

DIVINING WHEN THE FED WILL FAIL

After I concluded in July that, this time around, the Fed has lost control and the usual postwar bull-market scenario is not going to unfold, I got to wondering: Might it be possible to determine the parameters which, if exceeded, indicate that the Fed will likely fail in its efforts to reflate, rather than

succeed?

For my first possible indicator I returned to the "Fed in Action" discount-rate cuts.... table which last appeared in the July 2002 issue:

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

Note that it would appear that if seven or more discount-rate cuts are needed, and if the market has not responded positively to any of the fourth to seventh cuts six months after each cut, in the past

(and currently) the Fed has failed.... 1929, 2001. For the current bear market, this would have been a warning flag in mid-February 2002. We might add that both failures (1929, 2001) have seen eight or

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more discount-rate cuts, and if stocks are still lower six months after the eighth cut than they were when the first cut came (1929: -76.1%; 2001: -4.1%), then it is likely the Fed will continue to fail. For the current bear, this would have been a warning flag in mid-March 2002.

Though 1929 is a pretty clear-cut case of failure, 2001 is not so clear-cut.... the Fed easing clearly did have some ameliorating effect, it's just that ultimately it wasn't successful. A much tougher call.... thus these are "warning flags", not conclusive evidence of pending failure.

Though the best measure of when the Fed has failed is, when the Fed has failed.... it would be nice to have some other advance warnings by measuring the peaks of the preceding excesses. One possibility is the price-to-dividend ratio, since dividends tend to remain stable until the economy really sours. In 1929, the peak P/D for the Dow was 35, in the 1968 and "Nifty Fifty" peaks about 32, in 1987 38, and in early 2001 70. Since 1929 and 2000 were Fed failures and 1987 was a Fed success, the dividing line is not clear; but it might be safe to say that once the P/D exceeds 35, and certainly if it gets above 40, the odds of failure are considerably greater.

Another possible advance-warning indicator is the ratio of price to book value. In 1929, the peak price-to-book of the S&P 500 was 2.8, in 1987 2.5 and in early 2001 7.0. It would seem that failure is more likely to occur with a P/B above 2.5, let's say near or greater than 3 for more certainty.

Another possible advance indicator might be "frothiness" in the peak years, as measured by average daily volatility (spread of the Dow high to low). In 1929 this was about 4.5%, in 1987 about 2.7%, and in 2000 about 3.6%. So perhaps when volatility exceeds 3%, the odds of failure are high.

The value of stocks in relation to the economy should certainly be a good warning, since it measures the extent to which people have gone overboard with financial assets.... that is, psychological extremes which the Fed is powerless to correct. In 1929 the paper value of stocks reached about 80% of GDP, and again in 1987. In Japan in 1989, it was 128% of GDP, and here in March 2000 about 170% of GDP. Let's be biased toward the more recent years, because

of the greater systemic leverage available in modern times, and say that the odds of failure rise sharply when the total stock capitalization exceeds the annual value of a nation's output.

Certainly a prerequisite for failure would be a tendency toward deflation. Thus the 1920s, where price increases and interest rates drifted lower, and the two-decade period of the 1980s and 1990s, would certainly qualify; but the 1960s, which saw rising interest rates and prices leading into the inflationary 1970s, do not. Another good warning indicator might be if a deflationary accident has already occurred elsewhere, as this indicates that conditions worldwide are favorable for a repeat performance. The Japanese gave us a decade's heads-up on this one.

Let's summarize the "failure indicators":

Bull Market Peak Warnings

1. Price-to-dividend ratio greater than 40.
2. Price-to-book-value ratio of 3 or greater.
3. Market value in excess of 100% of annual GDP.
4. Average daily volatility in excess of 3%
5. Disinflation for the preceding decade or more.
6. A deflationary market accident has already occurred elsewhere.

Fed-Easing Warnings

1. After seven or more discount-rate cuts, stocks are lower six months after each of the fourth through seventh cuts.
2. Stocks are still lower six months after the eighth cut (a confirmation of failure).

