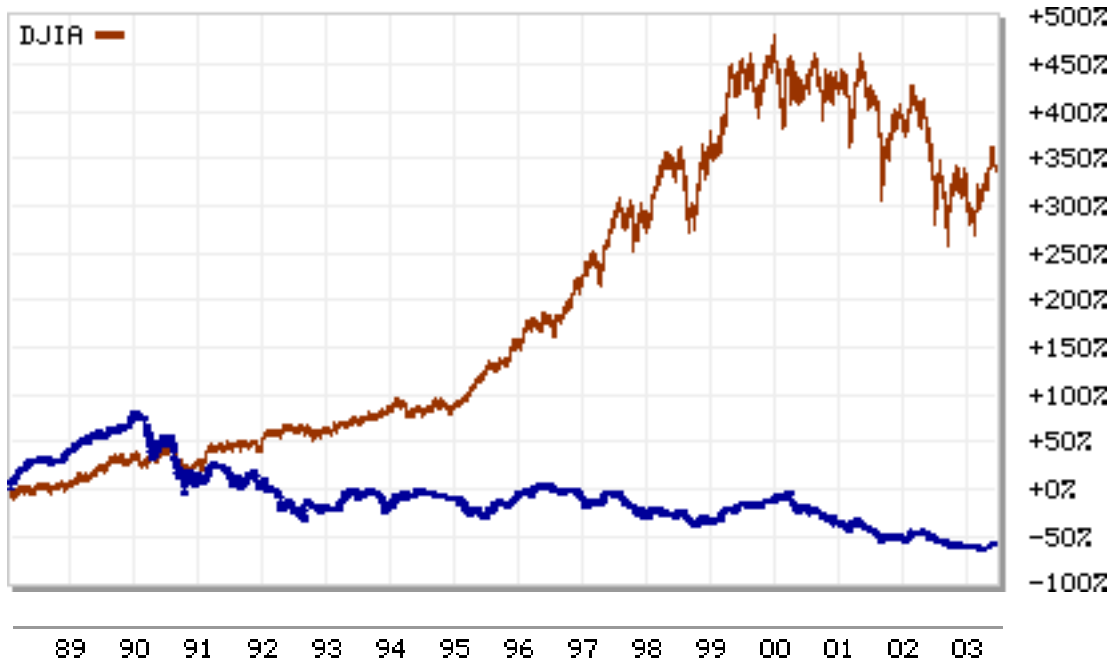


FOLLOWING JAPAN

Though in the chart below it may be hard to deduce the similarity between post-bubble Japan from 1990 onward and post-bubble U.S. since 2000 because of

the shift of 11 years and the difference in the vertical scale of measurement, there is in fact a strong similarity which reflects the more-or-less downward



log-periodic wave of increasing amplitude that is characteristic of the aftermath of popped bubbles.

The ups-and-downs appear to reflect those times when the governments and central banks “got serious” about reflating the economy, followed by

their ultimate failure. The Nikkei featured three major rallies in its 1989-2003 bear market of greater than 50%; in late 1992 to mid-1993, in mid-1995 to mid-1996, and the end of 1998 to the beginning of 2000. The sharpest Japanese interest-rate reductions coincided with the major rallies, so it certainly would

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seem that the rallies were a mirroring response to the rate reductions.

In the U.S., we have had five major rallies, though none as great as the three major ones in Japan (so far). The first was in the spring of 2001 when the market rose 22% while Fed funds fell 21%. The second was in the fall of 2001 when the market rose 24% while Fed funds declined by 41%. The third rally was in the summer of 2002 with Fed funds unchanged (this was the only rally with Fed-set interest rates not declining). The October 2001 rally rose 24% while Fed funds dropped by 29%. The latest rally started in March 2003 and has exceeded the others by rallying 32% while Fed funds dropped 20%. As in Japan, the rallies have (except for one) corresponded to "get-serious" rate reductions by the Fed.

More to the point, after each "shot" of easier money wore off, the stock markets resumed their downward trends.... except for the latest U.S. rally, where the jury is still out.

There are two major differences between the actions of Japan's central bank and the Fed. The first is that the Japanese bank was rather slow to react to its popped bubble, while our Fed moved relatively quickly. The second is that the Japanese were never successful in lowering their short-term rates below the inflation rate, where our Fed drove "real" interest

rates negative within two years of the bubble-popping (and where they remain today). It is the negative real interest rates which are driving Stock Market Bubble II and the housing bubble, as well as giving us a binge in consumer consumption.

If the comparisons between Japan of 1993 and the U.S. of 2003 are valid, and if "post-bubble-syndrome" is still applicable, then the current stock-market rally should be ending.... just about now. My feeling is, it's not possible to make precise comparisons.... no two bubbles unwind in near-identical patterns.... but the general *shape* of the unwinding is the same. We should give the similarities the freedom to stretch or shrink by six or so months, maybe up to a year. The important thing is to keep the likely eventual outcome in mind, not obsess on the precise path traversed. And this outcome is likely only because the efforts of the central bank to goose the economy without allowing the recession to run its course cause malinvestments which come back to haunt us in unexpected ways at unexpected times.

In the meantime, if you possess the skill to ride these bear-market rallies (and the technical indicators are giving a green light, as they currently do), then by all means, go ahead. Just don't harbor any illusions that you are doing anything except playing a Fed-induced momentum-chasing rally. Long-term investing, it ain't.

