THE WEALTH PRESERVER

Fourth Quarter, 2003

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U.S. in the Eye of the Perfect Storm

(Just Like Japan (1989 to present) but with Interest Rates Rising)

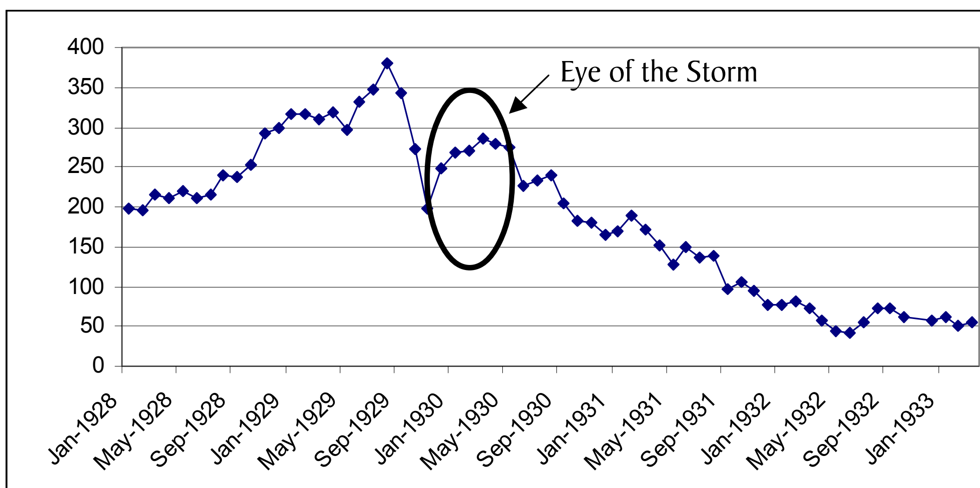
We believe Japan's Nikkei Stock Index from 1989 to present and the Dow Jones Industrial Average from 1929 to 1933 will prove to be a good proxy for the current situation in the United States. In previous issues we have reviewed how our current situation is similar to those depressionary times. In fact, we have demonstrated that the current situation is even more precarious. The most important difference is that the **debt levels** currently are dramatically higher than 1929 in the U.S. and in Japan recently. In addition, as we have reviewed several times, the corporate, state, and local government **pension problems** in the U.S. (in addition to social security, but somewhat ahead of that downward sloping curve) are horrific – grossly underfunded without any reasonable possibility of pensioners receiving anything near what they have been promised. The pension problem did not exist at all in the early 1930's. Also, recently, the U.S. Treasury 10 year note saw its yield jump up dramatically by 149 basis points from 3.11% on June 13, 2003 to 4.60% on September 2, 2003. This move represented the **largest two month rise in interest rates since 1981 and July saw the largest one month rise in interest rates since early 1987** (and we remember what happened later in 1987). Thus, we believe that dramatic rise in our interest rates (combined with the dramatic drop in the U.S. Dollar) means that the long term trend for interest rates is now upward. Accordingly, we believe the current predicament is **THE PERFECT STORM – just like Japan, but with interest rates rising (which will make it much worse, unfortunately) and with lower quality debt imploding, resulting in a deflationary credit contraction accompanied with dramatically falling asset values**. It is easy to understand how this scenario will most likely unfold when you consider that the majority in the United States have record levels of debt and are living from paycheck to paycheck.

Importantly, most of these unfortunate phenomena are **global in scope**. For example, the Germans, Italians, and French are actually somewhat ahead of the U.S. in terms of pension problems – According to the New York Times, "Italy, France and Germany have all contemplated, plotted or instituted cutbacks in state pension programs." In fact, citizens in Italy recently striked when Prime Minister Berlusconi proposed increasing the number of work years for retirement from 37 to 40 years. In regards to the deficiency of their system, the Prime Minister said, "Whoever says that everything can continue as it is now is deceiving us…This [pension system] is not a sustainable situation."

Given that background, let's look at the historical depressionary storms. From the graph of the **Dow Jones Industrial Average** from 1928 to 1933 (and the table below) you can see that the Dow dropped about 48% from the 1929 top to an intermediate bottom on 11-13-1929. From that intermediate bottom, the Dow had a choppy rebound for five months to a rebound top on 4-17-1930 – a rise of 49% (but still 22% below the top). We are calling that five month, 49% counter-trend rally the "Eye of the Storm" of the 1929-1932 stock wipeout. Importantly, after the Eye of the Storm, the market dropped relentlessly over the next three years, losing 86%! The drop from the top was 89.2%.

