in excess of 5:1; that implies a "fair value" Dow of about 6500 (at 4:1) or 3250 (at 2:1).

Finally, there's the price-to-earnings ratio, which is the least reliable from a historical point of view because companies tend to adjust earnings to goose their stock prices higher during boom times (sometimes even cooking the books, as we've recently seen), then write off everything including the kitchen sink during bad times because the stock price is going down anyway and earnings don't matter, so why not?

Historically, stocks trade around a median P/E of about 16. Currently the P/E is in excess of 30, though if you average earnings over several years to minimize the dropaway during the recession, that gives a forward-looking P/E of about 25. Still, that translates to a "fair value" Dow of about 6800 (for a 25 P/E) or 4300 (for a 16 P/E).

Okay, take the average of the four more optimistic scenarios, that gives a "fair value" Dow of 6050. As I said, still a long way down.

So there I was, facing being "stopped out" in my retirement plan. I hadn't bailed out in June when "Timer's Trend" turned negative because most all of the classic "oversold, bottom is near, rally is imminent" signals were flashing and I didn't want to miss the onset of the monster rally, which I expected to be a big move in a very short time. (Big mistake). If we could still play the market by postwar rules, this would have been sound logic. But now I was seeing something quite different: None of the usual postwar-bear-market rules were working during the relentless selling in the two middle weeks of July. *Clearly the Fed has lost control*, I thought. *There is no meaningful stopping point before "fair value" is*

reached.

Discipline, I thought. Stocks could rally right after I sell. But I'm not clairvoyant, I can only make educated guesses based on history, and that doesn't always work, especially on the slippery downslope of a popped bubble. If I don't exercise discipline and instead ignore my stop-loss, a small loss could turn into a very big one.

I sold.

I sold in chunks during the week, to "average out" the loss rather than take a bigger hit by bailing out on a particularly bad day.

As long-time readers of **The Contrarian's View** know, Murphy's Law usually applies whenever I make an investment move. Sure enough, I switched out of the last of my stocks on Friday, July 26. On Monday, July 29, what looked like the beginning of the monster rally arrived, as stocks rallied more than 5%, so I quickly began switching back into stocks in chunks. By August 2 it was clear that what was supposed to be a monster rally had no staying power, so I mostly switched the stocks back into inflation-indexed bonds, leaving less than 15% of the total funds in my retirement plan in equities, in an effort to reduce the volatility in the portfolios until a solid bottom of some kind is attained. Finally, on August 5, after a 4% rally in the NASDAQ, I exited stocks completely, parking the proceeds in the CREF money market fund, then in the third week of August redeployed them to earn 5.75% in TIAA.

OK, Nick, you say, why do you think the Fed has lost control? Let's look at the historical record, calling forth the table which last appeared in the December 2001 issue of **The Contrarian's View**, and filling in the remaining blanks:

After Discount Rate Cuts, Six Months Later The Dow Was:

| <u>First cut was on:</u> | <u>4th</u> | <u>5th</u> | <u>6th</u> | <u>7th</u> | <u>8th</u> | <u>Net from #1</u> |
|--------------------------|------------|------------|------------|------------|------------|--------------------|
| May 5, 1921 | +24.4 | +26.0 | | | | +16.4% |
| | 15wks | 26wks | | | | 52 weeks |
| November 4, 1929 | -11.4 | -30.6 | -23.7 | -9.0 | -57.7 | -76.1% |
| | 15wks | 26wks | 33wks | 59wks | 79wks | 105 weeks |
| April 7, 1933 | -18.4 | -25.4 | +20.0 | | | +131.6% |
| | 49wks | 125wk | 499wks | | | 525 weeks |

| | | | | | | |
|-------------------|-------|-------|-------|--------|-------|-----------|
| November 13, 1970 | +3.1 | +0.3 | | | | +15.9% |
| | 9wks | 13wks | | | | 39 weeks |
| December 9, 1974 | +6.7 | +1.9 | +6.8 | -4.5 | | +58.1% |
| | 13wks | 21wks | 58wks | 102wks | | 128 weeks |
| November 2, 1981 | +28.9 | +37.9 | +26.9 | +15.2 | +39.6 | +63.8% |
| | 39wks | 41wks | 43wks | 49wks | 55wks | 81 weeks |
| November 21, 1984 | +11.8 | -2.7 | +10.1 | +18.8 | | +87.0% |
| | 67wks | 74wks | 85wks | 91wks | | 117 weeks |
| December 19, 1990 | +8.4 | +10.7 | +12.0 | -0.9 | | +26.7% |
| | 38wks | 46wks | 52wks | 80wks | | 106 weeks |
| January 3, 2001 | -15.6 | -15.7 | -7.7 | -3.8 | +17.7 | -4.1% |
| | 15wks | 18wks | 25wks | 33wks | 37wks | 63 weeks |

Six months after the eighth discount-rate cut (never mind 11 consecutive cuts, never before seen!), the Dow was still off by 4% (mid-March 2002). And this doesn't allow for the subsequent June-August 2002 selloff. The only comparable pattern was in 1929-32, when all will admit that the Fed clearly lost control; all other instances of Fed easing (even during the Great Depression) led to higher prices over time.

Because the current pattern, a popped-bubble pattern, resembles 1929, though not as severely (yet), *prima facie* the Fed has failed. In other words, anybody who has relied, or continues to rely, on typical postwar bear market/bull market recovery behavior.... as I was, until mid-July.... is going to be very disappointed. If the easing hasn't worked by now, it's likely not going to until the bubble-popping is complete.

Now there are, I think, two ways of looking at this bear market. The first is, postwar patterns will reassert themselves after awhile, but because the bubble was so gargantuan, stock prices have further to fall before they will reach levels from which the next bull can ensue.... in the low 6000s or lower for the Dow, perhaps. The "political cycle" also matches this scenario.... the new president takes his economic lumps in the first two years of his term, then the Fed "guarantees" that the economy will be humming and stocks will be climbing in 2003 and 2004, hitting new peaks around election time 2004. Frankly, for the benefit of my retirement plan, this is the way I would *like* things to turn out.... but given the Fed's lack of success so far, I give it low odds.... about 15%. But I would *never* say it'll *never* happen.... consumer confidence (and the willingness to take on more debt) could stabilize and provide fuel for the next bull without the excesses of the bubble being fully corrected. After all, the score for Fed-reflation

successes from crashes and bubble-poppings is: Fed - 5 (1962, 1970, 1987, 1997, 1998), deflation - 2 (1929, 2000 so far).

The more likely scenario, for which I currently give about 85% odds, is that for the next decade, like the Japanese in the 1990s, we will drift into and out of recession while asset values continue to crumble, and the politicians pile on a load of debt without visible effect. This is, after all, the long-term view I've held for several years now, it's just that I thought the first "bounce" would be a much bigger one.

The reason I lean toward pessimism (from a bull's-eye point of view) is that indicators of consumer confidence and economic growth have recently suddenly stagnated or started heading south. This is most unusual for an economy which is supposed to have climbed out of recession since the beginning of the year and it strongly suggests that we will again be in recession by early next year ("double-dip") or, at best, be undergoing *excruciatingly slow* economic growth.

You can say (as many will do) that the June-July selloff in stocks has "predicted" the double-dip (or slow growth). My feeling is that these selloffs are self-fulfilling.... that is, at the same time consumers are cutting back on stock holdings, they are also cutting back on other purchases, but the measurements of their economic behavior are not released until a few or many months have passed, thus the myth of "prediction". When the Fed is in control, these consumer lapses are frequently only a blip in an economic expansion; when the Fed has lost control, they are a reassertion of the downward trend.

