

INFLATION OR DEFLATION? (REALLY!)

In the previous issue of **The Contrarian's View** I started out to muse on whether we were likely to see inflation or deflation (or both) immediately ahead. But I got sidetracked on the issue of how to get my retirement money where I want it. So, why my concern, you might ask? Why didn't I just take my retirement money, dump it into TIAA, and get guaranteed monthly payments for the rest of my life? Especially when TIAA has available the "graded" method, where one takes a lower monthly payout in the early years in order to have annual increases that more-or-less keep pace with inflation?

Or, I could have elected to keep my money on the CREF side but annuitize it, with my monthly payments tied to "market performance" (in whatever market into which I chose to switch the funds). Such an annuity assumes a 4% payout ratio. That is, if I earned more than 4% per year on the funds, my monthly payment would rise from year to year; if I earned less than 4%, it would decline.

The main reason I didn't do either of these is that neither approach allows for what might be called 'outlier events' - either hyperinflation or a killer deflation in the style of the Great Depression. The TIAA "graded" method has worked well ever since the late 1940s and three generations have retired with more-or-less inflation-protected monthly incomes. But that's only because price inflation really never got out of hand, staying mostly around 3% per year except for a brief stretch in the 1970s, and the graded

system works really well in such a relatively benign environment. In the old days, the currency was tied to gold until 1971, and thereafter (except for a brief spell in the 1970s) the Fed was still relatively circumspect in its money-printing.... unlike today's central-bank lunatics, who threaten to drop cash from helicopters to avert the dreaded deflation.

The CREF method has worked well for anybody who retired when stocks were reasonably priced, as stocks would typically give a long-term return of inflation plus about 3%. But it didn't work so well for people who retired in, say, 1968 or 2000.... or for that matter, anybody who has retired since 1995.... and it probably won't work well for anybody (like me) who retires in the spring of 2004, because Fed bubble-blowing has kept stock prices propped up at ridiculously-overvalued heights.

Obviously, I would like not to get caught in any bear markets, and especially not in any Japanese-style bear markets which drag on for a decade or more. So, no CREF annuity.

Moving my retirement-annuity funds to an IRA also allows me to take advantage of one of the few areas where TIAA-CREF actually provides a feature rigged in favor of the average Joe.... the ability to ride interest rates upward with TIAA. You have seen me do this already in my supplemental retirement annuity (which is currently earning about 5.2% in TIAA). If TIAA-CREF declares a new interest rate which is

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higher than the rate you're currently earning in TIAA, you can switch into the money-market fund for a day, then switch back into TIAA to get the higher rate. But if interest rates then decline again, you can keep your money in TIAA where it continues to earn the higher rate of the "tranche" in which you're invested.

So, where was I? Oh yes - which lies ahead, inflation or deflation?

The answer to this question will probably appear obvious in hindsight, after a few years have elapsed. But I have to tell you, looking ahead with the information available to me, it seems to me it could go either way.

Arguing most strongly for inflation is the fact that all fiat monetary systems eventually crumble to dust, and the stated determination of the Fed to print whatever amount of money is necessary to keep the U.S. from slipping into price (and asset!) deflation. So betting on inflation is a very good long-term bet; but is it the right bet for the near future?

Arguing for deflation is the fact we're now seeing asset bubbles begin to pop. The stock market is clearly running out of gas as we slip into the downside of the long, rounding top I expected a year ago. The real-estate bubble looks like it's peaked, as evidenced by traded equity REITs recently losing 15% of their value in a week's time. All of the bond-market technical indicators I follow are now flashing sell signals, so bond prices are headed lower for a while (interest rates are going up). The powerful

rally in commodity prices underwent a sudden reversal, especially silver, which experienced its own mini-bubble. Even gold prices, which (much to my surprise) had apparently gotten caught up in the interest-rate "carry trade" to some extent, corrected sharply. These deflating assets are *not* signs of an incipient firestorm of inflation, even if you are finding it more painful to fill your SUV's gas tank these days.

When trying to make up my mind, I like to look at the historical record.... and we have an ongoing record of what can, and likely will, happen in an age of fiat money with the unfolding story of Japan. The Japanese central bank also had a printing press in the mid-1990s, which they used. Fat lot of good it did them, except for a little bounce in 1994-1995. When mass psychology changes, and people turn more cautious in their lending and spending habits, tossing more printed money into the banking system does little more than slow down the bubble-popping.... and the end result is the same (maybe worse!). All that happens is that interest rates (those set by the market, not those fixed by the central bank) slide to unbelievable lows as people refuse to use the money thrown at them; diminished velocity (turnover) overwhelms supply. They call it, "pushing on a string". Eventually people's caution is severe enough to depress prices of goods.