OK, now that I've deduced this information, what on Earth am I going to do with it? These deflationary accidents are a once-in-a-generation happening.... maybe once every other generation.... and I'll be long since dead when the next one rolls around. Well, maybe my words of (supposed) wisdom will be kicking around in the Internet ether for the next sixty years or so, and somebody may benefit from them when the next bubble/failure appears. But it's unlikely they'll gain wide acceptance, because few people can withstand the magnetic pull of the herd in a bubble, even in the face of obvious danger signs.

QUOTES FOR THE MONTH

Will there be a double-dip recession? "There already is one," comes the answer from two chief credit officers of two of America's largest banks. These two gentlemen privately informed a friend of mine that the balance sheets of many of their customers are deteriorating quickly. Demand for new loans with which to invest is also dwindling. Both trends are hallmarks of a recessionary economy. - Eric Fry

The notion that a well-timed incremental tightening could have been calibrated to prevent the late 1990s bubble is almost surely an illusion.... nothing short of a sharp increase in short-term rates that engenders a significant economic retrenchment is sufficient to check a nascent bubble. - Alan Greenspan [August 30, 2002. Nick's comment: Bullshit. It's the central bank's job to allow recessions to keep bubbles from developing and causing even bigger problems down the road. If, as Greenspan says, the central bank is powerless to suppress bubbles, then why do we have a central bank?]

In Greenspan's speech - a textbook example of historical revisionism - the Chairman portrays himself as a concerned, yet impotent observer of the developing stock market bubble - fully aware of its destabilizing presence, but powerless to prevent it without also destroying the economy. The only problem with this revisionist fairy tale is that it is just that, a fairy tale. The truth is, Greenspan was a credulous acolyte of the New Era fallacy. He embraced the fallacy wholeheartedly and actively nurtured the resulting bubble - both by conducting a very easy monetary policy throughout most of the late 1990s and also by legitimizing the bubble as a "productivity revolution." By legitimizing a farce, Greenspan encouraged folks to throw their money into an absurdly over-valued stock market. - Eric Fry

Fatal to Greenspan's judgment was a combination of bad information, bad theory and a human nature that - though unchanged for many millennia - seems to have avoided the notice of central bankers. Greenspan's theory was that by carefully controlling the cost of credit and the money supply he could avoid serious economic downturns.... Mr. Greenspan has everything he needs to get the economy back on track, except the essentials. He cannot make telecom debt worth what people paid for it. He can't restock consumers' savings accounts. He can't make Enron a good business. He can't erase excess capacity, nor make investment losses disappear. In addition to the bad theory, Mr. Greenspan had bad information. The "information age" brought more information to more people - including to central bankers...but the more information people had, the more opportunity they had to choose the misinformation that suited their purposes. - Bill Bonner

Betting on inflation has been the winning strategy since the bottom of the last depression, but a financial accident could change all that overnight. The inflationists will almost certainly be right in the long run, but they may get wiped out in the short run. In any event, the moment of truth is approaching, and there likely will be a titanic struggle between the forces of inflation and the forces of deflation. Each will probably win, but in different areas of the economy. As a result, we're likely to see all kinds of prices going up and down like an elevator with a lunatic at the controls. It will not be a mellow experience. - Doug Casey

Monetary policy must be seen for what it is: A destructive form of central planning that distorts resource allocation and makes it more difficult for individuals to plan. The demise of Al.com is entirely just. - Robert Blumen

Whatever happened to the recovering corporate profits that Abby Joseph Cohen promised us earlier this year? Whatever happened to the "second-half recovery?" Earnings growth estimates for the S&P 500 companies have been falling day after day - like rain in Scotland. On July 1 consensus earnings estimates compiled by Thomson First Call indicated that S&P 500 earnings would grow 16% in the third quarter. Today, the earnings growth estimate is 8.9% and falling. Maybe Abby's price target for the S&P still needs to come down a notch or two... - Eric Fry

In a nutshell, the conditions for a major stock-market bottom aren't anywhere close to developing. As a general rule, the size of the financial bubble determines the magnitude of the subsequent decline and under-valuation. Based on that premise, a bottom won't form until the market plunges to depths below the extremes witnessed in both 1932 and 1974. When fear is widespread and unemployment high, then a major bull market will be possible...that is a long way off. - Steve Puetz