When the history of this period is written, I suspect

that July 2002 will be identified as the time it became clear that the Fed had lost control, and that its usual postwar reflation magic was not going to occur this time. One can make allowances for "9-11", after all, an unexpected act of war; but there was no "trigger" for "7-'02", only consumer and investor psychology asserting its trend.

Serious though the slippery downslope of this popped bubble is, the *much more serious* bubble, real estate, has yet to pop. If anything, the demise of stock profits has fed the real-estate bubble as people seek a positive return *somewhere*. The popping of the real-estate (particularly residential real estate) bubble will be deadly thanks to an extremely stupid change in the tax laws a decade ago which encouraged consumers to use the equity in their homes as revolving-charge accounts. When the last equity has been squeezed out, then home prices soften and the public finds itself owing more on their homes than they're worth, they'll *really* get discouraged and will cut back *drastically* on expenditures.

The history of simultaneous bubbles is that they generally peak within one to three years of each other. It seems that Worcester, the financial backwater of America, has been one of the country's hotter real-estate markets lately, with a 25% increase in housing prices over the past year. This is an unsustainable rate, of course, and there is evidence that our local market is topping out now.... so I would say the real-estate bubble is not likely to persist nationwide for more than another six months.

Looking back over the past decade, I am struck by how the Greenspan Fed has completely ruined

"traditional" investing.... since 1992, really, which was the last time stocks were reasonably priced. Instead of quashing the incipient bubble in 1995, the Fed fed it, maybe taking a whack at it once in a while with rhetoric, but not with any meaningful action. Then it papered over the financial crises of 1997 and 1998, leading investors to believe that it had the clout to avert any systemic failure (a policy which began with the 1987 Crash, really).

Then, when it had suckered in all of the retirement money of the novices into the stock market, it was ultimately unable to deliver on its implied promise that monetary easing would lead to recovery in stocks. What an abominable performance.

For those of us who recognized the bubble and refused to play, then struggled to find a positive investment return in the aftermath of its popping, it's been a dismal decade to invest, with decidedly subpar returns. But then, we are not finding our retirement portfolios back at 1993 levels (like the world stock indexes), or valued at half what we put into them because we were buying grossly overpriced stocks for five years. So maybe we cautious folks will come out better than most people but, again, the total return is not great because of the idiocy of the Fed. Somebody remind me again, please, why is it that we have a central bank?

The bright spot in the investment world continues to be high-grade bonds. Bonds and stocks tend to fluctuate in opposite directions during a deflationary bear, but as we do the Japanese thing and slip into a depressed, deflationary decade, the long-term outlook for quality bonds remains bullish.

QUOTES FOR THE MONTH

People claim that they're seeing the bottom. I don't know where they are getting that data. They certainly didn't see the cliff, so how in the world can they see the bottom? - Scott McNealy [CEO, Sun Microsystems]

I continue to be amazed at stock market sentiment. The Dow just got back above 9,000 on Thursday [August 22] and on Friday CNBC was running a poll on if the Dow was going to get to 10,000 this year. It is very easy to see that a long-term bottom is far in the future. - Marc Sexton

July 2002 was way too early for the bear market to end. The Value Line arithmetic and S&P 600 Midcap indexes made all-time highs in April 2002. These new highs were the final achievement of a four-year topping process dating from April 1998. Three down months is an inadequate resolution for a four-year top. No major bear market has ended three months after significant stock sectors peaked, and none of the technical

indicators imply that this one will be an exception. - Bob Prechter

The FOMC left rates unchanged, but admitted that they have ruined the economy through their own abysmal stupidity. No, wait! What I meant to say is that they noted that conditions are tilted toward economic weakness. Well, now that I re-read those two sentences, they both say the same thing, don't they? - Richard Daughty

Despite a flood of money and credit creation, and despite widespread predictions of recovery, the markets refuse to cooperate. Why? In short, because we are not experiencing a cyclical recession, and therefore a cyclical recovery is not on the way. Instead, the U.S. economy is sick to the bone.... For the first time in the postwar period, monetary easing - even the most aggressive easing in the Fed's history - is proving a flop in kindling a stock market rebound. - Kurt Richebacher

No one really wants to believe that the party is truly over. I know that there are a few articles here and there stating as such but I don't get the impression that people really believe it. Quite frankly, it is somewhat shocking to see stocks get pounded day in and day out without much of a reaction from investors. This is just really strange to witness and I can only attribute it to the incredible latent bullishness that developed during the late 1990s. - Marc Sexton

The story of outrageously high P/E ratios is a lesson in investor psychology: After the major stock market bottom in 1932, investors were still fearful and pessimistic. Even though the downtrend was over, even though they were actually in the early stages of a major uptrend -- only some 4% of eligible Americans were invested. So even though corporate earnings followed the stock market upward, in both 1942 and 1949 investors' pessimism drove the P/E ratio below its level at the 1932 bottom. This happened again in 1980, when the P/E ratio was lower than at the stock market bottom in 1974. Today, we have the opposite situation: since the major stock market top in March 2000, prices have been falling for two and a half years and investors are still amazingly optimistic. That optimism has pushed the P/E ratio above its level at the higher stock market top. Even the so-called experts are used to the old uptrend -- they say that expansion is the rule for the U.S. market, to assure investors of more glory days ahead. Perfect case in point -- they tell you that today is a better time than ever to throw your money at stocks because the market is "undervalued". Stock prices are so high now that to get them bear-market cheap again, earnings would have to soar 600% -- and that's if the S&P stays exactly where it is today! The all-time high in P/E ratios, despite a declining market and a weakening economy, reveals entrenched optimism. This all adds up to a bear market that has much, much further to fall. - Robert Folsom

I don't believe in the double dip. Stay invested. - Barton Biggs [global strategist, Morgan Stanley]

Market falls 10% - "great time to buy!"

Market falls 15% - "great time to buy!"

Market falls 20% - "great time to buy!"

Market falls 25% - "great time to buy!"

Market falls 30% - "great time to buy!"

Market falls 35% - "great time to buy!"

Market falls 45% - "great time to buy!"

Market falls 50% - "great time to buy!"

Market falls 55% - "great time to buy!"

I trust the "experts" as far as I can throw them. - "Benoit" (Internet post)

My husband has said the same thing, you don't lose till you sell. So I'm not looking at my statements and I'm praying a lot. - "Snowy Owl" (Internet post)

Please God, let AOL go back to \$62.00 so I can sell it and break even. (Internet post. Nick's comment: Fat

chance!)

I'm glad I've kept all those AOL CD-ROMs that they keep sending in the mail. Pretty soon they'll be worth more than the stock. - "had2" (Internet post Nick's comment: Inadvertently, I kept all of mine, too, even back to the floppy disk days.)

I wish my financial advisor had TOLD me that everything was overvalued when I received a settlement in March of 2000. He was insistent that I divide it into 5 mutual funds... so even if I sold tomorrow, I would only have 50% of the cash I put in then. At 60, do I have time to recoup? Do I sell and at least have half? Wish I had put it in a passbook account.. My advisor knew I was very conservative, I wasn't investing to be greedy.. The market was soaring in March 2000. He convinced me it was the only intelligent thing to do. A money market account would have been better... SHEESH, what a mess. - (Internet post. Nick's comment: SHEESH, what unlucky timing!)