So, my vote is: Deflation soon; inflation (possibly hyperinflation) later, after it becomes clear the country is bankrupt. And I will attempt to navigate through these treacherous shoals with my retirement intact.

MEDICARE REVISITED

In the November 2003 issue of **The Contrarian's View** I went to great lengths to explain why I had decided to avoid Medicare Part B for as long as I could. The other day my wife noticed a little piece of paper from the Town of Oxford in her retirement papers.... probably given to her when she was hired four years ago. It says that when she turns 65 she must leave the town's employee health plan and go on Medicare, with supplemental insurance 50% subsidized by the town also available.

Well, I said, if they're forcing you to go on Medicare when you turn 65, they may also force me onto

Medicare when I turn 65, before you. You'd better check.

So she did. Guess what.... yes, I must switch to Medicare when I'm 65. The employee HMO plan will not be available to me.

We priced out the cost of her individual HMO coverage plus my Medicare and supplemental coverage, for roughly the same benefits we both get now. Guess what.... it's about the same cost as what we pay now. Neither we nor the Town of Oxford save much money when I'm forced onto Medicare.

That's socialized medicine for you.... more paperwork, no cost saving, and lousier care. (Actually, I'm being placed in a "different class" of people, one which bears the cost of people dying.... four-fifths of the cost of one's lifetime medical care

is typically spent in the last six months of life.... so maybe I should say that the Town of Oxford and we are picking up the cost of my routine medical care, and the taxpayers will pick up the tab when I finally croak.)

QUOTES FOR THE MONTH

No mania in history has given participants a second chance, but thanks to the crash in interest rates, this one has. It's a gift. - Bob Prechter

Has something fundamental happened to the U.S. economy and, by extension, U.S. banking, that enables us to disregard all the time-tested criteria of imbalance and economic danger? Regrettably, the answer is no. The free lunch has still to be invented. - Alan Greenspan

When capital is fearless, when investors feel bulletproof, they put money into the riskiest areas. That has pushed emerging markets into the worst extremes in my experience of about 20 years, including the periods preceding the big collapses in the '90s of Russia, Latin America and Asia. The Fed has essentially bubble-ized the whole world. - Michael Belkin

It should be only a matter of time before the stock averages catch up with the internals of the market. On this basis, nothing would surprise me during the days ahead. I hate to use that dreaded word, 'crash,' but it would not surprise me if this market were to crash.... The ideal position at this time is cash, often termed 'liquidity' (T-bills, money market funds, CDs -- cash). Gold is our insurance policy just in case "everything goes wrong," and in a primary bear market yes -- everything CAN -- and often will -- go wrong. - Richard Russell

Long-term technicals on the Dow Jones Industrial Average suggest that the last three weeks [of April] have been setting up scope for an aggressive sell-off soon.... Momentum and cycle evidence say the dollar is merely taking a breather before resuming its downhill trend - 15% or more lower in the next year and perhaps still weaker after that. - Victor Hugo

I would bet that five years ago few Bulls would have thought that the Dow would still be near 10K. It may not seem like it but we really are in the midst of a secular bear market. It has been four years since the Dow, Nasdaq, and S&P 500 hit new records and they remain far off from those levels. During the past year there has been a tremendous rally but only because the Fed and White House pulled out all the stops to stimulate the economy. With rates moving up it is hard to see how the major averages will get back to their previous highs before the Bear begins to take control once again. - Marc Sexton

The SP500 is about where it was in 1996, eight years ago. So by foolishly putting your money into these stocks you have not made a dime in eight long years, and in the meantime all the prices of all the things that you buy are much higher than they were then. Net-net, you have lost purchasing power by "investing for the long term." This is the price you pay for listening to stockbrokers, financial planners and all the rest of that lying clot of Wall Street hucksters, who are, in the final analysis, merely oily salesmen who have hustled us good. - Richard Daughty

The experts on Wall Street got the message. The Federal Reserve is preparing to raise rates; you had better start unwinding the carry-trade if you don't want to get destroyed. Destroyed is not hyperbole; the last time the carry-trade was unwound in 1994 we had the worst bear market in bonds since 1927 and speculators like Orange County filed for bankruptcy. So without raising the Fed Funds rate a single basis point, the air is

being squeezed out of the carry-trade and with it all the associated markets. In many ways it resembles a short squeeze. People putting on the carry-trade are in fact "shorting" short-duration assets (treasury bills for example). Fear that the cost of that "short" will go up is causing them to cover that short. This short is matched (often with heavy leverage) with other higher-yield assets that must simultaneously be sold. Thus, the short squeeze in the short end of the curve creates selling pressure and down trending markets for longer-duration assets (read: stocks and bonds). - Jeffrey Saut