Since peaking in the third quarter of 2000, S&P 500 earnings have fallen 50%. Repeat, 50%. It's the greatest percentage drop since the 1930s. And today's S&P profits are at the same level as 1993. In fact, if the S&P traded at the same multiple of earnings now as it did in 1993, it would have to fall by another 50% from its current level - on top of the 40% since March 2000. - Dan Denning

"Is this the bottom?" Whenever large numbers of people are asking this question, you can be sure that it isn't the bottom. Only when people stop asking because they no longer want to hear about the market is it the bottom. When the market is not a topic of media discussion, it may be close to the bottom, where it will stay for years. - Gary North

We are still in Stage II of this bear market. Stock prices fall away, little by little...then, in big lumps...as the smart money gets out. Over time, the I.Q. of the money left in the market gets lower and lower... until all that is left is the very dumb money. And then, finally, in the third stage, the dumbest money panics. No bear market has ever reached its final bottom without at least a few days of panicky selling...when almost all the transactions on Wall Street are sell orders. - Bill Bonner

Post-bubble shakeouts don't end quickly.... It's like peeling away the layers of an onion. Nasdaq was the first layer to go, followed by IT and then telecom. But there are still more layers to come off this onion. They include the dollar bubble, the property bubble, and the biggest bubble of them all - the American consumer. The consumer bubble will undoubtedly be the last to go. Saving-short and overly-indebted, the aging American population is coming to that point in the life-cycle when it must begin to come to grips with the looming reality of retirement.... So what might cause this last bubble to pop? It's hard to say.... a spike in oil prices, a surge of white-collar layoffs, or a deflation of the property bubble...Whatever the trigger, I have little doubt of the end game for the consumer bubble. - Stephen Roach [Morgan Stanley strategist]

The more volatile the stock market becomes, the more certain you can be that lower share prices lie ahead. The talking heads on CNBC will not tell you this. Your stock broker will not tell you this. But common sense should tell you this. This stock market is based on the greater fool theory: an ever-increasing supply of people who are willing to buy into a market with a P/E ratio above 35. When the fear of capital losses finally replaces the greed of capital gains, the supply of new fools will end. Then, when the old fools start selling, the panic sell-off begins. The panic sell-off will happen. It always happens. That's how bubbles work. - Gary North

Stocks stink and will continue to do so until they're priced appropriately, probably somewhere around Dow 5,000, S&P 650, or NASDAQ God knows where.... Come on, people, get a hold of yourselves. Earnings have been phoned up for years and the market still sells at high multiples of phony earnings. Dividends and dividend increases have been miserly to say the least for several decades now.... Companies have been diluting your equity via stock options claiming that management needs incentives of millions of dollars just to get up in the morning and come in to work. Then they pick you off by trading on insider information, selling shares before the bad news hits and you have a chance to get out. - Bill Gross [Managing Director, PIMCO]

In 1973-1974 there were 365 equity funds at the peak and 314 at the trough. This number gradually declined to 288 by the end of the decade. The total number of shareholder accounts at these funds was 11 million at the peak, 10 million at the bottom and down to 7.2 million at the end of the decade. By way of comparison, let's look at the current environment. There were 4,000 equity mutual funds at the peak in the first quarter of 2000

and 4,800 now. Shareholder accounts numbered 154 million at the top and have actually grown to 169 million today. - Charlie Minter & Marty Weiner

*I still believe there is a coming mutual fund crisis. About 90 percent of [my book, **Surviving the Coming Mutual Fund Crisis**] turned out to be tragically correct, but if we updated the book, threw in new numbers, and changed just a few forecasts, it would be every bit as valid today as it was in 1995. - Don Christensen*
There's an old Wall Street joke that goes, "What do you call a losing trade?" Answer: "A long-term investment." - Eric Fry

Credit expansion in the last three years in the United States has been running at an annual rate of around \$2 trillion, accounting thus for about 20% of GDP. Never mind that combined personal and business savings plunged in 2001 to barely 2% of GDP. The discrepancy between the two defies the wildest imagination of a reasonable economist. Today's American policymakers and economists apparently find nothing wrong with this pattern. Least of all do they understand that such a runaway credit expansion could do any damage to the economy and the financial system. We subscribe to the opposite view.... that credit creation in excess of available savings is by itself an evil. It tends to harm the economy far more than consumer-price inflation by encouraging reckless spending that essentially distorts the allocation of real resources. Of course, the consumer-spending boom of the last few years in the United States was crucial in propelling the economy's growth. As a share of GDP, it shot up to an average of 82.6% between 1995-2001, as against a long-term ratio of about two-thirds. But it essentially did so at the expense of saving, capital investment and the balance of payments. - Kurt Richebacher