QUOTES FOR THE MONTH

It is hard to construct a happy story for 2004 unless we consistently create a significant number of jobs, which we have not yet. - Mark Zandi

I still think the lead-dog US economy will be up nicely in the 4th quarter, but now think it will drop sharply in 1st qtr '04. - Harry Schultz

In conclusion, our prediction that the S&P 500 is going to plunge progressively from the summer 2003 to bottom in 2004 seems to remain basically intact, possibly with a few months' delay extending almost to the end of 2003 if the shift to the second-order log-periodicity is confirmed. - Didier Sornette [November 18, 2003]

I believe that the United States and most of the rest of the nations are heading towards monumental events, events that will shake loose the entire monetary and economic systems of the world as we know them. - Richard Russell

I believe we are in the blowoff stage of the current megaboom and a crash is imminent. The time is fast approaching when you will be face to face with the most important of all financial principles - keeping what

you have. Month by month you will be faced with new and worsening circumstances. - Jim Cook

As radical as it sounds I have a strong feeling that 2004 might be the worst year of the secular bear market so far. There has been a tremendous amount of high hopes built into stock prices which would leave a lot of room for disappointment. - Marc Sexton

Sorry, the party can't continue. Cost-cutting layoffs will squeeze consumer incomes. Fiscal and monetary stimuli, which masked the devastating effects of layoffs on consumer incomes, are fading, too. The jump in mortgage rates this summer terminated the mortgage refinancings and home equity loans that have tided people over. The \$400 Child Tax Credit, the only economy-thumping part of the 2003 tax cuts, has been long since spent at Wal-Mart. The big bulge in Iraq spending, \$52 billion during the two-month-long hot war phase, is history. The consumers who have kept the economy going are not going to be in the checkout lines. Their newfound zeal for saving will pinch spending further. The spillover to housing will break that bubble.... and seal the case for a 2004 recession. The result: I foresee a profits decline next year with S&P 500 operating earnings down 9% to \$49 per share and reported earnings down 13% to \$39. What a blow to investors who believe S&P's estimates of \$62 per share for operating earnings next year and \$56 for reported earnings. I hate to be the bearer of bad tidings. But if you expect the economy and the market to keep climbing next year, you will be sorely disappointed. - A. Gary Shilling

There seems to be a real disconnect between the actual numbers on the hiring front and the impressions that have been formed in financial markets. Total nonfarm payrolls have expanded by only 328,000 workers over the August to November 2003 period -- an average of 82,000 per month. That's far short of the pace of job creation that normally occurs at this stage in a business cycle recovery -- somewhere in the range of 250,000 to 300,000 per month. Yet many have been quick to interpret the recent modest pickup in hiring as a sign that Corporate America is finally breaking the shackles of risk aversion and emerging from the funk of recent years. The mix of recent hiring trends tells a very different picture. It turns out that fully 84% of the total increase in nonfarm payrolls over the August to November period is traceable to hiring in four segments of the labor market -- the temporary staffing industry, health, education, and government -- where combined jobs have increased by 68,000 per month. In other words, the bulk of the so-called hiring turnaround since August has been concentrated in either the contingent workforce (temps) or in those industry groupings that are least exposed to global competition. This hardly speaks of a US business sector that has consciously made an important transition from downsizing to expansion. It merely reflects the fact that scale is increasing in the most sheltered and least productive segments of the economy. - Stephen Roach

Virtually all of the reported acceleration in real economic growth has resulted from sharply lower price deflators, expressed in chained dollars. But in the real world, all money paid and received is in current dollars. In these dollars, being the dollars that reflect actual sales growth and that also make the profits, economic activity has just edged forward.... Disputing the existence of a genuine U.S. economic recovery, we focus on inherent key ingredients and conditions: Job creation, income growth, investment spending, corporate balance sheets and profits. They continue to display familiar weakness. No recovery will seem real and lasting until employment and income figures strongly improve. - Kurt Richebächer

I have clients in all professions, in all states and even nations of the world, and I love to talk with them about their trades and occupations. Be they valve manufacturers in Minnesota, farmers in Mississippi, pilots, surgeons, businessmen, or even retirees, the general theme is the same, and it is, to paraphrase: "Things are bad, and not getting better. Business is down, it is impossible to make a living farming, or other ways, and I am getting the hell out of paper dollars, and into something tangible, such as gold and silver, to protect myself." - Don Stott

At a recent family reunion, I spoke with Michael, an engaging 23-year-old who had become a day trader. He was trading upwards of a million shares per day of Intel. Just Intel. He had recently traded three million

shares in one day! By his own admission, he knows nothing about the economy, nor Intel, and simply hopes to ram through a penny of profit at a time, in and out every few seconds of every trading day. - Alan M. Newman

I made a major career change in 1970 when I was 55. I have a good memory of the economy and stock market of that time.... The stock market had peaked with the DOW about 1000 in the Go-Go mini-mania of the mid-1960s. Inflation and interest rates were rising to very high levels and setting up a severe bear market in 1973-74 where the major averages dropped about 50%. Using an unweighted average of 3000 NYSE stocks showed that the broad stock market started down in early 1972 and dropped a whopping 63%. Many mutual funds fell 70% or more and there were net redemptions from funds for the next 9 years. The bear market of the mid-seventies was a major event at the time but pales to almost insignificance when compared to 1929 or 2000 in graphs using trading volumes divided by the national values of GDP at the time. And, please believe me when I say Wall Street was literally dead at the market bottom. It was not recognized as such until months later. Does our present market mania strike you as nearing a bottom like that? Also, there were net redemptions from mutual funds for at least the next nine years, or until 1983. We have just had a huge dollar inflow into mutual funds in recent months. The crowd appears to be wrong again.... Based on my experience in the Seventies, this bear market has not even started. We're still in a huge Go-Go mania!in its fourth year, it has now lasted longer than any U. S. bear market in the last 100 years. And, very important, extreme bullishness still pervades Wall Street and the general public. Price earnings ratios are still sky high. There has been minimal correction, if any, of the excesses of the previous market mania. Thanks to Alan Greenspan's efforts, a huge housing bubble is still intact. Our public and private debt is at all time highs.... If there are still any doubters of a long bear market, all they need do is look at the Japanese bear market that peaked in 1989 at over 39,000 yen and has been well below 10,000 fourteen years later. Their serious combination of depression plus deflation has baffled this nation of people with a long habit of savings and investing managed by their women. Will a nation of spenders and borrowers do a better job? - Robert Gordon