With no further stimulation, a 75 percent plunge in REFI's, and potential rising interest rates, the economic recovery is not likely to be sustained. Stocks appear to be topping out, and the ensuing downleg can be severe. In our view the secular bear market that started in early 2000 is resuming. The factors that engendered the sub-par recovery and bear market rally have now reversed, and the monetary and fiscal authorities just do not have the ammunition to turn it around. - Charlie Minter

The sad reality is that we live in an age wherein governments that extol the virtues of free markets will stop at almost nothing to manipulate them to their own ends. We have a Fed Chairman who prattles on about low inflation as our bills rise on a monthly basis and gasoline prices routinely post new all-time highs. We have the Labor Dept. fabricating numbers that private economists and journalists like John Crudele routinely expose as being fat loads of hooey. And we have, by Executive Order 12631, a "Working Group on Financial Markets" charged with the responsibility of doing whatever it takes to prevent the market from taking its normal and necessary course. In the end the market always wins, but after watching years of this nonsense go by, I have to acknowledge the fact that the higher-ups have more tricks up their sleeves than I'm aware of. I think the stock market "echo-bubble", a major bear market rally has peaked. I'm certain that no new major bull market is underway. But will the market fall fast and hard as so many bears are forecasting? On that point I can't agree. I don't disagree, but I can't wholeheartedly agree either. - Mark M. Rostenko

A painful resolution of the current asset inflation is inevitable. - Marc Faber

If rates head up from here, there's going to be hell to pay. There is now about \$22 trillion in domestic debt. On top of that there is an estimated seven times that in outstanding derivatives. Roughly 85 percent of all derivatives are interest-rate oriented. So the truth...nobody, I repeat, NOBODY including the Fed, has the answer to what could or will happen if rates suddenly start to spike. - Richard Russell

The thing is nobody knows exactly what will happen. We have never seen a situation like this where the excesses have been so extreme. We don't know exactly how it will resolve itself. But what makes me worry is that when you get excesses this bad, you get results you can't expect.... The whole consumer economy in America now depends on having mortgage rates on new mortgages lower than those on old mortgages. People need a reason to refinance. But how long can new rates be lower than old rates? As time goes by, today's new rates become tomorrow's old rates. I think the whole economy could be headed towards a liquidity crisis, like the crisis that hit LTCM. If long rates continue to rise, people will not be able to refinance. All of a sudden, they will have to reduce their standards of living...and they will be desperate for cash to pay their bills. How will they get it? They will have to sell assets - stocks, bonds, houses - everything. - Kurt Richebächer

When the largest economy on earth is so far out of any real economic balance that it requires an enormous budget deficit, an even bigger credit expansion, and a huge monetary inflation to the tune of 25% of GDP, an equally enormous recession lies just below the horizon. This borrowing orgy is only postponing the arrival of that recession. - Bill Buckler

During the whole postwar period, it has, in fact, been typical that depressed economies promptly took off once central banks eased. Yet for us, this was never proof of the efficacy of monetary policy. Since all postwar recessions had their cause in monetary tightening, it was only natural that economies promptly jump-started

when central banks loosened their brakes. But the situation today is radically different. For the first time in the whole postwar period, the U.S. economy slumped against the backdrop of rampant money and credit growth. But if tight money or credit did not break the boom in 2000, it is hard to see how easy money can be the cure. - Kurt Richebächer

Greenspan knows that without rising wages, there can be no real "reflation." In congressional testimony that was overlooked in the press accounts, the chairman said, "Remember that more than two-thirds of the consolidated underlying domestic costs in the United States are unit labor costs...And unit labor costs, as best we can judge, are still going down." In other words, everything is going up in price...but consumers can't afford to pay those prices. This, ironically, is deflationary. As prices rise, consumers cut back on spending. The more prices rise on the margins, the less consumers consume. It is nothing less than the end of the consumption-driven American model - the model the rest of the world has tolerated because Americans have been buying on credit. The credit crunch is coming. - Dan Denning

Nothing can illustrate the fragility of the current recovery more than the fact that even after two solid monthly increases in payroll employment, the economy has added a grand total of only 31 jobs in the 29 months since the official November 2001 trough. No, that's not a typo and it's not an abbreviation for 31,000 or 3,100 - it's just plain 31. In other words, in a period covering 29 months of recovery, there are basically no more people working than when the last recession ended. In the first 29 months of the last seven cyclical expansions employment rose by an average of 7.2 percent including one cycle that peaked at 24 months. If, in the current expansion, employment had increased at the 7.2 percent past average, there would be 9.4 million more jobs in April than the number reported by the BLS. In order to reach that level, jobs, on average, would have had to rise by 324,000 per month for all of the 29 months of this expansion. It actually exceeded this number in only one month - March of this year. - Charlie Minter [Nick's comment: Those 31 jobs don't allow for people whose unemployment benefits have expired and therefore simply are no longer counted. Net, we are still LOSING jobs.]