Look at what consumers do and not what they say. Despite the faltering confidence numbers, consumption remains strong and that is all that really matters. - Joel Naroff [chief economist, Naroff Economic Advisors. Nick's comment: Yeah, more home equity up in smoke.]

So far, policy makers and Wall Street have been very successful in deluding the public into the belief that the U.S. economy has no serious problems. The popular media largely determines investor outlook -- and they mostly report the familiar illusions and delusions that the economists and the analysts of the financial community produce in abundance. But this is grossly misplaced confidence. While confidence is important, we should distinguish between reasonable and unreasonable confidence. Policy makers should beware of creating expectations that are certain to be disappointed. Such confidence games may buy some time, but the longer the borrowing and spending excesses last, the worse the eventual bust will be. This kind of severe disappointment has been the typical harbinger of the great economic and financial crashes in history. - Kurt Richebacher

What does a jobless investment banker do during a bear market? Does he work in the men's department at Barneys? Does he mow lawns in the neighborhood? It's tough to say what career path logically proceeds from a resume that reads: "Proven talent for secretly offering 'buy' recommendations and other semi-illicit perks in exchange for investment banking business." - Eric Fry

Housing developers may be getting cautious. Executives in the housing industry have been big sellers of their stock recently. Top execs at Pulte Homes, Centex, Lennar and other major builders have been sellers of company stock throughout this whole year. When insiders are bailing out of their stock, it is a sure sign that industry profitability is about to turn. What they are doing is no different than telecom execs and technology CEOs before the tech bubble bust. While Wall Street recommended buying technology stocks, the insiders were bailing out. It is the same story with housing stocks today. Wall Street continues to recommend them as a strong buys. - Jim Puplava

And all that has kept the U.S. economy alive has been the real estate market. Since '95, houses have been rising in price 30% faster than the inflation rate, adding \$2.7 trillion to the nation's illusory wealth...or,

\$35,000 for every homeowner. More people own houses than stocks. And some economists believe this 'housing wealth' is a much more powerful hallucinogen than stock market gains.... By some estimates a 1% increase in home prices will offset a 33% decline in stocks, not in net wealth but in terms of consumer spending.... And so, the entire world economy rests on the American consumer...and his willingness to spend money he doesn't have on things he doesn't need. Low rates lure him to mortgage his home, digging a deeper and deeper hole from which, someday, he will have to climb out. But in July, he dug at his most furious pace in 8 months - adding debt at a 7.6% annual rate.... The big decline in Americans' net worth is still ahead, we think. It will happen at about the same time Fannie Mae and Freddie Mac hit major new lows - when the real estate bubble finally finds its pin. Then, the music stops...Americans will stop borrowing...and stop spending too. - Bill Bonner

Frighteningly, Alan Greenspan now characterizes the possibilities for a housing bubble as "unlikely," a forecast made less credible by his previous wavering on the subject of financial mania. - Tim Villano

I recently read where some economics yahoo remarked that, all things considered, this is the best of all possible worlds. Nope. Not even close. The best of all possible worlds is when a car or a house or bread today costs the same, or less, as a car or house or bread twenty years ago. THAT alone would indicate that the Federal Reserve was not a ruinous failure, which it obviously is. The best of all possible worlds would be an economy composed of a small government doing the few things it was empowered to do in the Constitution, Article One, Section Eight, without income taxes to finance it. THAT would indicate that Congress is not a collection of collectivist, Marxist jerks. - Richard Daughy

There's the eerie rally in Treasurys.... - "eerie" because, as far as I can determine, there are no healthy coordinates for it in the U.S. economy. Granted, a related and seemingly positive development is that mortgage borrowers are able to reduce their monthly payments as rates in general fall. But this is not strengthening the economy; it is merely keeping it afloat - barely - to the extent that robust consumption levels can be temporarily sustained as U.S. incomes stagnate or fall.... The run on Treasurys is an unintended consequence of the Fed's last-ditch effort to keep the housing boom alive.... the unnaturally heavy skew of money toward housing is creating an asset bubble vastly larger in size, even, than the S&L bubble.... - Rick Ackerman