Convertible bonds and junk bonds are priced for a more perfect world than the one you read about in **The Wall Street Journal**. To judge by today's low yields, the corporate debt market has relocated from planet Earth to a far better place. In this paradise, companies don't default, interest rates don't rise and rating agencies don't downgrade.... The stock market, like the speculative- grade corporate bond market, is overvalued, and risk almost certainly overshadows reward at prevailing multiples. At least, though, stock gamblers can hope that the market will easily make them another two- or three-bagger. There is no such possibility in straight corporate debt. Much more can go right and wrong, from which it follows that the burden of proof for buying a low-rated bond at a fancy price properly falls to the bulls. - James Grant [editor, **Grant's Interest Rate Observer**]

...under the prevailing recovery scenario, consumers only have to drive themselves deeper in debt until their credit cards begin spawning hundreds of thousands of jobs a month. They've done it with relative ease since 1947 - why not this time, too? - Addison Wiggin

Sit down and take a deep breath. According to the Federal Reserve's report last week, Americans had credit card and other consumer debts of \$1.972 trillion in the month of September. That's approximately \$6,573.33 worth of high-interest debt for every man, woman and child in the United States.... So Americans aren't fooling around. They're not just adding a few bucks to their credit card balances. They're going in deep... - Dan Ferris [editor, **Extreme Value**]

America's seemingly open-ended appetite for leverage remains one of the most disturbing imbalances of the post-bubble period, in my view. For households, the debt culture took on a new role in the latter half of the 1990s, as America's consumption dynamic shifted from being income-driven to one that was increasingly wealth-dependent. The first wave of wealth effects was supported by the equity bubble. Once that bubble

popped, however, wealth support then shifted quickly into property markets. The difference between equity- and property-induced wealth effects is profound: Apart from margin debt, the former is funded mainly out of a psychological sense of well being; in the case of property, mortgage debt and its ever-frequent refinancing are the principal means of extracting incremental purchasing power from housing assets. The income shortfall of a jobless recovery -- a far more serious problem today than in the recovery of the early 1990s -- only heightens America's dependence on wealth-based, debt-intensive support to aggregate demand. Such a shift in the growth paradigm appears to have limited the post-bubble fallout in the early years after the stock market plunged. In the end, however, as wealth effects have morphed into a far more pervasive cultural phenomenon of excess leverage, the ultimate post-bubble payback may be all the more severe. - Stephen Roach

The danger, to our mind, is that Greenspan's 'solid advance' is not solid at all. It is all based on flooding the markets with liquidity, forcing down mortgage rates to indecently-low levels, cutting rates on savings deposits, encouraging the creation of more and more debt - while friend George racks up the government debt - and encouraging spending based on extracting equity from an asset, housing, whose price is inflating recklessly and which subsequently, like the equity market, is likely to fall. - Ian Campbell

GDP went up by 8%? Big deal! I laugh at anyone who thinks this is good news. It is not. Eight percent of a ten-trillion dollar GDP is \$800 billion dollars. More than that has been borrowed and spent in the last year by the federal government alone. And when you add in all the other debt that has been assumed in the last year, a lousy \$800 billion in GDP is nothing! - Richard Daughty

But there is a lag between the change in the money supply and its effects. We're just seeing the effects of the increase in money supply, and its already been falling for some time now! So we should start to see the effects of the falling money supply shortly.... Look at how pretty the economy is - best in 20 years! The Dow is near 10K, Nasdaq 2K, unemployment is down, growth is up. But if times are so good, why is the price of gold so high? Because the money washed over all asset classes indiscriminately.... Don't believe the good news for a second, this economy and this system are gravely ill. The economy is rotting from the inside out, and the foul stench of decay is still hidden from most people's perception. - Michael A. Nystrom

In our economy, the vast majority of financial assets are nothing more than the ownership of someone else's liabilities. The current total market price of financial assets (liabilities) is certainly over \$47 Trillion, or four times GDP. The cash flows from our \$11.8 Trillion economy will not support payments on this level of liabilities. - Richard Benson

I think Uncle Al will go down in history as the most reckless and clueless Fed chairman in history.... But even he must realize that he can't allow the market to push the dollar off a cliff here. The dollar's continued inability to rally on positive economic data is saying fairly clearly that the Fed's gamble of trying to inflate our way back to prosperity is not going to work. The only thing that is going to slow the dollar's decline is rising interest rates, and that's precisely what stocks and the economy cannot handle. - Lance J. Lewis

The point is that governments are simply incapable of managing a money supply. The pressures and temptations always prove too great.... Thirty years on, there are a number of striking similarities between our own adventure in fiat money, and its historical antecedents. For the most part, they're obvious, and I won't dwell on them: the winners and losers, the rise of the speculators, the rise of the debtors, the obliteration of thrift, the corruption. Read any newspaper, and you see that the nature of the excesses and distortions is pretty much the same.... The technical term for this explosion in monetary aggregates is "nightmare."When it comes, the final collapse will be a sudden breakdown, what we call today a non-linear event. It will also, in all likelihood, take everything else down with it - Bob Landis