The US government borrows \$5,000 a year on behalf of each US family (which it dares not tax). It spends it, keeping itself popular, and Americans in work, and that \$5,000 buys foreign goods, giving the foreign supplier \$5,000. So the foreign supplier lends it back to the government by buying \$5,000 in bonds, which the US government promises will eventually be paid back by taxing that American family at some time in the future. The current four-year period will end having increased the average family's future tax debt by about \$18,000. The family's total accumulated tax debt is approaching \$70,000, most of which has been built up since 1990. That \$70,000 is the visible tip of a much larger iceberg of debt, because that same family believes itself entitled to future welfare provided by government. This is the "generational debt" - so called because it's what the next generation owes to us in welfare we've financed for the previous one through our taxes. It has been calculated by the widely respected Economist magazine at \$44,000,000,000,000 - or about \$440,000 per family, and unlike the requirements of US law for corporations this government liability is currently not provided for in public accounts. All this debt has been the fuel which has consistently heated the US economy and kept us voting for the retention of a social market economy system. - Paul Tustain

Hyperinflation is a real and present danger for the simple reason that the US government is effectively bankrupt. Its fiscal gap is \$51 trillion, when measured as a present value. That's 11.6 times official debt, 4.5 times GDP, and 1.2 times private net worth. Coming up with \$51 trillion without a printing press would require, immediately and permanently, either hiking federal income taxes 78%, cutting Social Security and Medicare benefits 51%, or eliminating more than 100% of federal discretionary spending, which ain't easy. And waiting only makes matters worse. This is America's menu of pain. When investors around the world wake up to US insolvency, it will be extremely expensive for our government to borrow. The only option then will be printing huge sums of money - generating exactly the hyperinflation the bond market has decided to expect. - Laurence Kotlikoff

The end of Asia's vendor-financing scheme will herald unhappy times for the holders of many U.S. financial assets, but it will likely reward those that have hedged or sold their dollars for assets likely to rise against the dollar. The biggest casualty will likely be the U.S. housing market. - Christopher Mayer

There are an incredible number of loans that get approved now that would have been way out of bounds a few years ago. I may think a person is being allowed to borrow too much. But if the computer tells them they're approved, what can you tell them? - Ruben Ybarra [president, Chicagoland Home Mortgage]

When housing bubbles burst, they can hurt more than their sector of the economy. Studies have shown that they exercise twice the effect on consumer spending as comparable declines in stock prices. So, a 20 percent drop in housing prices would have the same shriveling effect on the economy as a 40 percent crash in the stock market. When investors lose value in their houses, many of them pull money out of other investments, like stocks. Then, too, jobs in construction, real estate, and other fields that depend on new home sales die off.... Prices are so stratospheric that even modest hikes in long-term interest rates could burst the bubble. And with federal deficits soaking up so much capital, interest rates are likely to rise as the economy heats up and demand for capital increases.... Given the lateness of the hour, and the near-inevitability of the coming crash, there's really only one thing left for concerned citizens to do: Start assigning blame. - Benjamin Wallace-Wells

The striking key feature of so-called wealth creation through asset bubbles in favor of the consumer is, first of all, the associated record production of debt, set against the total absence of income creation. To maintain demand creation through this kind of wealth creation, ever more debt creation is needed - first, to keep the asset prices inflating; and second, to fund the spending on consumption. Thinking it over, one realizes that "wealth creation" is really a grotesque misnomer for asset prices that are rising out of proportion to current income. The economic reality is not wealth creation, but impoverishment. We repeatedly hear from Americans that they are living in houses or apartments they cannot afford to buy with their present incomes. But many years ago, with incomes and prices as they were at the time, they could afford the houses. That says it all. - Kurt Richebächer

For two years my label for housing property has been "hard asset impostor" fully dependent on huge bond liquidity, and foreign credit supply. As soon as mortgage funds become less available, or more difficult to secure, property will be seen for what it really is: an asset inflated by bond speculators. To be sure, a property and home is a physical asset. But its value is determined more by mortgage finance than supply and demand of a hard asset. Extraction of cash is a form of home liquidation. - Jim Willie