...when you're president you learn to act like you know what you're talking about, you see. It's a great skill and you don't lose it overnight. It sort of drifts away from you over the decades. - Bill Clinton [September 11, 2002]

STOCK MARKET OUTLOOK

We're in deep trouble, but not too many people have figured it out yet (or perhaps, are unwilling to admit it). Consumer confidence, both currently and consumers' expectations for the future, continues to decline, and this suggests that a "double-dip" recession is a near-certainty. That means analysts' forward projections of corporate earnings are bogus, and thus still lower stock prices lie ahead.

There is a possibility that stocks may crash in October (if they haven't already done so by the time you read this). By "crash" I mean a decline in the neighborhood of 1500 or more Dow points in the

space of a few days.

In the past I've predicated my "odds" for a crash on some financial or systemic distortion.... rising interest rates versus declining dividend yields, or "program trading", for example.... but there are no apparent incipient financial failures on the horizon (though some financial relationships are getting pretty stretched), thus I don't find it possible to assign "odds" for a crash.

It's just that stocks might crash based purely on psychology.... investors of the past decade, collective-

ly, are near the "break-even" point in their holdings, and as prices sink and their holdings become valued at less than what they paid for them, they may decide to freak out all at once and collect whatever money they can for their stocks while there's still some money to be collected.

Then again, stocks might not crash. There's no way of "predicting" such a purely psychological phenomenon, it's just that you should be aware that the pre-conditions for such a panic currently exist. Not that it really matters.... a bear market is a bear market, whether stock prices decline in major spurts or more gradually over time.

Just as not many people have yet figured out that we're about to repeat the last-decade experience of the Japanese, not many people really understand

what's happening in the bond market. The persistent rally in Treasuries is being attributed to mismatched maturities in the home-mortgage market. That's true for the short term, but the other part of the story is that the Treasury bull market is a *flight to safety* from losses in stocks and declining credit quality in corporate bonds, and an *anticipation of the deflation* which lies two or three years ahead.

Sometime in November I expect the traditional "Santa Claus rally" to kick in, and this will be an opportune time for me to temporarily exit the CREF inflation-indexed bond fund and ride the stock market for awhile in my retirement plan.... because in a deflationary bear, stock and bond prices generally move in opposite directions. However, the overall long-term outlook for ultrasafe bonds remains bullish.

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 -18.67%, for a compound annual rate of return of -1.30%. For comparison purposes, from January 1, 1987 to September 27, 2002 (15.740 years), the CREF stock unit value (whose performance closely parallels the S&P 500 with dividends reinvested) has risen 307.53%, for a compound annual rate of return of 9.34%. *WARNING: I am a rotten stockpicker.* Prices shown are as of September 27.

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	6.60	303.60
80.726	Third Avenue Value Fund	[TAVFX]	2Feb01	29Aug02	2542.87	3000.00		
80.553	ICON Information Technology Fund	[ICTEX]	17Sep01	29Aug02	549.60	700.00		
410.7	Prudent Bear Fund [410.687sh]	[BEARX]	30Aug02			3092.47	8.23	3,379.95
	CASH .00					.00		0.00
	Totals					7,298.47		3,683.55

SUMMARY - "Phoenix":

Original cost (adjusted):	\$ 4,998.21
Present value:	\$ 3,683.55
Increase:	\$ -1,311.66 [-26.24%]

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 -16.43%, for a compound annual rate of return of -1.13%.

COMMENT on "Phoenix": In the various August "warmlines" I said I was going to wait for the rally from the July lows before dumping the mutual fund positions (TAVFX and ICTEX). Well, the rally came, and it was looking pretty toppy to me at the end of August, so on August 29 I sold and the next day put the proceeds into Prudent Bear. (See, David Tice, I told you I'd be back.) These transactions were all fee-free with my broker.