Asset values depend on investors' misplaced confidence in economics. They don't seem to realize that

economics - as currently practiced - is only one part science, one part experience and 10 parts flim-flam. - Bill Bonner

Most people think that huge amounts of money were invested in new Information Technology, which produced a glut of capacity. This is not true. Small amounts were invested - which were then magnified by the number-crunchers using their 'hedonic' amplifiers. Information technology does not require a lot of capital investment. Then again, it produces little in extra profit. After pretending to invest big money in the new technology, the number-crunchers in the private sector then pretended that the investments were profitable.... But you can't produce real profits without making real investments. That is why profits have fallen so sharply - so little was invested to produce them. And that is why profits are not likely to rise quickly or easily. First, businesses need real savings - ones that they can invest in real projects that might make people richer. Then, consumers have to reduce their debts so they can afford to buy them. All this takes time - maybe a decade or more. A society that invests heavily and carefully in new plants, equipment, technology, training and research is a society that gets richer. It can produce more of the things in which wealth is measured. A society that consumes its capital instead...gets poorer. And sooner or later realizes it. - Bill Bonner

I respect the predictive power of the markets. After major lows, stocks, commodities, and currencies frequently rise strongly while the fundamentals still look horrible. At that juncture, no one understands why the markets are rising; only much later does it become clear why the markets went up, because by then the fundamental conditions have taken a remarkable turn for the better. Conversely, when prices begin to sell off while the 'news' is still extremely favorable - as was the case in the spring of 2000 for the US stock market - it is usually a signal that conditions are about to deteriorate. Therefore, I personally pay a lot of attention to the 'market's action' because, more often than not, the market is better informed than all the economists, analysts, and strategists combined. However, there is one exception to this, admittedly very general, rule. If, following a stock market bubble, prices retreat sharply and the monetary authorities (in the case of the US, the Fed) attempt to cushion the decline or to re-ignite the bull market by pumping excess liquidity into the system, then stock prices can shoot up again without any, or with only very little, support from the fundamentals in the real economy. In such a case, stocks rise strongly, and sometimes even reach new highs in nominal terms, purely due to the excessive liquidity that pours into the system. Examples of such stock price increases, which were based purely on monetary easing moves by central banks, can be found in the German hyperinflation period of the early 1920s, in Latin America in the 1980s, and, more recently, in Zimbabwe. In all these cases, stocks and real estate rose sharply in nominal terms, while economic conditions remained largely depressed or even deteriorated. I do concede, however, that in all these cases of excessive money creation, there was at least a temporary - albeit brief - improvement in business conditions because of the illusion of wealth that people had when additional paper money suddenly flooded the system and lifted asset prices in nominal terms. The reason business conditions only improved temporarily was that while the asset inflation boosted consumption for a while, it also at the same time rendered the production of domestic goods uncompetitive because of the inflated price level. In an environment of rising consumption but uncompetitive domestic industries, imports surge, and that then leads to soaring trade and current account deficits and a collapse in the currency. - Marc Faber

The U.S. balance of payments.... was already somewhat out of kilter in 1999, at about a \$300 billion deficit. You would have expected the payments balance to be out of whack in 1999; the economy was at the top of a record-making boom, a time when imports generally rise above sustainable levels and cause the payments balance to deteriorate. Sitting in 1999, and foreseeing a recession ahead because of stock market overvaluation, you would have forecast a decline in the payments deficit, to a level of maybe \$100 billion, appropriate for the owner of a reserve currency, which needs to supply the world with liquidity to keep the world economy going.... Instead, we have seen the U.S. payments deficit balloon to \$500 billion, as artificial money creation has kept U.S. consumption soaring, with consequent effect on imports. This has been financed, not by foreign investment into the stock market, as in 1999, but by foreign central bank purchases of Treasury securities, a much more ephemeral source of funds. Bullish economists are now blithely forecasting that this deficit will

increase still further, as the U.S. economy grows faster than its competitors'. This is unsustainable, and the currency markets know it. - Martin Hutchinson

Over the past year, foreign central banks have increased their holding of U.S. securities by a whopping \$150 billion, to \$918 billion. The \$150 billion increase now funds about 27% of the estimated \$550 billion US current account deficit. That is double the amount funded by foreign holders just a year ago. And yet despite all this fresh money flowing to the dollar, it continues to fall lower and lower. Yikes! Now think about this logically. You are a foreign central bank, holding billions and billions in U.S. assets denominated in dollars. Each day the dollar falls in value, you lose millions and millions in value on your U.S. holdings. At some point, as a foreign central bank, with a fiduciary duty to guard your own country's assets, you will have to "cry uncle." Enough is enough. - Martin Weiss

As time goes by the U.S. is becoming more and more dependent on foreign capital to sustain our financial assets. The Federal Reserve has done virtually everything in their power to give us easy money, and for a "considerable period," but we must continue to get more money from our foreign friends just to support the status quo. - Mike Hartman

I'm shorting the dollar. I don't trade.... I make big money every once in a while by investing in these big movements.... You know, Americans have such strange ideas. They don't mind spending all their money - leaving their children nothing. They even make a virtue of it...as if it were a good thing to start with nothing... or even less than nothing. I detest this mentality. I see the collapse of the dollar as the way to make a lot of money to leave to my children and grandchildren. - Kurt Richebächer