From 1953 through 1999 there never was an instance when household net worth declined year-end to year-end. [But] now, we have two consecutive years of declining net worth, and we're on track for a third year. - Paul Kasriel

Chances are, investors should be selling into the stock market rally, while taking advantage of gold's short-term weakness to establish new positions or larger positions. - John Myers

While the past is not always prologue for what lies ahead, the lessons of history should not be forgotten. Double dips have been the rule, not the exception, in business cycles of the past. Five of the past six recessions over the past 45 years have, in fact, contained a double dip -- the rare single dip occurred in the early 1990s. Moreover, in two instances -- the mid-1970s and the early 1980s -- there were actually triple dips. Double dips happen because demand relapses invariably occur at just the time when businesses are lifting production in order to rebuild inventories. With the current production upswing well advanced -- industrial production has risen for six consecutive months -- a demand relapse would come at a most inopportune time. Yet with the US economy now back to its stall speed, that's precisely the risk. - Stephen Roach

There might not be a 'double dip' in the economy, but investors should probably not be too quick to rule out a double dip in profits. - Richard Bernstein

We anticipate a long slog out of the post-bubble era. A grim business, it will sooner or later be enlivened by the confessions of Alan Greenspan. If only because the truth will become too glaringly obvious to ignore, he will have to try to explain what happened to the New Economy and to 'structural' productivity growth... Confronted with his costly misapprehensions from the bubble era, he will have to admit that it might be better for all concerned if he left his post and devoted his time to touring the British Empire, wherever it is. - Jim Grant

My friend works for one of the largest investment banking houses in the world. I asked how was business... "It's brutal..." began his reply. "Day after day...we're getting crushed. Thank God, I'm in sales. At least I have something to show for what I do. The guys over in banking are getting laid off; they just aren't making any loans. "The company cut back on all expenses. Even top executives are flying coach..." - Bill Bonner

I'm an economist, and I don't even believe in Macroeconomics. The only good macro is micro-based, representative-agent stuff. Phenomenologically, the idea of aggregates impacting other aggregates without the individual consumer's choice logic ever coming into play (Keynesianism) is just idiotic. We're stuck teaching stuff that was being proven wrong 60 years ago because the kids can't handle the math behind the stuff that's right. Here's how it goes: Keynesianism (wrong but simple). Friedman's critique/Rational Expectations/Monetarism (much closer to right but too hard to teach the statistics and dynamic programming models of the "real stuff"). Hicksian synthesis (or IS-LM; can teach kids the graphs but not the math, plus it's still wrong).

Farmer-Woodford (kills off rational expectations but you need an advanced degree to even read the models). Sprinkle in all the various little ad hoc overlapping-generations models that popped up along the way, virtually none of which you can teach, and pedagogically we're stuck in the late 1930s. - "Dr. Steve" (Internet post)

My parents were raised in the Depression. Consequently, the only thing they ever bought with payments was real estate - everything else was cash. The only investments they made were in insured savings accounts. When my father retired, his house and car were paid for and he had no debt. He lived off a modest (and I do mean MODEST) pension and social security. Now, he didn't leave much of an estate (though the house appreciated considerably) but neither did he spend any time worrying about his investments. I'm still trying to figure out whether I've screwed up or the world has just gotten screwier. Even though raised by a frugal man, our lives are quite different financially. Right now, I make 5 times as much as my father did when he retired, but I don't have as much to show for it as he did. He supported a wife and three kids, sent us to private schools, took us on vacations each year and never made us feel as if we were wanting for anything. I'm childless and unmarried and would not be able to do the same today - of course, I'm paying almost 50% of my income in taxes. - "Natasha" (Internet post)

Altogether, the debt total in the U.S. is \$27 trillion.... At even 6% interest, it costs \$1.6 trillion annually just to keep the creditors from foreclosing. But this is what happens at the end of a credit expansion - people owe so much money they need a lot of ready cash just to stay in the same place. Last year, credit increased by more than \$2 trillion. Yet, stocks still fell on Wall Street and the economy barely grew. - Bill Bonner

I've been bearish forever, it seems, but that doesn't mean I would never invest in stocks at some point down the road. I just want to get a good price and so far I don't see it. The \$5 dollar apple has been marked down to \$2 but that is still too expensive for me. - Marc Sexton

At the extremes, the market is not a random walk. At the extremes, the market is more likely to destroy fortunes than to create them. The stock market is a risky place. - Peter Bernstein

Goldman Sachs reports mortgage borrowing currently rising at an annual rate of more than half a trillion dollars. Of the refinancings, 67% are increasing the size of their mortgages by at least 5%, with the typical mortgage only 4.1 years old on a house that has increased in value by 23%. People think they are 'taking out equity.' But mortgages that young have very little equity in them; most of the mortgage payments go to cover interest. Instead, they are taking out the inflated value of the house. - Bill Bonner

The credit spigots are as wide open as we've ever seen them. You can borrow money in excess of the value of your home. You don't need a down payment, you don't need any money for closing costs. Things could change, but for people with decent credit right now, if you can breathe you can get a mortgage. - Keith Gumbinger

The house in Aspen that I judged too expensive at \$895,000 in the mid-'90s is available again, for over \$2 million. - Bill Bonner

President Bush got out the handcuffs, went on TV and continued his campaign for re-election: WAT abroad, SWAT at home. "We must find them [the evildoers in corporate America] and expose them now," said the nation's CEO. Bombing raids on Lower Manhattan are now being discussed in the Pentagon. The Wall Street Journal did a fair job of exposing one of them recently - in its article on George W. Bush's career as a stock manipulator at Harken Energy. But now that Bush has moved from the boardroom to the Oval Office, the man may pretend that he never held an honest job in his entire life. And maybe he didn't. - Bill Bonner

STOCK MARKET OUTLOOK

I have this theory for why stocks frequently perform so miserably in September (even in non-911 years). It's because many of the baby-boomers are sending kids off to college for the first time, and the fall semester at many four-year schools begins in the last week of August.

The parents show up to settle in their kids, and fully realize what they may have suspected but not been willing to admit to themselves: The tuition and room/meals expenses are only the beginning. There's the cost of the new computer (now mandatory at some schools, and it will probably have to be replaced once), the network hookup card, software required for some courses, lab fees, books, supplies, parking stickers, laundry, transportation.....

Thus, after Labor Day, the parents have returned home to a lonelier place with bigger bills. They become less cheerful. They buy fewer stocks.... or maybe, even sell to meet the bills....

Seriously, regardless of the reason, there does seem to be a consistent change in psychology every year as the summer vacation season ends and people return to the daily grind, whether one attributes it to college, or the approaching winter, or renewed pressures at work, or whatever. In bull-market years stocks are, on average, likely to ascend at a slower rate in September than the average; in bear markets, they are likely to descend faster.

In a deflationary bear market like today's, we could see some serious selling, particularly after being "set up" by the August rally, which has the "smell" of a bear-market rally (stocks rising on declining volume). I give about 2:1 odds that we'll see new bear-market lows in September or October. If the lows come in October, then I expect a playable rally from that bottom to about the end of the year.

Regardless, in a deflationary bear most of the "oversold" technical indicators, which have been developed throughout the postwar period, simply don't work. At best, they indicate when a *short-term*

bottom has been reached, as they did in July, rather than signalling the onset of a multiyear bull market, as they generally have since 1945. There aren't much data to tell us exactly what to expect from them in this type of bear, but the evidence does suggest that such extreme-oversold periods will flare up from time to time as the bear unfolds. The 1929-32 deflationary bear market saw nine selling periods similar in intensity to the two middle weeks of July.

I'm beginning to hear stories about people whose retirement plans have been devastated by the bear. A retired friend dropped \$50K on WorldCom stock. As it kept declining, he bought more to "average down". Only after he had loaded up did it become clear that WorldCom had cooked its books, and the stock became essentially worthless. My comment to him was, there really is no way to protect against this sort of fraud other than to be well diversified. As he expressed it, the new computer and the new car have been put off for a couple of years.