Household liabilities equaled about 60% of income in 1960. Today, they are close to 110%. American households have no more money to spend. Their incomes stagnate. Their savings are depleted. They are only able to continue spending at the current rate by borrowing more of the inflated value of their homes. Last year, an amount equal to 4.5% of income came from this source. Now, the whole world economy depends on it. Mr. Greenspan must know it is absurd. Healthy economies do not depend on real estate bubbles. And healthy households do not pay their bills by refinancing their mortgages. - Bill Bonner

Housing is like the NASDAQ at 5,000. Everyone thinks it will go on forever, but it won't. It can't, because wages have not gone up nearly fast enough to pay mortgages on hugely over-priced homes; plus jobs are disappearing with alarming speed, regardless of what the phony statisticians in DC say. New jobs being created, are either fictitious or low paying, and neither go far in paying huge mortgage payments. When the top is reached, just as did the NASDAQ, it will crumble. How? Because of abandonments or foreclosures. Credit card debt is at all time highs, and 44% of credit card payments are of minimums allowed, with little or no reduction in balances. Foreclosures and bankruptcies are already at record levels. This means that at this time, perhaps a million families are now late in payments on mortgages, or on the verge of foreclosure. American home-owners and credit-card holders are on the very edge of disaster. Don't expect the govern-

ment or media to admit this dire situation, as it could cause a crash immediately. - Don Stott

Because of the low interest rates, courtesy of Dr. Greenspan, home prices rose throughout the recession and are still skyrocketing in many areas. The median price of homes has risen 50% since 1994, while inflation rose by less than half of that rate. Incomes have also not grown nearly enough to support the increased value of homes. In fact the ratio of home prices to income is historically unprecedented. As home values increased, the public used the higher collateral value and lower interest rates to refinance their homes in order to continue their purchasing frenzy throughout the recession and recovery without any hesitation. All of this was orchestrated by our Fed Chairman. The ability to treat one's home as an ATM machine is the primary reason the recession of 2001 was so mild, and was a primary reason we were able to escape falling into an outright deflation. The public was able to draw down in the neighborhood of \$200 billion a year to support their buying habits. This money seemed as free to them as if it had fallen off trees. They had, and still have, the perception that housing prices can only rise, and that borrowing against an asset that presumably can't decline is risk-less. This is why the equity in homes has dropped down to an all-time low despite the rapid rise in home prices. If interest rates now rise as most expect, the free lunch will be exposed for what it really is and will show why the expression "leverage is a two-edged sword" is valid. - Charlie Minter

Wall Street believes the Fed will embark on a rate renormalization program that will take the Fed funds rate from its current 1% to a more neutral rate of 3%. This is an illusion. In an economy that has \$35 trillion in debt, of which \$15 trillion has been added in the last six years, a tripling of the Federal funds rate would become disastrous. The financial sector has doubled its debt from \$5,532 billion in 1997 to \$11,402 billion in 2003. The economy and the financial markets have become so leveraged that even slight increases in interest rates could bring the markets and economic activity to a screeching halt. In fact, it may end up collapsing both the financial markets and the economy. - Jim Puplava

We should ask, what possible incentive does the central bank have to push interest rates higher in order to strengthen the dollar? For if either or both of those objectives is achieved it will tighten the noose around virtually all who owe dollars (and I mean mortgage borrowers in particular, although certainly not exclusively). Does the Fed risk toppling a global debt pyramid just to beat down the rising cost of milk, eggs, college tuition and fuel in the U.S.? I should think not. - Rick Ackerman

To the Keynesians who now appear to inhabit the Federal Reserve, inflation can only reappear at a time of demand-pull, when industries are running close to capacity and the economy is showing severe signs of overheating. Hence the current situation, with a weakish economy but signs of reawakening inflation, must be a mere temporary aberration. In any case, productivity gains, held up by Greenspan as the Holy Grail since 1997, will ensure that inflation remains subdued this time around. To monetarists, believers that the only time the Federal Reserve did anything but damage to the U.S. economy was under Paul Volcker in the early 1980s, this is nonsense. If you allow M3 money supply to grow at almost 10 percent per annum for year after year for close to a decade, you will eventually get inflation. That need not necessarily appear in the "demand-pull" pattern, it can also appear through "cost-push" in which the dollar (whose supply is being over-inflated) declines in value against other currencies, while commodity prices set themselves on a determinedly upward trend. It is thus wrong to suppose that such a persistent rise in input prices will not be reflected in output prices in a recession. If demand is weak, firms are less able to expand margins than in periods of high demand, but they will still raise prices, simply to keep margins at their existing modest levels. - Martin Hutchinson