The dollar is falling. But its progress towards worthlessness is being temporarily held up by a delightful game of 'make believe' with the Chinese. Americans mortgage their houses and run up credit card bills so they can buy Chinese-made goods and make believe that they are wealthy...while the Chinese make believe that they can grow an economy by selling things to people who can't pay for them. On both sides of the Pacific, the 'make believe' is aided and abetted by politics. The Chinese government desperately needs to create jobs for its millions of workers - so it lends money to Americans knowing that the money may never be repaid. The Bush Administration desperately needs to maintain the illusion of prosperity through the next election, so it, too, spends money it doesn't have...and lures voters to do the same, with E-Z credit terms from the Fed. - Bill Bonner

Nobody has ever argued that the government deficit-spending and all the rest of the heroic, last-ditch, pull-out-all-the-stops monetary excesses would not make statistics of economic activity blip upward. The argument is whether or not it will eventually destroy the economy. I say it does. The rise in the price of gold says it does. The decline in the dollar says it does. All of recorded economic history says it does. The Fed and the talking heads of America say it won't. - Richard Daughty

Now of course, we really don't have to pay attention to anything that OPEC does, because oil is something that we don't use much of, and energy doesn't really enter into our daily lives in many different ways. It's so unimportant that, just like food, we get to exclude it from the so-called "core CPI." So, the CPI is down to some hedonically-adjusted core number that doesn't include two things you can't live without, i.e., food and energy.... OPEC, which is holding its production levels for now, has seen its revenues shrink in non-dollar terms and is contemplating a price hike, which would be a de facto transfer of money from us to them. It is unarguably not good news, and it provides a quick demonstration of what happens when your currency goes down. - Bill Fleckenstein

The "strong-dollar policy" is nothing more than an empty political slogan. The inescapable truth is that the value of the U.S. dollar has fallen over 30% in the past year, which to most people would not seem indicative of strength. There are several reasons for this decline, but the single biggest factor has been Mr.

Greenspan's relentless increase of the money supply. There are roughly sixteen trillion dollars in worldwide use today, five trillion more than when Greenspan became Fed chair. The law of supply is immutable: When dollars are abundant they are also cheap. - Ron Paul (R-TX)

The confluence of several forces — central bank exit strategies, undisciplined fiscal policies, and dollar risks — underscores the potential for a sharp backup in long-term interest rates. Ironically, in this climate, it doesn't take inflation to be bearish on bonds. Heaven help us if that risk comes into play. To me, this is the next logical step of the world's post-bubble shakeout — first in equities and now in the fixed income instruments that benefitted from central banks' strategies to contain initial damage from the bubble. Most believe that the long nightmare that began in early 2000 is now over. I don't. In my view, there was never an easy way out, especially as the authorities reacted to the popping of one bubble by creating other bubbles. The bill for speculative excesses and global imbalances has yet to be paid. - Stephen Roach

The dollar is likely to fall approximately 50% from its current level. That would free the dollar-denominated gold price to find its way back towards its true value of \$699 an ounce (as of 2002). Given the mounting pressure on the dollar, there is virtually no chance that it will not collapse. - Paul van Eeden

Dollars that were accumulated under the promise of convertibility are now held in such large quantities by most major central banks that they cannot be sold without destroying the value of the remaining asset. Under the current system, the United States year after year imports goods from the rest of the world for consumption and pays for them with dollars. The dollars are then used by foreign central banks to purchase debt instruments from either the Fed or the private sector, in addition to U.S. stocks and real estate. Where these are treasury securities, they are created out of nothing, requiring no savings by any American consumer. Under this arrangement, Americans are now freed from the ponderous burden of saving and the onerous requirement of first producing in order to later consume. Their consumption is offset by a growing indebtedness of the private sector and the Fed to foreigners. This state of affairs is unsustainable, and will come to an end with a deep fall in the exchange value of the dollar relative to other currencies. - Robert Blumen

If you cut your own lawn, you add something to your home's beauty, but nothing to the GDP. But if you're too busy working to cut your lawn, you pay someone else \$10 to do it. The GDP goes up. He then spends the money to buy things he desperately needs - everyone now lives hand to mouth - and the GDP goes up some more. But what real wealth has been added? Not a bit. - Bill Bonner [Nick's comment: In the late 1940s and 1950s most wives (whether they wanted to or not) stayed at home and raised children. This was obviously an important contribution to society, but none of this clearly economic activity was measured in the GDP except through the husband's salary spent. Today many two-wage-earner families ship the kids off to day care (or school), then schlep off to full-time work. With no homemaker, more carry-out meals are purchased and more housecleaning and yard-care services are used. As Bill Bonner points out, this raises the GDP because the formerly-unmeasured economic activity can now have a value placed on it. But I sometimes wonder, if an equivalent economic value were calculated for mothers of the 1950s (adjusted for inflation, of course) would GDP really be all that much higher today? Or would the "value" of GDP have risen while the "quality" of GDP has declined?]

*Booms involving periods of extraordinary asset price inflation are episodes of economic drunkenness, where credit is the drink. All those who believe that increasing the money supply in Japan would cure the long ongoing recession there, or that monetary expansion during the 1930s would have prevented the Great Depression, fail to understand, or at least refuse to admit, that the extraordinary booms that preceded those slumps were unnatural and unsustainable economic events originating in too much credit and that it was those booms themselves that were responsible for the ensuing crises. - Richard Duncan [in **The Dollar Crisis: Causes, Consequences, Cure**]*

This is all insane, as I have read many things about economics off and on through the years, and a program

to print money to finance borrow-and-spend consumerism is pure lunacy. And just because I can't remember the last time that I ever heard of a lunatic's ideas working out, doesn't mean that lunatics don't have a contribution to make on the altar of diversity-for-diversity's sake. But, and you can't help but notice, that they were also the ones who said that gold was a barbarous relic, and which had no value. And now gold is the best-performing asset for the last five years running! Makes you scratch your chin and say "hmmmm" about all the other things that they say, doesn't it? - Richard Daughty