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	14.72	883.20
50	Barrick Gold .11	{ABX/nyse}	14Nov96			1466.01	15.09	754.50
30	BP Amoco .30	[BP/nyse]	26Jan99			1292.50	41.33	1,239.90
30	Elan Corp. PLC ADR	[ELN/nyse]	28Oct99			766.25	2.06	61.80
250	Elan Corp. PLC ADR		1Aug02			585.00	2.06	515.00
100	iShares MSCI Japan Index Fund	[EWJ/ase]	28Jun01			1035.00	7.39	739.00
100	Nokia OYJ ADR .18	[NOK/nyse]	14Jun01			2233.00	13.70	1,370.00
800	Palm Inc.	[PALM/otc]	5Jun02			1097.00	.71	568.00
45	PolyMedica Corp.	[PLMD/otc]	26Jun02			1070.35	26.25	1,181.25
100	Xerox Corp.	[XRX/nyse]	1Aug02			685.00	5.26	526.00
	CASH & money market					5739.32		5,739.32
	Totals					15,969.43		12,694.77

SUMMARY - "PIG":

Original cost: \$ 9,899.00
 Present value: \$12,694.77
 Increase: \$ 2,795.77 [+28.24%]

COMMENT on "PIG": There is no change from the last issue.

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

Shrs	Description	Symbol	Bought	Sold On	Sold At	Cost Was	Price	Curr Value
102.6	AmerCent GlobalGold [102.629sh]	[BGEIX]	28Dec94			1050.00	8.02	823.08
226.6	AmericanCentury Ultra (226.616sh)	[TWCUX]	10Jan01	29Au02	5153.25	7192.80		
86.73	Ariston Convertible Secs (86.725sh)	[CNCVX]	10Jan01	29Au02	893.27	1739.70		
132.6	Cr Suisse Japan Grwth (132.631sh)	[WPJGX]	12Jan01			887.30	4.08	541.13
102	Freeport-McMoRan Copper&Gold	[FCX/nyse]	27Dec94			2348.60	12.96	1,321.92
35	iShares Lehman 20+yr Treasury	[TLT/ase]	30Aug02			3058.75	90.04	3,151.40

Shrs	Description	Symbol	Bought	Sold On	Sold At	Cost Was	Price	Curr Value
11	New Germany Fund	[GF/nyse]	20Dec91			53.50	3.20	35.20
265.2	Prudent Safe Harbor [265.175 sh]	[PSAFX]	5Sep02			2988.00	11.03	2,924.88
	Money market					23.23		23.23
	Totals					19,341.88		8,820.85

SUMMARY - IRA:

Original (1983-86) cost:	\$ 8,326.19	
Present value:	\$ 8,820.85	
Increase:	\$ 494.66	[+5.94%]

The performance of this portfolio (including its predecessors) from January 1, 1987 to the present is -19.57%, for a compound annual rate of return of -1.36%.

COMMENT on IRA: As I indicated I might in the last issue, at the end of August I cleaned out the poorly-performing domestic non-gold equity funds, and put about half the proceeds into an exchange-traded bond fund, iShares Lehman 20+-year Treasury Index. The other half went into the Prudent (Bear) Safe Harbor Fund, which attempts to profit (and has done quite well this year) from a falling dollar and increasing price of gold. That leaves my IRA very heavily weighted toward long-term bonds and gold, but I am keeping the Japan Growth fund for the time being because the Japanese are 12+ years into the aftermath of their popped bubble while we are only 2+ years into ours. Who knows, maybe Japan will take off while we struggle for a decade.... at any rate, their share prices are a much better value. You will recall that I bought my "bull equity funds" in January 2001 with the expectation that the Fed's first discount-rate easing would lead to higher prices in six months, following the "2000 bear market". Well, the typical postwar pattern has obviously failed, so now it's time to give "the other side".... that is, the bear won't end until stocks are again undervalued.... a chance.

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, 27Sep2002: stock, 121.24; equity-index, 50.48; MM, 21.56; bond, 67.50; inflation-indexed bond, 38.57; real estate, 172.77; TIAA current yield in SRA, about 6.5% (new money at 5.75% through February 28, 2003). As of September 27, 2002, my retirement portfolios were invested: 50.85% in TIAA, 22.33% in TIAA Real Estate, and 26.82% 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%