Those trillions of global and domestic dollars that went into buying our debt over the last few years and last few decades are all going to be worth less very soon, handing each and every one of those dimwits a paper loss. But don't cry for them just yet, as most of them have probably managed to sell out at a profit and stick that load of losers into YOUR retirement account! Hahahaha! Welcome to the real world, sucker! - Richard Daughty

Among the ranks of college students, fully 23% have already declared bankruptcy, a shocking statistic. We as a culture have come full circle apart from our parents and grandparents. They learned of the ravages of debt destruction during the Great Depression. Our generation celebrates debt, and abuses it to unbelievable levels. It has thoroughly confused wealth and credit access. - Jim Willie

The statistics are pretty grim. After inflation and taxes, investment returns over the long term are almost zero. The correct interpretation of this surprising result is that you are merely getting back your own money. Admittedly, you get back MORE dollars than you put in, but each of those dollars is worth less. - Richard Daughy

In effect, there is nothing inherently wrong with fiat money, provided we get perfect authority and god-like intelligence for kings. - Aristotle

The automobile and electric power, once invented, became more reliable and easier to use, cementing their position in Western society and maximizing their contribution to our lives. This is not the case with the Internet. Far from becoming easier and quicker to use, it is becoming slower and more difficult as the tsunami of viruses, spam and pop-ups infest all interactions with it, either slowing productivity to a crawl or, if impermeable firewalls are used, causing many perfectly valid communications to vanish into the ether, thus cutting down severely on the reliability of e-mail. While legislation has been passed attempting to control viruses and spam, it is ineffectual in achieving such control, since spammers can exist almost entirely in cyberspace. More sinister, it is now becoming clear that virus and spam producers are working in cahoots with at least some of the spam filter makers, so that consumers are forced into a Mafia-style protection racket in which you have to buy the filters in order to have even reasonably satisfactory use of the Internet. "Broadband" too, touted by President George W. Bush as an essential tool of technological advance for U.S. society as a whole, is becoming exponentially more sluggish, as the detritus clogs its arteries. Thus a consumer broadband Internet user of 2004 may experience Internet usage substantially slower than did a dial-up user of 1997, before pop-ups, spam and viruses became so universal. - Martin Hutchinson

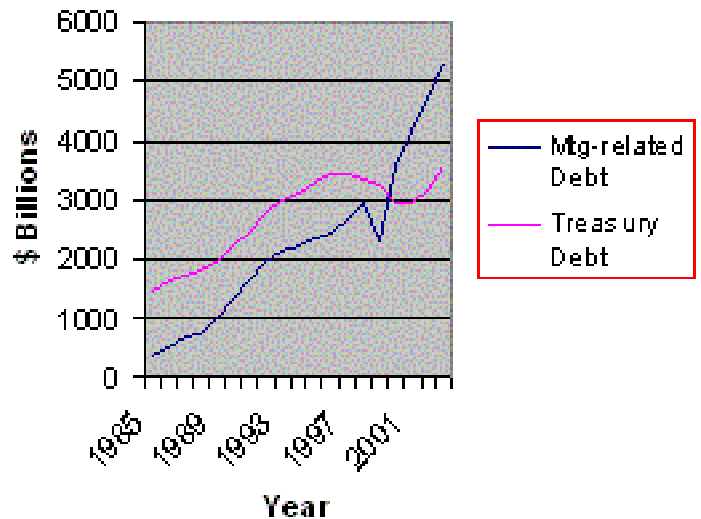
STOCK MARKET OUTLOOK

In the chart to the right you are looking at the incubus for the return of the bear, and possibly even a crash within the next year or so.

The country is hooked on low interest rates, particularly on low adjustable-rate home-equity loans. When mortgage rates rise further than they already have, and home prices decline, and overborrowed homeowners find themselves "upside down" (negative equity in their homes), what will they do?

You might say, declare bankruptcy and start over. But people are *loathe* to give up their homes.... after all, it's home.... so what they *will* do is cut back on spending elsewhere to keep up with the mortgage payments. Only when their situations become entirely hopeless will they go the bankruptcy route.

Mortgage-Related Debt Surpasses Federal Debt



So the perverse effect of rising interest rates is a drawdown of other assets (stocks, bonds, savings) and cutbacks of discretionary spending to pay the mortgage "bill".... can you say, "recession"? This is *deflationary*.