What we've seen for the last year is nothing more than a cyclical bounce upwards, a classic 'sucker rally,' similar to what happened in 1930. Stocks are selling for outrageous prices. So I recommend you take the money and run. But run where? I think the precious metals are the only place to be. But I've said for years that, this cycle, gold isn't just going to go through the roof. It's going to the moon. - Doug Casey

Almost all political statements are empty of meaning; nearly every word is a promiscuous lie. We know of no political leaders today - from the most craven to the most honorable - who do not claim to act in the name of prosperity, freedom and democracy. Yet, no one has any idea what the words mean. And if you peel off the layers of humbug, what do you find at the center? Truth? Not at all; you find a mountebank masquerading as an imposter. It is not merely a fraud, but a compound fraud, in other words - so dense and impenetrable that there's practically no hope of making sense of it. - Bill Bonner

Just leave it to me to say other than the tax cuts and the war on terror, there is no real compelling reason to re-elect George Bush. We just might be better off with the stalemate that comes from a president from one party, and a Congress under the control of the other. It might at least slow down the growth of government.... As things stand now, George Bush holds the record for three of the top five years in terms of increases in government spending. The only reason Bush holds the record for only three of those years is because the figures for the fourth year of his presidency aren't in yet. - Neal Boortz

The new Medicare drug plan enriches pharmaceutical companies, fleeces taxpayers, and forces millions of older Americans to accept inferior drug coverage—while doing nothing to address the real reasons prescription drugs cost so much.... The perception that seniors will be able to flash a Medicare card at the pharmacy and walk out without paying anything is completely false. In fact, many seniors will end up paying more out-of-pocket under the Medicare scheme than they do now with their private plans. The Medicare drug benefit requires monthly premiums, co-pays, and deductibles, just as private plans do. It also has gaps in coverage that no sensible person would accept if offered by a private insurer. Like all government programs, the Medicare drug entitlement will be shabby, degrading, and inferior to the private sector.... Big corporations love the Medicare drug plan, because they want to shift the responsibility for providing drug benefits to their retirees onto taxpayers. Dozens of major companies shamelessly advertised in the **Washington Times** and elsewhere in support of the Medicare bill for this very simple reason. Their pension plans are dangerously underfunded, so naturally they use their lobbying influence to promote a Medicare drug system. In this sense the Medicare bill is a taxpayer-funded corporate bailout for hundreds of American companies. - Ron Paul (R-TX)

Yesterday's paper brought a picture of a pack of feeble scoundrels gathered around George Bush while he signed a bill to provide pills for old people. Again, it must have seemed like a wish come true for the drug companies and graybeard mooches. "Keeping our commitment to seniors," was the caption. "Pandering for votes," would have been a better one. "To hell with the young, who will have to pay the bill for this nonsense," the story might have explained. "These geriatric drug addicts vote!" Americans must think they will never have to pay the federal bills...or the personal ones. Somehow, it will all work out...they must say to themselves. And it will, somehow. But not without regrets. - Bill Bonner

Since the days of Maynard Keynes, the public have been told to expect government-protected prosperity. But as we have seen time and again, no government can deliver on this. - William Rees-Mogg

STOCK MARKET OUTLOOK

I continue to observe the popped-bubble theses of UCLA geophysics professor Didier Sornette. The good professor, in his latest comments, is looking for evidence that we are switching from the oscillating downward swings of the bubble aftermath to a "different regime", presumably post-bubble stock markets with wide swings, both bull and bear, which do not fit the mathematical formulae. He writes that we should know whether or not we are still in the grip of the antibubble by February 2004, in what he calls a real-time experiment.

My feeling is, if there are not enough data available to tell us in advance when the antibubble is over, then his theories have *zero* predictive value. Perhaps he will collect enough data this time around to be helpful in analyzing the *next* generational bubble when it occurs 50 or so years down the road, but it's not helpful right now if there isn't enough clarity from either U.S. data or the Japanese experience to be able to peer at least a little ways into the future.

In lieu of nonfunctional mathematics, it might be better just to apply a little common sense. Let's be honest: Nobody knows for sure what the future will bring, though there are many stock-market prognosticators who claim they do, and who appear as if they do, until you examine their track records. We are fortunate if we can gain just a little peek into the probable future in some small area by projecting a solid trend that's likely to continue for awhile.

One such trend: the current Fed is *determined* to ameliorate the fallout from the bubble by "addressing the bubble's consequences" (as they put it; I call it treating the symptoms instead of curing the disease). We know this because they've said so. This essentially means, printing enough money to keep stock prices afloat, so consumer confidence will remain high and consumers will keep on borrowing and spending, thereby keeping the economy going. The past few years (as well as the experience of the Japanese) have shown that the Fed may (1933, 2003) or may not (1930, 2002) be able to light a fire under the economy; but one thing it surely does know how to do is print money and destroy the purchasing power of the dollar. And this also means that high stock prices are a *primary* objective of Fed policy.

(Welcome to the fascist stock market.)

So far (in 2003) this Fed policy toward stocks has been successful, and this is likely to continue until (a) the Fed changes its mind, or (b) unforeseen events overwhelm Fed strategy. Originally I thought stocks would peak in the early fall of 2003, then at year's end (while allowing for a window that could extend through the 2004 elections). But, again being completely honest, I must confess it's beginning to look like this thing could take off again like the bubble of the late 1990s, and stocks could again soar completely out of range of any meaningful underlying value just because people are jumping on board for the ride. The technical indicators show there's still a powerful inflow of money into stocks.... note the "overbought" signals in the "Timer's Trend" charts.... with no signs of abating.