Another friend (a counselor), who is in a position to know the financial health of a good many people, asked me how I had fared in the bear. Well, I said, if I don't make any stupid mistakes for the rest of the year, I'll end up with a few thousand dollars less in my retirement kitty at the end of 2002 than I had at the end of 2001. In other words, a "lost year", as if it had never happened. The bear will have eaten all of my contributions, and delivered no return for the year. After all, I did make money in 2000 and 2001, when many people had already begun to lose money, so I really didn't suffer too badly overall. And though I regretted not moving quickly enough to stem the July losses, I really felt one had to "play the odds".... every postwar easing (before the present one) has led to economic recovery and higher stock prices, and there really was no good way to tell in advance that it wasn't going to work this time. He then commented to me that I had come out far, far better than a great many people. Considering what this year has done to me, I shudder to think what tragedies have befallen those other folks he knows.

PORTFOLIO REVIEW

The combined performance of the portfolios (including predecessors, but excluding "PIG" and TIAA-CREF) from January 1987 to the present, adjusted for the dilutive effect of added shares, is -16.47%, for a compound annual rate of return of -1.13%. For comparison purposes, from January 1, 1987 to August 26, 2002 (15.652 years), the CREF stock unit value (whose performance closely parallels the S&P 500 with dividends reinvested) has risen 363.53%, for a compound annual rate of return of 10.30%. WARNING: I am a rotten stockpicker. Prices shown are as of August 26.

A. "Phoenix" -real portfolio, begun on October 1, 1995.

| Shrs | Description | Symbol | Bought | Sold On | Sold At | Cost Was | Price | Curr Value |
|--------|-----------------------------------|------------|---------|---------|---------|----------|-------|------------|
| 46 | Citizens Communications | {CZN/nyse} | 1Oct95 | | | 506.00 | 8.52 | 391.92 |
| 78.97 | Third Avenue Value Fnd [78.968sh] | [TAVFX] | 2Feb01 | | | 3000.00 | 32.06 | 2,531.71 |
| 80.553 | ICON Information Technology Fund | [ICTEX] | 17Sep01 | | | 700.00 | 7.12 | 573.54 |
| | CASH .00 | | | | | .00 | | 0.00 |
| | Totals | | | | | 4,206.00 | | 3,497.17 |

SUMMARY - "Phoenix":

Original cost (adjusted): \$ 4,998.21
Present value: \$ 3,497.17
Increase: \$-1,501.04 [-30.03%]

The performance of this portfolio and its predecessors ("Hedger's Delight", "Present and Future Income", "Crapshooter's Folly") from January 1987 to the present is -20.66%, for a compound annual rate of return of -1.45%.

COMMENT on "Phoenix": There is no change from the last issue (cash balance is not up to date). I am considering dumping what you see in favor of Prudent Bear or a similar fund designed to profit from bear markets.

B. "Professors' Investment Group (PIG)" - investment club portfolio.

| Shrs | Description | Symbol | Bought | Sold On | Sold At | Cost Was | Price | Curr Value |
|------|-------------------------------|------------|---------|---------|---------|----------|-------|------------|
| 60 | Apple Computer Inc. | [AAPL/otc] | 26Jun02 | | | 1034.80 | 15.53 | 931.80 |
| 50 | Barrick Gold .11 | {ABX/nyse} | 14Nov96 | | | 1466.01 | 15.27 | 763.50 |
| 30 | BP Amoco .30 | [BP/nyse] | 26Jan99 | | | 1292.50 | 48.64 | 1,459.20 |
| 30 | Elan Corp. PLC ADR | [ELN/nyse] | 28Oct99 | | | 766.25 | 3.65 | 109.50 |
| 250 | Elan Corp. PLC ADR | | 1Aug02 | | | 585.00 | 3.65 | 912.50 |
| 100 | iShares MSCI Japan Index Fund | [EWJ/ase] | 28Jun01 | | | 1035.00 | 8.02 | 802.00 |
| 100 | Nokia OYJ ADR .18 | [NOK/nyse] | 14Jun01 | | | 2233.00 | 14.15 | 1,415.00 |
| 800 | Palm Inc. | [PALM/otc] | 5Jun02 | | | 1097.00 | .92 | 736.00 |
| 45 | PolyMedica Corp. | [PLMD/otc] | 26Jun02 | | | 1070.35 | 23.13 | 1,040.85 |

| Shrs | Description | Symbol | Bought | Sold On | Sold At | Cost Was | Price | Curr Value |
|------|---------------------|------------|--------|---------|---------|-----------|-------|------------|
| 100 | Xerox Corp. | [XRX/nyse] | 1Aug02 | | | 685.00 | 7.12 | 712.00 |
| | CASH & money market | | | | | 5727.22 | | 5,727.22 |
| | Totals | | | | | 15,957.33 | | 13,677.77 |

SUMMARY - "PIG":

| | |
|----------------|-----------------------|
| Original cost: | \$ 9,899.00 |
| Present value: | \$13,677.77 |
| Increase: | \$ 3,778.77 [+38.17%] |

COMMENT on "PIG": The PIGs have been busy. In June, at my suggestion, they decided to bottom-fish in tech with Apple Computer, whose new operating system (MacOS 10.2, "Jaguar") will allow Macs to interact with PCs on a corporate network, thus making Macs more acceptable in the workplace. We also bought PolyMedica on the recommendation of a doctor in the group. In July, recognizing that stocks were at least short-term oversold, we bought Xerox (my suggestion for a turnaround stock) and decided to continue our investment in fallen angel Elan, with the understanding that for the group I will dump the original 30 shares before the end of the year to realize the tax loss.

C. Roth rollover IRA - real portfolio, includes commissions:

| Shrs | Description | Symbol | Bought | Sold On | Sold At | Cost Was | Price | Curr Value |
|-------|-------------------------------------|------------|---------|---------|---------|-----------|-------|------------|
| 102.4 | AmerCent GlobalGold [102.396sh] | [BGEIX] | 28Dec94 | | | 1050.00 | 7.39 | 756.71 |
| 226.6 | AmericanCentury Ultra (226.616sh) | [TWCUX] | 10Jan01 | | | 7192.80 | 23.34 | 5,289.22 |
| 86.73 | Ariston Convertible Secs (86.725sh) | [CNCVX] | 10Jan01 | | | 1739.70 | 10.65 | 923.62 |
| 102 | Freeport-McMoRan Copper&Gold | [FCX/nyse] | 27Dec94 | | | 2348.60 | 16.70 | 1,703.40 |
| 11 | New Germany Fund | [GF/nyse] | 20Dec91 | | | 53.50 | 4.26 | 46.86 |
| 132.6 | Cr Suisse Japan Grwth (132.631sh) | [WPJGX] | 12Jan01 | | | 887.30 | 4.54 | 602.14 |
| | Money market | | | | | 23.93 | | 23.93 |
| | Totals | | | | | 13,295.83 | | 9,345.88 |

SUMMARY - IRA:

| | |
|--------------------------|-----------------------|
| Original (1983-86) cost: | \$ 8,326.19 |
| Present value: | \$ 9,345.88 |
| Increase: | \$ 1,019.69 [+12.25%] |

The performance of this portfolio (including its predecessors) from January 1, 1987 to the present is -14.78%, for a compound annual rate of return of -1.00%.

COMMENT on IRA: There is no change from the last issue. Again, I am considering "cleaning out" this IRA of its poorly-performing non-gold holdings in favor of a blend of bond and bear funds.