We're entering an area of steeper decline in that long,

rounding market top I anticipated a year ago, and I expect this to persist into July. Then we will likely see a rally to about election time, with the next major downward leg of the bear beginning late 2004 or early 2005, into 2006. So far, we are still tracking classic antibubble behavior, and the 1990s pattern of the Japanese, rather closely.

PORTFOLIO REVIEW

Prices shown are as of May 26, 2004.

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

Shrs	Description	Symbol	Bought	Sold On	Sold At	Cost Was	Price	Curr Value
50	Barrick Gold .22	{ABX/nyse}	14Nov96			1466.01	20.62	1,031.00
30	BP 1.70	[BP/nyse]	26Jan99			1292.50	53.56	1,606.80
200	GTC Biotherapeutics	[GTCB/otc]	7May04			408.55	1.73	346.00
100	Nokia OYJ ADR .30	[NOK/nyse]	14Jun01			2233.00	13.41	1,341.00
468	Prudent Bear Fund (468.025sh)	[BEARX]	10Oct02			3500.00	5.74	2,686.46
280.4	Prudent Global Income (280.415sh)	[PSAFX]	17Apr03			3200.00	12.23	3,429.48
	CASH & money market					5943.94		5,943.94
	Totals					18,044.00		16,384.68

SUMMARY - "PIG":

Original cost:	\$10,224.00
Present value:	\$16,384.68
Increase:	\$ 6,405.41 [+60.26%]

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

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

Date	Sold	Bought	Date	Sold	Bought
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-bond@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-bond to mm@21.70		6-13Nov2003	0.0553% "profit-skim" i-bond to mm@21.78	
2May2003	0.0714% "profit-skim" stock to mm@21.70		3-4Dec2003	0.0141% "profit-skim" i-bond to mm@21.79	
5May2003	0.2167% "profit-skim" i-bond to mm@21.70		9-10Dec2003	0.0179% "profit-skim" i-bond to mm@21.79	
6May2003	0.2127% "profit-skim" i-bond 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		5-7Apr2004	-0.0282 "profit-skim" growth to mm@21.84	
8May2003	-0.4757% "profit-skim" stk&bd to mm@21.70		15-16Apr2004	-0.0133 "profit-skim" growth to mm@21.84	
27-30Jun2003	0.0155% "profit-skim" i-bond to mm@21.73		30Apr2004	re@190.59 mm@21.85 [42.34%]	

Values, 25May2004: stock, 170.83; equity-index, 70.55; MM, 21.86; bond, 71.06; inflation-indexed bond, 42.50; real estate, 191.96; TIAA current yield in SRA, about 5.2% (new money at 3.25% through February 28, 2005). As of May 25, 2004, my (pre-rollover) retirement portfolios were invested: 48.66% in TIAA, 3.63% in TIAA Real Estate, 0.70% in CREF inflation-indexed bonds, and 47.01% 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 May 25, 2004.

NYSE TIMER'S TREND

Mon 5 Apr 04	.		.	#		10558.37	@		.	+	*	Mon 3 May 04	.	#	I	.		10314.00		.	.	*	
Tue 6 Apr 04	.		#	.		10570.81		.	.	+	*	Tue 4 May 04	.	&	.	.		10317.20		.	.	*	
Wed 7 Apr 04	.		#	.		10480.15	@		.	+	*	Wed 5 May 04	.	#	I	.		10310.95		.	.	*	
Thu 8 Apr 04	.		#	.		10442.03		.	.	+	*	Thu 6 May 04	.	.	I	.		10241.26		.	.	*	
Mon 12 Apr 04	.		#	.		10515.56		.	.	+	*	Fri 7 May 04	#	.	I	.		10117.34		.	.	*	
Tue 13 Apr 04	.	#	.	I	.	10381.28		.	.	+	*	Mon 10 May 04	#	.	I	.		9990.02		.	.	*	
Wed 14 Apr 04	#	.	I	.	{	10377.95		.	.	+	*	Tue 11 May 04	.	#	I	.		10019.47	@		.	*	
Thu 15 Apr 04	.	#	.	I	.	10397.46		.	.	+	*	Wed 12 May 04	#	.	I	.		10045.16	@		.	*	
Fri 16 Apr 04	.	#	.	I	.	10451.97		.	.	+	*	Thu 13 May 04	#	.	I	.		10010.74	@		.	*	
Mon 19 Apr 04	.	#	.	I	.	10437.85		.	.	+	*	Fri 14 May 04	.	#	.	I	.		10012.87		.	.	*
Tue 20 Apr 04	.	#	.	I	.	10314.50		.	.	+	*	Mon 17 May 04	#	.	I	.		9906.91		.	.	*	
Wed 21 Apr 04	.	#	.	I	.	10317.27		.	.	+	*	Tue 18 May 04	.	.	&	.		9968.51		.	.	*	
Thu 22 Apr 04	.	#	.	I	.	10461.20	@		.	+	*	Wed 19 May 04	.	#	.	I	.		9937.71		.	.	*
Fri 23 Apr 04	.	#	.	I	.	10472.84		.	.	+	*	Thu 20 May 04	#	.	I	.		9937.64		.	.	*	
Mon 26 Apr 04	.	#	.	I	.	10444.73		.	.	+	*	Fri 21 May 04	.	.	I	#		9956.74		.	.	*	
Tue 27 Apr 04	.	#	.	I	.	10478.16		.	.	+	*	Mon 24 May 04	.	.		#		9958.43		.	.	*	
Wed 28 Apr 04	.	#	.	I	.	10342.60		.	.	+	*	Tue 25 May 04	.	.		#	}	10117.62		.	.	*	
Thu 29 Apr 04	.	#	.	I	.	10272.27		.	.	+	*	Wed 26 May 04	.	.		#	}	10109.89		.	.	*	
Fri 30 Apr 04	.	#	.	I	.	10225.57		.	.	+	*												