History tells us that reflated bubbles are unlikely to exceed the primary one in magnitude (no NASDAQ 5000), for the simple reason that the prior excesses were not corrected and something will first get out of whack and throw a monkey wrench into the central bank's plans. The primary candidates are: (1) a persistently-declining dollar whose demise could turn into a rout; (2) the exhaustion of mortgage refinancings, thus the drying up of fuel for consumers' spending; (3) the unwillingness of foreigners to continue buying our debt. Regardless, nobody knows exactly what the pinprick will be or just when it will occur. If you're riding the stock bubble "Timer's Trend" will *probably* signal you to get out in time, just as it did in 2000. But history, and life, offer no guarantees and you know my attitude: I don't do bubbles. So I may do a little short-term "point-skimming" from time to time, but that's about it.

In my opinion, the safest way to ride the markets is to be short the dollar (or long a strong currency) or long in gold shares, for as long as the stated Fed policy of dollar destruction is being implemented; because when the stock bubble does pop, the turmoil is likely to favor both types of investments as the Fed again loses control.

In the meantime, I watch while the Fed policy draws "investors" back into the stock market, to get

whacked a second time. Unbelievable.

PORTFOLIO REVIEW

Prices shown are as of December 31, 2003.

A. "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	31De03	1252.18	1034.80		
50	Barrick Gold ..22	{ABX/nyse}	14Nov96			1466.01	22.71	1,135.50
30	BP 1.70	[BP/nyse]	26Jan99			1292.50	49.35	1,480.50
100	Nokia OYJ ADR ..30	[NOK/nyse]	14Jun01			2233.00	17.00	1,700.00
468	Prudent Bear Fund (468.025sh)	[BEARX]	10Oct02			3500.00	6.23	2,915.80
280.4	Prudent Global Income (280.415sh)	[PSAFX]	17Apr03			3200.00	13.27	3,721.11
	CASH & money market					5982.73		5,982.73
	Totals					17,674.24		16,935.63

SUMMARY - "PIG":

Original cost:	\$ 9,899.00
Present value:	\$16,935.63
Increase:	\$ 7,036.63 [+71.08%]

COMMENT on "PIG": The PIGs decided to take a year-end profit in Apple Computer.

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

Date	Sold	Bought	Date	Sold	Bought
2Dec2002	i-i bond@37.68	eq-idx@56.93 [13.22%]	8May2003	-0.4757% "profit-skim"	stk&bd to mm@21.70
2Dec2002	i-i bond@37.68	mm@21.62 [13.22%]	27-30Jun2003	0.0155% "profit-skim"	i-bond to mm@21.73
31Jan2003	eq-idx@ 52.45	mm@21.66 [12.22%]	8-10Jul2003	0.0523% "profit-skim"	i-bond to mm@21.73
17Apr2003	mm@21.69	i-ibond@39.52 [21.72%]	25-26Aug2003	0.0109% "profit-skim"	i-bond to mm@21.75
17Apr2003	mm@21.69	stock@130.72 [3.54%]	15-26Sep2003	0.0636% "profit-skim"	i-bond to mm@21.76
28-30Apr2003	0.0889% "profit-skim"	stock to mm@21.70	2-20Oct2003	-0.0160% "profit-skim"	i-bond to mm@21.77
1May2003	0.2184% "profit-skim"	i-ibond to mm@21.70	6-13Nov2003	0.0553% "profit-skim"	i-ibond to mm@21.78
2May2003	0.0714% "profit-skim"	stock to mm@21.70	3-4Dec2003	0.0141% "profit-skim"	i-ibond to mm@21.79
5May2003	0.2167% "profit-skim"	i-ibond to mm@21.70	9-10Dec2003	0.0179% "profit-skim"	i-ibond to mm@21.79
6May2003	0.2127% "profit-skim"	i-ibond to mm@21.70	11-24Dec2003	0.0529% "profit-skim"	growth to mm@21.80
7May2003	0.4225% "profit-skim"	bond to mm@21.70			

Values, 31Dec2003: stock, 169.99; equity-index, 70.09; MM, 21.80; bond, 71.71; inflation-indexed bond, 41.94; real estate, 186.94; TIAA current yield in SRA, about 6% (new money at 3.25% through February 29, 2004). As of December 31, 2003, my retirement portfolios were invested: 50.50% in TIAA, 24.40% in TIAA Real Estate, 0.04% in CREF inflation-indexed bonds, and 25.06% in CREF money market.

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%

Gain shown excludes the impact of additional monthly cash contributions.

(Please note that I have not had the time to calculate my rate of return beyond March 2002, and may not get the time until I retire.)

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": We are currently on a BUY signal of August 12.