The situation is similar for **Japan** from 1989 to now, except that the "Eye of the Storm" was much longer but also much more tumultuous and treacherous. From the graph and the table you can see that the **Nikkei** dropped from its 1989 peak by 63.2% to an intermediate bottom on 8-18-92 – the beginning of "The Eye of this Storm." From the start of "the eye" the Nikkei moved up 49%, down 33%, up 57%, down 43%, and up 62% - and that was the "eye"!

1929-1932 DJIA Index



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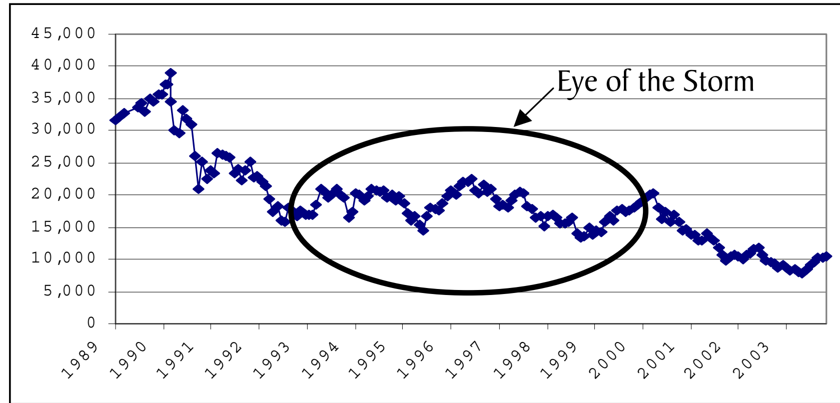
The net move in the eye was up 45% over almost 8 years (for an average annual return of just 5.6%, not much considering the extreme volatility). Importantly, after the Eye of the Storm, the Nikkei dropped relentlessly over the next three years, losing 66%! The drop from the top was 80.4%.

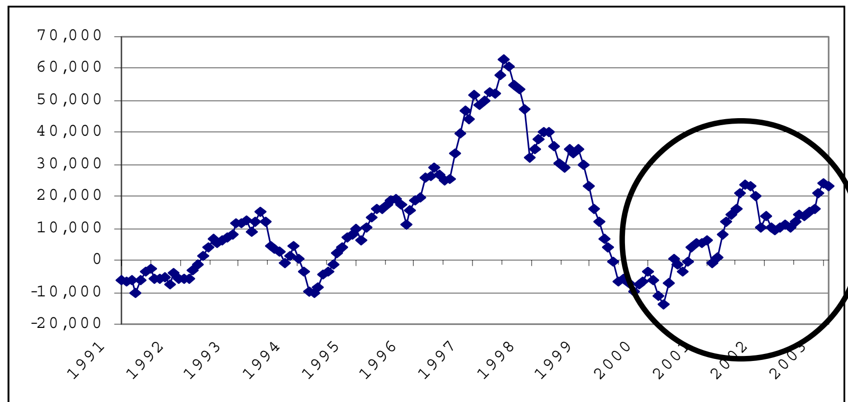
After the roaring 1990's –we started **the transition of entering the Eye of our Perfect Storm**. As show by the Advance Decline line (see graph), the average stock in the U.S. peaked in mid-1998. Since that time, most of the other major indices saw their all time highs (January 2000 for the Dow Industrials; March 2000 for the NASDAQ Russell 2000, S&P 500, Wilshire 5000) or peaked (April 2002 for the Value Line and S&P 600 Small Capitalization Index) and then dropped substantially. Take a look at the table of Stock Market Indices below.

(Please note that while the indices and the average stock (as depicted by the advance decline line) peaked at various times, they all bottomed together (on October 9, 2002). This "fanning" at the top and this "spike convergence" at the bottom demonstrates why tops are typically more difficult than bottoms to forecast and, more importantly, demonstrates how **the benefits of diversification in closely related asset classes collapses at the worst possible time – at the bottom**.)

Nikkei Index



Advance Decline Line (NYSE)



The **spike convergence October 9, 2002 bottom gives us confidence that date was the beginning of the "Eye of our Perfect Storm."** From our Stock Market Indices table, you can see the Eye of the Perfect Storm rebounds of the various indices were from 34% to 77%. The large capitalization stock indices (the one's that the professionals and institutions invest in) are still between 16.5% and 61% below their tops. However, the small capitalization stock indices are mixed with some at new highs and some at net losses. Importantly, they still experienced a strong return from trough to current levels – the eye of the storm.