D. TIAA/CREF 403(b) retirement plan; I switch between indexed stock/bond/money funds:

| Date | Sold | Bought | Date | Sold | Bought |
|-----------|------------------|---------------------------|--------------|---|--------------------------|
| 13Mar1992 | stock @ 56.65 | MM @ 13.41 | 17-18May2000 | rate adjustment to 7.25% in SRA | |
| 29Apr1992 | MM @ 13.48 | bond @ 31.19 | 12-13Jul2000 | rate adjustment to 7.5% in SRA | |
| 19Jun1992 | bond @ 32.14 | MM @ 13.55 | 8Jan2001 | TIAA Traditional | bond@58.62 [22.77%] |
| 29Jun1992 | MM @ 13.57 | stock @ 56.74 | 8Jan2001 | TIAA Traditional | eq-idx@75.79 [4.56%] |
| 24Jul1992 | stock @ 56.76 | MM @ 13.61 | 1Feb2001 | i-i bond@31.78 | eq-idx@80.84 [26.76%] |
| 29Oct1992 | MM @ 13.72 | stock @ 58.61 | 20Sep2001 | bond@61.99 | eq-idx@58.42 [2.44%] |
| 23Dec1992 | stock @ 61.48 | MM @ 13.78 | 21Nov2001 | i-i bond@33.80 | eq-idx@67.52 [4.35%] |
| 16Jan1995 | MM @ 14.83 | equity-idx @ 26.44 | 11Dec2001 | i-ibond@33.28 | eq-idx@67.95 [6.19%] |
| 20Jan1995 | eq-idx @ 26.19 | MM @ 14.84 | 17Dec2001 | i-i bond@33.13 | RIEst@168.75 [9.94%] |
| 30Oct1997 | MM@ 17.24 | bond@47.56 (27.17%) | 17Dec2001 | bond@61.54 | RIEst@168.75 [9.26%] |
| 30Oct1997 | MM@ 17.24 | i-i bond@26.12 (27.17%) | 31Dec2001 | i-i bond@33.50 | eq-idx@68.74 [8.21%] |
| 11Feb1998 | bond@ 48.84 | MM@17.52 (27.17%) | 25Mar2002 | bond@62.43 | TIAA Traditional [9.13%] |
| 11Feb1998 | li-i bond@ 26.23 | MM@17.52(27.17%) | 26Mar2002 | bond@62.63 | eq-idx@68.76 [3.39%] |
| 16Jun1998 | MM@ 17.84 | TIAA Traditional (45.87%) | July-Aug2002 | many whipsaw switches, not calculated yet | |
| 23Sep1999 | MM@18.99 | I-I bond@27.56 (53.32%) | | | |

Values, 26Aug2002: stock, 137.90; equity-index, 57.61; MM, 21.46; bond, 66.38; inflation-indexed bond, 37.66; real estate, 172.05; TIAA current yield in SRA, about 6.5% (new money at 5.75% through February 28, 2003). As of August 27, 2002, my retirement portfolios were invested: 51.1% in TIAA, 22.5% in TIAA Real Estate, and 26.4% in CREF inflation-indexed bonds.

Gain, 1988: 18.91%; 1989: 14.48%; 1990: 8.28%; 1991: 27.93%; 1992: 10.20%; 1993: 3.08%; 1994: 4.07%; 1995: 4.80%; 1996: 5.28%; 1997: 5.38%; 1998: 5.72%; 1999: 5.12%; 2000: 9.99%; 2001: 1.11%

Gain, January 1 through March 31, 2002: 0.97% (3.86% annual rate of return)

Total gain since January 1, 1988 (14.25 years): 223.43%

Compound annual rate of return: 8.59% (My long-term target: in excess of 10%)

Gain shown excludes the impact of additional monthly cash contributions.

Buying CREF stock on January 1, 1988 and holding it gained 422.38%, for a compound annual rate of return of 11.46%.

Comment on NYSE "Timer's Trend": Though "Timer's Trend" has given a BUY signal on August 22, the more sensitive 10% exponential turned down the following day, and subsequent market action has almost certainly cancelled the signal, though I haven't crunched the numbers yet.

NYSE TIMER'S TREND

| Date | Value | Change | Date | Value | Change |
|---------------|----------|--------|---------------|----------|--------|
| Wed 2 Jan 02 | 10073.40 | + | Fri 1 Mar 02 | 10368.86 | + |
| Thu 3 Jan 02 | 10172.14 | + | Mon 4 Mar 02 | 10586.82 | + |
| Fri 4 Jan 02 | 10259.74 | + | Tue 5 Mar 02 | 10433.41 | + |
| Mon 7 Jan 02 | 10197.05 | + | Wed 6 Mar 02 | 10574.29 | + |
| Tue 8 Jan 02 | 10150.55 | + | Thu 7 Mar 02 | 10525.37 | + |
| Wed 9 Jan 02 | 10094.09 | + | Fri 8 Mar 02 | 10572.49 | + |
| Thu 10 Jan 02 | 10067.86 | + | Mon 11 Mar 02 | 10611.24 | + |
| Fri 11 Jan 02 | 9987.53 | + | Tue 12 Mar 02 | 10632.35 | + |
| Mon 14 Jan 02 | 9891.42 | + | Wed 13 Mar 02 | 10501.85 | + |
| Tue 15 Jan 02 | 9924.15 | + | Thu 14 Mar 02 | 10517.14 | + |
| Wed 16 Jan 02 | 9712.27 | + | Fri 15 Mar 02 | 10607.23 | + |
| Thu 17 Jan 02 | 9850.04 | + | Mon 18 Mar 02 | 10577.75 | + |
| Fri 18 Jan 02 | 9771.85 | + | Tue 19 Mar 02 | 10635.25 | + |
| Tue 22 Jan 02 | 9730.96 | + | Wed 20 Mar 02 | 10501.57 | + |
| Wed 23 Jan 02 | 9730.96 | + | Thu 21 Mar 02 | 10479.84 | + |
| Thu 24 Jan 02 | 9796.07 | + | Fri 22 Mar 02 | 10427.67 | + |
| Fri 25 Jan 02 | 9840.08 | + | Mon 25 Mar 02 | 10281.67 | + |
| Mon 28 Jan 02 | 9865.75 | + | Tue 26 Mar 02 | 10353.36 | + |
| Tue 29 Jan 02 | 9618.24 | + | Wed 27 Mar 02 | 10426.91 | + |
| Wed 30 Jan 02 | 9762.86 | + | Thu 28 Mar 02 | 10403.94 | + |
| Thu 31 Jan 02 | 9920.00 | + | Mon 1 Apr 02 | 10362.70 | + |
| Fri 1 Feb 02 | 9907.26 | + | Tue 2 Apr 02 | 10313.71 | + |
| Mon 4 Feb 02 | 9684.09 | + | Wed 3 Apr 02 | 10198.29 | + |
| Tue 5 Feb 02 | 9685.43 | + | Thu 4 Apr 02 | 10235.17 | + |
| Wed 6 Feb 02 | 9653.39 | + | Fri 5 Apr 02 | 10271.64 | + |
| Thu 7 Feb 02 | 9625.44 | + | Mon 8 Apr 02 | 10249.08 | + |
| Fri 8 Feb 02 | 9744.24 | + | Tue 9 Apr 02 | 10208.67 | + |
| Mon 11 Feb 02 | 9884.78 | + | Wed 10 Apr 02 | 10381.67 | + |
| Tue 12 Feb 02 | 9863.74 | + | Thu 11 Apr 02 | 10176.08 | + |
| Wed 13 Feb 02 | 9989.67 | + | Fri 12 Apr 02 | 10190.82 | + |
| Thu 14 Feb 02 | 10001.99 | + | Mon 15 Apr 02 | 10093.67 | + |
| Fri 15 Feb 02 | 9903.04 | + | Tue 16 Apr 02 | 10301.32 | + |
| Tue 19 Feb 02 | 9745.14 | + | Wed 17 Apr 02 | 10220.78 | + |
| Wed 20 Feb 02 | 9941.17 | + | Thu 18 Apr 02 | 10205.28 | + |
| Thu 21 Feb 02 | 9834.68 | + | Fri 19 Apr 02 | 10257.11 | + |
| Fri 22 Feb 02 | 9968.15 | + | Mon 22 Apr 02 | 10136.43 | + |
| Mon 25 Feb 02 | 10145.71 | + | Tue 23 Apr 02 | 10089.24 | + |
| Tue 26 Feb 02 | 10115.26 | + | Wed 24 Apr 02 | 10030.43 | + |
| Wed 27 Feb 02 | 10127.58 | + | Thu 25 Apr 02 | 10035.06 | + |
| Thu 28 Feb 02 | 10106.13 | + | Fri 26 Apr 02 | 9910.72 | + |