NYSE TIMER'S TREND

Date	Price	Signal	Date	Price	Signal
Wed 1 Oct 03	9469.20	.+	Fri 14 Nov 03	9768.68	.+
Thu 2 Oct 03	9487.80	.+	Mon 17 Nov 03	9710.83	.+
Fri 3 Oct 03	9572.31	@	Tue 18 Nov 03	9624.16	.+
Mon 6 Oct 03	9594.98	@	Wed 19 Nov 03	9690.46	.+
Tue 7 Oct 03	9654.61	@	Thu 20 Nov 03	9619.42	.+
Wed 8 Oct 03	9630.90	@	Fri 21 Nov 03	9628.53	.+
Thu 9 Oct 03	9680.01	@	Mon 24 Nov 03	9747.79	.+
Fri 10 Oct 03	9674.68	.+	Tue 25 Nov 03	9763.94	.+
Mon 13 Oct 03	9764.38	@	Wed 26 Nov 03	9779.57	.+
Tue 14 Oct 03	9812.98	@	Thu 28 Nov 03	9782.46	@
Wed 15 Oct 03	9803.05	.+	Mon 1 Dec 03	9899.05	@
Thu 16 Oct 03	9791.72	.+	Tue 2 Dec 03	9853.64	@
Fri 17 Oct 03	9721.79	.+	Wed 3 Dec 03	9873.42	.+
Mon 20 Oct 03	9777.94	.+	Thu 4 Dec 03	9930.82	.+
Tue 21 Oct 03	9747.64	.+	Fri 5 Dec 03	9862.68	.+
Wed 22 Oct 03	9598.24	.+	Mon 8 Dec 03	9965.27	.+
Thu 23 Oct 03	9613.13	.+	Tue 9 Dec 03	9923.42	.+
Fri 24 Oct 03	9858.46	@	Wed 10 Dec 03	9921.86	.+
Mon 27 Oct 03	9608.16	.+	Thu 11 Dec 03	10008.16	.+
Tue 28 Oct 03	9748.31	.+	Fri 12 Dec 03	10042.16	.+
Wed 29 Oct 03	9774.53	.+	Mon 15 Dec 03	10022.82	.+
Thu 30 Oct 03	9786.61	.+	Tue 16 Dec 03	10129.56	.+
Fri 31 Oct 03	9801.12	.+	Wed 17 Dec 03	10145.26	.+
Mon 3 Nov 03	9858.46	@	Thu 18 Dec 03	10248.08	.+
Tue 4 Nov 03	9838.83	.+	Fri 19 Dec 03	10278.22	.+
Wed 5 Nov 03	9820.83	.+	Mon 22 Dec 03	10338.00	@
Thu 6 Nov 03	9856.97	.+	Tue 23 Dec 03	10341.26	@
Fri 7 Nov 03	9809.79	.+	Wed 24 Dec 03	10305.19	.+
Mon 10 Nov 03	9756.53	.+	Fri 26 Dec 03	10324.67	.+
Tue 11 Nov 03	9737.79	.+	Mon 29 Dec 03	10450.00	@
Wed 12 Nov 03	9848.83	.+	Tue 30 Dec 03	10425.04	.+
Thu 13 Nov 03	9837.94	.+			

Comment on NASDAQ "Timer's Trend": We're currently on a BUY signal given August 13.

NASDAQ TIMER'S TREND

Date	Price	Signal	Date	Price	Signal
Wed 1 Oct 03	9469.20	.+	Fri 14 Nov 03	1930.26	.+
Thu 2 Oct 03	9487.80	.+	Mon 17 Nov 03	1909.61	.+
Fri 3 Oct 03	9572.31	@	Tue 18 Nov 03	1881.75	.+
Mon 6 Oct 03	1893.46	@	Wed 19 Nov 03	1899.65	.+
Tue 7 Oct 03	1907.85	@	Thu 20 Nov 03	1881.92	.+
Wed 8 Oct 03	1893.78	@	Fri 21 Nov 03	1893.88	.+
Thu 9 Oct 03	1911.90	@	Mon 24 Nov 03	1947.14	.+
Fri 10 Oct 03	1915.31	@	Tue 25 Nov 03	1943.04	.+
Mon 13 Oct 03	1933.53	@	Wed 26 Nov 03	1953.31	.+
Tue 14 Oct 03	1943.19	@	Fri 28 Nov 03	1960.26	@
Wed 15 Oct 03	1939.10	@	Mon 1 Dec 03	1989.82	@
Thu 16 Oct 03	1950.14	@	Tue 2 Dec 03	1980.07	@
Fri 17 Oct 03	1912.36	.+	Wed 3 Dec 03	1960.25	.+
Mon 20 Oct 03	1925.14	.+	Thu 4 Dec 03	1968.80	.+
Tue 21 Oct 03	1940.90	.+	Fri 5 Dec 03	1937.82	.+
Wed 22 Oct 03	1898.07	.+	Mon 8 Dec 03	1948.85	.+
Thu 23 Oct 03	1885.51	.+	Tue 9 Dec 03	1908.32	.+
Fri 24 Oct 03	1865.59	.+	Wed 10 Dec 03	1904.65	.+
Mon 27 Oct 03	1882.91	.+	Thu 11 Dec 03	1942.32	.+
Tue 28 Oct 03	1932.26	.+	Fri 12 Dec 03	1949.00	.+
Wed 29 Oct 03	1936.56	.+	Mon 15 Dec 03	1918.26	.+
Thu 30 Oct 03	1932.69	.+	Tue 16 Dec 03	1924.29	.+
Fri 31 Oct 03	1932.21	@	Wed 17 Dec 03	1921.33	.+
Mon 3 Nov 03	1967.70	@	Thu 18 Dec 03	1956.18	.+
Tue 4 Nov 03	1957.96	.+	Fri 19 Dec 03	1951.02	.+
Wed 5 Nov 03	1959.37	.+	Mon 22 Dec 03	1955.80	.+
Thu 6 Nov 03	1976.37	.+	Tue 23 Dec 03	1974.78	.+
Fri 7 Nov 03	1970.74	.+	Wed 24 Dec 03	1969.23	.+
Mon 10 Nov 03	1941.64	.+	Fri 26 Dec 03	1973.14	.+
Tue 11 Nov 03	1930.75	.+	Mon 29 Dec 03	2006.48	.+
Wed 12 Nov 03	1973.11	.+	Tue 30 Dec 03	2009.88	@
Thu 13 Nov 03	1967.35	.+			

"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 January.