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

NASDAQ TIMER'S TREND

Thu 1 Apr 04	.		.	#	}	2015.01		.	+	*	Fri 30 Apr 04	#	.	I	.		1920.15		.	.	*		
Fri 2 Apr 04	.		#	.	@	2057.17	@		.	+	*	Mon 3 May 04	.	&	.		1938.72		.	.	*		
Mon 5 Apr 04	.		#	.	@	2079.12	@		.	+	*	Tue 4 May 04	.	.	I	#		1950.48		.	.	*	
Tue 6 Apr 04	.		#	.		2059.90		.	.	+	*	Wed 5 May 04	.	.	I	#		1957.26		.	.	*	
Wed 7 Apr 04	.		#	.		2050.24		.	.	+	*	Thu 6 May 04	#	.	I	.		1937.74		.	.	*	
Thu 8 Apr 04	.		#	.		2052.88		.	.	+	*	Fri 7 May 04	#	.	I	.		1917.96		.	.	*	
Mon 12 Apr 04	.		#	.		2065.48		.	.	+	*	Mon 10 May 04	#	.	I	.		1896.07		.	.	*	
Tue 13 Apr 04	.	#	.	I	#	2030.08		.	.	+	*	Tue 11 May 04	.	#	.	I	#		1931.35		.	.	*
Wed 14 Apr 04	.	#	.	I	#	2024.85		.	.	+	*	Wed 12 May 04	#	.	I	.		1925.59		.	.	*	
Thu 15 Apr 04	.	#	.	I	#	2002.17		.	.	+	*	Thu 13 May 04	#	.	I	.		1926.03		.	.	*	
Fri 16 Apr 04	.	#	.	I	#	1995.74		.	.	+	*	Fri 14 May 04	#	.	I	.		1904.25		.	.	*	
Mon 19 Apr 04	.	#	.	I	#	2020.43		.	.	+	*	Mon 17 May 04	#	.	I	.		1876.64		.	.	*	
Tue 20 Apr 04	.	#	.	I	#	1978.63		.	.	+	*	Tue 18 May 04	.	.	&	.		1897.82		.	.	*	
Wed 21 Apr 04	.	#	.	I	#	1995.63		.	.	+	*	Wed 19 May 04	#	.	I	.		1898.17		.	.	*	
Thu 22 Apr 04	.	#	.	I	#	2032.91		.	.	+	*	Thu 20 May 04	#	.	I	.		1896.59		.	.	*	
Fri 23 Apr 04	.	#	.	I	#	2049.77		.	.	+	*	Fri 21 May 04	.	.	I	#		1912.09		.	.	*	
Mon 26 Apr 04	.	#	.	I	#	2036.77		.	.	+	*	Mon 24 May 04	.	.	I	#		1922.98		.	.	*	
Tue 27 Apr 04	.	#	.	I	#	2032.53		.	.	+	*	Tue 25 May 04	.	.		#		1964.65		.	.	*	
Wed 28 Apr 04	.	#	.	I	.	1989.54		.	.	+	*	Wed 26 May 04	.	.		#		1976.15		.	.	*	
Thu 29 Apr 04	.	#	.	I	.	1958.78		.	.	+	*												

"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 near the end of June.