| | | | | |
|---------------|-----------|-----------|----|---|
| Mon 29 Apr 02 | . # . | 9819.87 | +. | * |
| Tue 30 Apr 02 | . . # | 9946.22 | + | * |
| Wed 1 May 02 | . . # | 10059.63 | + | * |
| Thu 2 May 02 | . . # | 10091.87 | + | * |
| Fri 3 May 02 | . . # | 10006.63 | +. | * |
| Mon 6 May 02 | . # . | 9808.04 | +. | * |
| Tue 7 May 02 | . # . | 9836.55 | + | * |
| Wed 8 May 02 | . . # | 10141.83 | + | * |
| Thu 9 May 02 | . # . | 10037.42 | + | * |
| Fri 10 May 02 | # I . | 9939.92 | +. | * |
| Mon 13 May 02 | . . # | 10109.66 | +. | * |
| Tue 14 May 02 | . . # | 10298.14 | + | * |
| Wed 15 May 02 | . . # | 10243.68 | + | * |
| Thu 16 May 02 | . # . | 10289.21 | + | * |
| Fri 17 May 02 | . . # | 10353.08 | +. | * |
| Mon 20 May 02 | . # . | 10229.50 | +. | * |
| Tue 21 May 02 | . & . | 10105.71 | + | * |
| Wed 22 May 02 | . I # | 10157.88 | + | * |
| Thu 23 May 02 | . . # | 10216.08 | +. | * |
| Fri 24 May 02 | . I # | 10104.26 | + | * |
| Tue 28 May 02 | . I # | 9981.58 | + | * |
| Wed 29 May 02 | . # I . | 9923.04 | + | * |
| Thu 30 May 02 | . # I . | 9911.69 | + | * |
| Fri 31 May 02 | . # I . | 9925.25 | +. | * |
| Mon 3 Jun 02 | . # I . | { 9709.79 | +. | * |
| Tue 4 Jun 02 | . # I . | 9687.84 | -. | * |
| Wed 5 Jun 02 | . # I # | 9796.80 | +. | * |
| Thu 6 Jun 02 | # I . | 9624.64 | -. | * |
| Fri 7 Jun 02 | . # I . | 9589.67 | -. | * |
| Mon 10 Jun 02 | . # I . | 9517.26 | -. | * |
| Mon 10 Jun 02 | . # I # | 9645.40 | -. | * |
| Tue 11 Jun 02 | . # I . | 9517.26 | -. | * |
| Wed 12 Jun 02 | . # I . | 9617.71 | -. | * |
| Thu 13 Jun 02 | . # I . | 9502.80 | -. | * |
| Fri 14 Jun 02 | . # I . | 9474.21 | -. | * |
| Mon 17 Jun 02 | . # I . | 9687.42 | -. | * |
| Tue 18 Jun 02 | . # I # | 9706.12 | -. | * |
| Wed 19 Jun 02 | . # I . | 9561.57 | +. | * |
| Thu 20 Jun 02 | . # I . | 9431.77 | +. | * |
| Fri 21 Jun 02 | . # I . | 9253.79 | +. | * |
| Mon 24 Jun 02 | . # I . | 9281.82 | -. | * |
| Tue 25 Jun 02 | . # I . | 9126.82 | -. | * |

| | | | | |
|---------------|-------------|-----------|----|---|
| Wed 26 Jun 02 | . # I . | 9120.11 | -. | * |
| Thu 27 Jun 02 | . # I # | 9269.92 | -. | * |
| Fri 28 Jun 02 | . # I # | 9243.26 | -. | * |
| Mon 1 Jul 02 | . # I . | 9109.79 | -. | * |
| Tue 2 Jul 02 | # . I . | 9007.75 | -. | * |
| Wed 3 Jul 02 | . # I . | 9054.97 | -. | * |
| Fri 5 Jul 02 | . # I . # | 9379.50 | -. | * |
| Mon 8 Jul 02 | . # I . | 9274.90 | -. | * |
| Tue 9 Jul 02 | . # I . | 9096.09 | -. | * |
| Wed 10 Jul 02 | # . I . | 8813.50 | -. | * |
| Thu 11 Jul 02 | . # I . | 8801.53 | -. | * |
| Fri 12 Jul 02 | . # I . | 8684.53 | -. | * |
| Mon 15 Jul 02 | . # I . | 8639.19 | -. | * |
| Tue 16 Jul 02 | . # I . | 8473.11 | -. | * |
| Wed 17 Jul 02 | . # I . | 8542.48 | -. | * |
| Thu 18 Jul 02 | . # I . | 8409.49 | -. | * |
| Fri 19 Jul 02 | # . I . | 8019.26 | -. | * |
| Mon 22 Jul 02 | # . I . | 7784.58 | -. | * |
| Tue 23 Jul 02 | # . I . | 7702.34 | -. | * |
| Wed 24 Jul 02 | . # I . | 8191.29 | -. | * |
| Thu 25 Jul 02 | . # I . | 8186.31 | -. | * |
| Fri 26 Jul 02 | . # I . | 8264.39 | -. | * |
| Mon 29 Jul 02 | . # I # | 8711.88 | -. | * |
| Tue 30 Jul 02 | . # I . | 8680.03 | -. | * |
| Wed 31 Jul 02 | . # I . | 8736.59 | -. | * |
| Thu 1 Aug 02 | . # I . | 8506.62 | -. | * |
| Fri 2 Aug 02 | . # I . | 8313.13 | -. | * |
| Mon 5 Aug 02 | # . I . | 8043.63 | -. | * |
| Tue 6 Aug 02 | . # I # | 8274.09 | -. | * |
| Wed 7 Aug 02 | . # I . | 8456.15 | -. | * |
| Thu 8 Aug 02 | . # I # | 8712.02 | -. | * |
| Fri 9 Aug 02 | . # I . | 8745.45 | -. | * |
| Mon 12 Aug 02 | . # I . | 8688.39 | -. | * |
| Tue 13 Aug 02 | . # I . | 8482.39 | -. | * |
| Wed 14 Aug 02 | . # I # | 8743.31 | -. | * |
| Thu 15 Aug 02 | . # I # | 8818.14 | -. | * |
| Fri 16 Aug 02 | . # I . | 8778.06 | -. | * |
| Mon 19 Aug 02 | . # I # | 8990.79 | +. | * |
| Tue 20 Aug 02 | . # I . | 8872.07 | +. | * |
| Wed 21 Aug 02 | . # I # | 8957.23 | +. | * |
| Thu 22 Aug 02 | . # I # | { 9053.64 | +. | * |
| Fri 23 Aug 02 | . # I . | [8872.96 | +. | * |

Comment on NASDAQ "Timer's Trend": We're still solidly on the SELL of April 22. The NASDAQ remains one sick puppy.

NASDAQ TIMER'S TREND

| | | | | |
|---------------|-----------|-----------|----|---|
| Thu 1 Nov 01 | . . # | 1746.30 | +. | * |
| Wed 2 Jan 02 | . . # | 1979.25 | +. | * |
| Thu 3 Jan 02 | . . # | 2044.27 | +. | * |
| Fri 4 Jan 02 | . . # | 2059.38 | +. | * |
| Mon 7 Jan 02 | . . # | 2037.10 | +. | * |
| Tue 8 Jan 02 | . . # | 2055.74 | +. | * |
| Wed 9 Jan 02 | . . # | 2044.89 | +. | * |
| Thu 10 Jan 02 | . . # | 2047.24 | +. | * |
| Fri 11 Jan 02 | . . # | 2022.46 | +. | * |
| Mon 14 Jan 02 | . # I . | 1990.74 | +. | * |
| Tue 15 Jan 02 | . # I # | 2000.91 | +. | * |
| Mon 1 Apr 02 | . # I . | 1862.62 | +. | * |
| Tue 2 Apr 02 | . # I . | 1804.40 | +. | * |
| Wed 3 Apr 02 | . # I . | { 1784.35 | +. | * |
| Thu 4 Apr 02 | . # I # | 1789.75 | +. | * |
| Fri 5 Feb 02 | . # I . | 1770.03 | +. | * |
| Mon 8 Apr 02 | . # I . | 1785.87 | +. | * |
| Tue 9 Apr 02 | . # I . | 1742.57 | +. | * |
| Wed 10 Apr 02 | . # I . | 1767.07 | +. | * |
| Thu 11 Apr 02 | . # I # | 1725.24 | +. | * |
| Fri 12 Apr 02 | . # I # | 1756.19 | +. | * |
| Mon 15 Apr 02 | . # I # | 1753.78 | +. | * |
| Tue 16 Apr 02 | . # I # | 1816.79 | +. | * |
| Wed 17 Apr 02 | . # I # | 1810.67 | +. | * |
| Thu 18 Apr 02 | . # I # | 1802.43 | +. | * |
| Fri 19 Apr 02 | . # I # | 1893.83 | +. | * |
| Mon 22 Apr 02 | . # I # | { 1758.68 | +. | * |
| Tue 23 Apr 02 | . # I # | 1730.29 | +. | * |
| Wed 24 Apr 02 | . # I # | 1713.34 | +. | * |
| Thu 25 Apr 02 | . # I # | 1713.70 | +. | * |
| Fri 26 Apr 02 | # I . | 1663.89 | +. | * |
| Mon 29 Apr 02 | . # I . | 1656.93 | -. | * |
| Tue 30 Apr 02 | . # I # | 1688.23 | +. | * |
| Wed 16 Apr 02 | . # I # | 1944.44 | +. | * |
| Thu 17 Jan 02 | . # I # | 1985.82 | +. | * |
| Fri 18 Jan 02 | . # I # | { 1930.34 | +. | * |
| Mon 22 Jan 02 | . # I # | 1882.53 | +. | * |
| Tue 23 Jan 02 | . # I # | 1922.38 | +. | * |
| Wed 24 Jan 02 | . # I # | [1942.58 | +. | * |
| Thu 25 Jan 02 | . # I # | [1937.70 | +. | * |
| Fri 25 Jan 02 | . # I # | [1943.91 | +. | * |
| Mon 29 Jan 02 | . # I # | [1892.99 | +. | * |
| Wed 30 Jan 02 | . # I # | 1913.44 | +. | * |
| Thu 31 Jan 02 | . # I # | 1934.03 | +. | * |
| Fri 1 Feb 02 | . # I # | 1911.24 | +. | * |
| Mon 4 Feb 02 | . # I . | 1855.53 | +. | * |
| Tue 5 Feb 02 | . # I . | 1838.52 | -. | * |
| Wed 6 Feb 02 | . # I . | 1812.71 | -. | * |
| Thu 7 Feb 02 | . # I . | 1782.11 | -. | * |

| | | | | |
|---------------|-----------|-----------|----|---|
| Fri 8 Feb 02 | . # I # | 1818.88 | -. | * |
| Mon 11 Feb 02 | . # I # | 1846.66 | -. | * |
| Mon 12 Feb 02 | . # I # | 1834.21 | +. | * |
| Wed 13 Feb 02 | . # I # | 1859.16 | +. | * |
| Thu 14 Feb 02 | . # I # | 1843.37 | +. | * |
| Fri 15 Feb 02 | . # I . | 1805.20 | +. | * |
| Fri 19 Feb 02 | # . I . | 1750.61 | +. | * |
| Wed 20 Feb 02 | . # I # | 1775.57 | +. | * |
| Wed 21 Feb 02 | . # I # | 1724.54 | -. | * |
| Fri 22 Feb 02 | . # I # | 1724.54 | -. | * |
| Mon 25 Feb 02 | . # I # | 1769.88 | -. | * |
| Tue 26 Feb 02 | . # I # | 1766.86 | +. | * |
| Wed 27 Feb 02 | . # I # | 1751.88 | +. | * |
| Thu 28 Feb 02 | . # I # | 1731.49 | +. | * |
| Fri 1 Mar 02 | . # I # | 1802.74 | +. | * |
| Mon 4 Mar 02 | . # I # | 1859.32 | +. | * |
| Mon 5 Mar 02 | . # I # | 1866.29 | +. | * |
| Wed 6 Mar 02 | . # I # | { 1890.40 | +. | * |
| Thu 7 Mar 02 | . # I # | 1881.63 | +. | * |
| Fri 8 Mar 02 | . # I # | 1929.67 | +. | * |
| Mon 11 Mar 02 | . # I # | 1929.49 | +. | * |
| Tue 12 Mar 02 | . # I # | 1897.12 | +. | * |
| Tue 13 Mar 02 | . # I # | 1862.03 | +. | * |
| Thu 14 Mar 02 | . # I # | 1854.14 | +. | * |
| Thu 15 Mar 02 | . # I # | 1868.30 | +. | * |
| Mon 18 Mar 02 | . # I # | 1877.06 | +. | * |
| Mon 19 Mar 02 | . # I # | 1880.87 | +. | * |
| Wed 20 Mar 02 | . # I # | 1832.87 | +. | * |
| Wed 21 Mar 02 | . # I # | 1868.83 | +. | * |
| Fri 22 Mar 02 | . # I # | { 1851.39 | +. | * |
| Mon 25 Mar 02 | . # I # | { 1812.17 | +. | * |
| Tue 26 Mar 02 | . # I # | [1824.17 | +. | * |
| Tue 27 Mar 02 | . # I # | 1826.75 | +. | * |
| Thu 28 Mar 02 | . # I # | 1845.35 | +. | * |
| Mon 1 Apr 02 | . # I # | 1862.62 | +. | * |
| Tue 2 Apr 02 | . # I . | 1804.40 | +. | * |
| Wed 3 Apr 02 | . # I . | { 1784.35 | +. | * |
| Thu 4 Apr 02 | . # I # | 1789.75 | +. | * |
| Fri 5 Feb 02 | . # I # | 1770.03 | +. | * |
| Mon 8 Apr 02 | . # I # | 1785.87 | +. | * |
| Tue 9 Apr 02 | . # I # | 1742.57 | +. | * |
| Wed 10 Apr 02 | . # I # | 1767.07 | +. | * |
| Thu 11 Apr 02 | . # I # | 1725.24 | +. | * |
| Fri 12 Apr 02 | . # I # | 1756.19 | +. | * |
| Mon 15 Apr 02 | . # I # | 1753.78 | +. | * |
| Mon 16 Apr 02 | . # I # | { 1816.79 | +. | * |
| Wed 17 Apr 02 | . # I # | 1810.67 | +. | * |
| Thu 18 Apr 02 | . # I # | 1802.43 | +. | * |
| Fri 19 Apr 02 | . # I # | 1893.83 | +. | * |

| | | | | | | | |
|---------------|----------|-------------|-------|---------------|-----------|---------|---------|
| Mon 22 Apr 02 | . #I . | { 1758.68 | . + * | Mon 24 Jun 02 | . # I . | 1460.34 | . - * |
| Tue 23 Apr 02 | . #I . | 1730.29 | + . * | Tue 25 Jun 02 | # . I . | 1423.99 | @ . - * |
| Wed 24 Apr 02 | . #I# . | 1713.34 | + . * | Wed 26 Jun 02 | # . I . | 1429.33 | . - * |
| Thu 25 Apr 02 | . # I . | 1713.70 | + . * | Thu 27 Jun 02 | . # I # . | 1459.20 | . - * |
| Fri 26 Apr 02 | # I . | 1663.89 | - . * | Fri 28 Jun 02 | . # I# . | 1463.21 | . - * |
| Mon 29 Apr 02 | . # I . | 1656.93 | - . * | Mon 1 Jul 02 | # . I . | 1403.80 | . - * |
| Tue 30 Apr 02 | . # I # | 1688.23 | + . * | Tue 2 Jul 02 | # . I . | 1357.82 | . - * |
| Wed 1 May 02 | . # I . | 1677.53 | + . * | Wed 3 Jul 02 | . # I . | 1380.17 | . - * |
| Thu 2 May 02 | . # I . | 1644.82 | - . * | Fri 5 Jul 02 | . # I # . | 1448.36 | . - * |
| Fri 3 May 02 | . # I . | 1613.03 | - . * | Mon 8 Jul 02 | # . I . | 1405.61 | . - * |
| Mon 6 May 02 | . # I . | 1578.48 | - . * | Mon 9 Jul 02 | # . I . | 1381.12 | . - * |
| Tue 7 May 02 | . # I . | 1573.82 | - . * | Wed 10 Jul 02 | # . I . | 1346.01 | . - * |
| Wed 8 May 02 | . # I . | 1696.29 | + . * | Thu 11 Jul 02 | # . I . | 1374.43 | . - * |
| Thu 9 May 02 | . # I # | 1650.49 | + . * | Fri 12 Jul 02 | # . I . | 1373.50 | . - * |
| Fri 10 May 02 | # . I . | 1600.85 | + . * | Mon 15 Jul 02 | # . I . | 1382.62 | . - * |
| Mon 13 May 02 | . # I # | 1652.54 | + . * | Tue 16 Jul 02 | # . I . | 1375.26 | . - * |
| Tue 14 May 02 | . # I # | 1719.05 | + . * | Wed 17 Jul 02 | # . I # | 1397.25 | . - * |
| Wed 15 May 02 | . # I # | 1725.56 | + . * | Thu 18 Jul 02 | # . I . | 1356.95 | . - * |
| Thu 16 May 02 | . # I # | 1730.44 | + . * | Fri 19 Jul 02 | # . I . | 1319.15 | . - * |
| Thu 17 May 02 | . # I # | 1741.39 | + . * | Mon 22 Jul 02 | # . I . | 1282.65 | . - * |
| Mon 20 May 02 | . #I . | 1701.59 | + . * | Tue 23 Jul 02 | # . I . | 1229.05 | @ . - * |
| Tue 21 May 02 | # . I . | 1664.18 | + . * | Wed 24 Jul 02 | # . I . | 1290.23 | @ . - * |
| Wed 22 May 02 | . #I . | 1673.45 | + . * | Thu 25 Jul 02 | # . I . | 1240.08 | @ . - * |
| Wed 23 May 02 | . #I# . | 1697.63 | + . * | Fri 26 Jul 02 | . # I . | 1262.12 | . - * |
| Fri 24 May 02 | # I # . | 1661.49 | - . * | Mon 29 Jul 02 | . # I# . | 1344.19 | . - * |
| Tue 28 May 02 | . # I# . | 1652.17 | - . * | Tue 30 Jul 02 | . #I . | 1328.26 | . - * |
| Wed 29 May 02 | # . I . | 1624.39 | - . * | Wed 31 Jul 02 | # . I . | 1280.00 | . - * |
| Thu 30 May 02 | . #I . | 1631.92 | - . * | Thu 1 Aug 02 | # . I . | 1280.00 | . - * |
| Fri 31 May 02 | . # I . | 1615.75 | - . * | Fri 2 Aug 02 | # . I . | 1247.92 | . - * |
| Mon 3 Jun 02 | # . I . | 1562.56 | - . * | Mon 5 Aug 02 | # . I . | 1206.01 | @ . - * |
| Tue 4 Jun 02 | . # I . | 1578.12 | - . * | Tue 6 Aug 02 | . # I . | 1259.55 | @ . - * |
| Wed 5 Jun 02 | . # I . | 1595.26 | - . * | Wed 7 Aug 02 | # . I . | 1280.90 | @ . - * |
| Thu 6 Jun 02 | # . I . | 1554.88 | - . * | Thu 8 Aug 02 | . #I . | 1316.52 | . - * |
| Fri 7 Jun 02 | # . I . | 1535.48 | - . * | Fri 9 Aug 02 | # . I . | 1306.12 | . - * |
| Mon 10 Jun 02 | # . I . | 1497.18 | - . * | Mon 12 Aug 02 | # . I . | 1306.84 | . - * |
| Mon 10 Jun 02 | # . I . | 1530.69 | - . * | Tue 13 Aug 02 | # . I . | 1269.28 | . - * |
| Tue 11 Jun 02 | # . I . | 1497.18 | - . * | Wed 14 Aug 02 | . # I . | 1334.30 | . - * |
| Wed 12 Jun 02 | # . I . | 1519.12 | - . * | Thu 15 Aug 02 | . #I . | 1345.01 | . - * |
| Thu 13 Jun 02 | # . I . | 1496.86 | - . * | Fri 16 Aug 02 | . #I# . | 1361.01 | . - * |
| Fri 14 Jun 02 | # . I . | 1504.74 | - . * | Mon 19 Aug 02 | . # I . | 1394.54 | . - * |
| Mon 17 Jun 02 | . # I # | 1553.29 | - . * | Mon 20 Aug 02 | # . I . | 1376.59 | . - * |
| Tue 18 Jun 02 | . #I . | 1542.96 | - . * | Wed 21 Aug 02 | . # I# . | 1409.25 | . - * |
| Wed 19 Jun 02 | # . I . | 1496.83 | - . * | Thu 22 Aug 02 | . # I . | 1422.95 | . - * |
| Thu 20 Jun 02 | # . I . | 1464.75 | - . * | Fri 23 Aug 02 | # . I . | 1380.62 | . - * |
| Fri 21 Jun 02 | # . I . | 1440.96 | - . * | | | | |

"Timer's Trend" is based on 4% and 10% exponential moving averages of the New York Stock Exchange or NASDAQ advance/decline lines (that is, the ratio of advancing to declining stocks). There are many symbols shown above, but the ones that count are the braces: { , } = "Timer's Trend" (4% exponential confirmed by 10% exponential) SELL ({} or BUY ({} signal.

NEXT ISSUE - will appear in late September.