Stock Market Indices Table

		Initial Drop	Eye of the Storm			Peak-Rebound			Total Drop
	Peak	%	Trough	Rebound	%	Net Decline	Next Bottom	New Drop	(Peak to Final)
Dow (1929 - 1932)	9-3-29 381	-47.8%	11-13-29 199	4-17-30 294.07	+49.2%	-22.0%	7-8-32 41.22	-86%	-89.2%
Nikkei (1989-Now)	12-29-89 38,916	-63.2%	8-18-92 14,309	4-12-00 20,833.	+45.6%	-46.5%	4-28-03 7,607	-63.5%	-80.4%
Dow (Current)	1-14-00 11,722	-37.8%	10-9-02 7,286	Now 9,783	+34.3%	-16.5%			
Russell 2000	3-9-00 606	-46.0%	10-9-02 327	Now 536	+64.0%	-11.5%			
NASDAQ	3-10-00 5,048	-77.9%	10-9-02 1,114	Now 1,976	+77.4%	-60.9%			
S & P 500	3-27-00 1,527	-49.1%	10-9-02 771	Now 1,059	+36.3%	-30.6%		Should be Bigger % than the Initial Drop	Should be in the Ballpark of 1929-32 Dow & 1989-Now Nikkei
S & P 600 Small Cap	4-16-02 257	-33.8%	10-9-02 170	Now 260	+52.7%	+1.1%			
Value Line (KVY)	4-16-02 1,331	-37.5%	10-9-02 831	Now 1,447	+74%	+8.7%			
Wilshire 5000	3-24-00 14,751	-50%	10-9-02 7,342	Now 10,239	+39.5%	-30.6%			

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Below we discuss several indications (other than those discussed above) that we are going to hit the other side of the storm (where the Dow in the 1930's lost 86% and the Nikkei lost 64%).

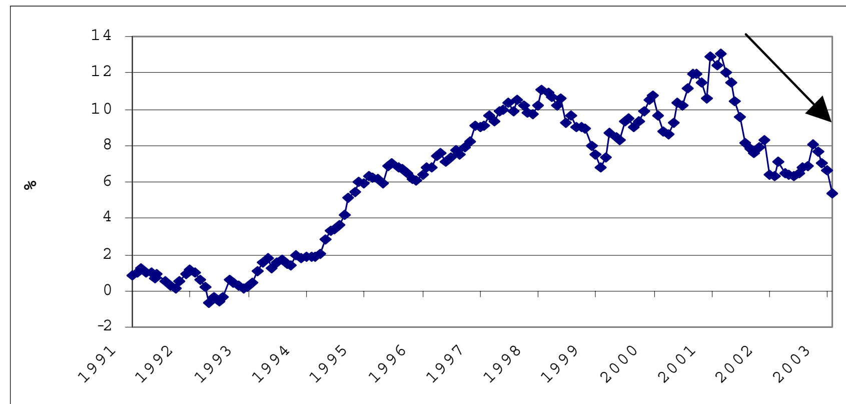
Negative Money Supply growth! This graph is an update from the 1st Quarter 2003 THE WEALTH PRESERVER. Importantly, it shows a continuation of a slow down in the rate of growth of the broadest measure of the domestic money supply, M3. What we said before still holds: "If debt begins to be liquidated faster than the money supply is increased, you will have deflation and a long and/or steep depression…This slow down is despite Mr. Greenspan cutting the discount rate" 12 times starting January 2001 (from 6% down to 0.75% currently). The graph is the annual rate of change showing a slow down in the rate of growth from a peak of 13% to about 5% currently; however, **if we change the rate of change to quarterly, the rate of change shows it first negative growth (-1%) since 1994 – not a slow down but an actual drop! We do not believe his contraction bodes well for our immediate future.**

According to the Federal Reserve Bank of St. Louis, **Commercial & Industrial loan volume (see graph) has been slowing in November 1998, peaking in December 2000 and has been averaging around a negative 10% ever since**. What this means is that the new credit that has been created has not been going into new loans that will result in returns on investment in the future (i.e. Commercial & Industrial loans). However, it has been going into financing assets that already exist (purchasing shares of stock, purchasing residential real estate) and that are not going to produce anything extra in the future. Obviously, the increasing value of those assets is not sustainable.

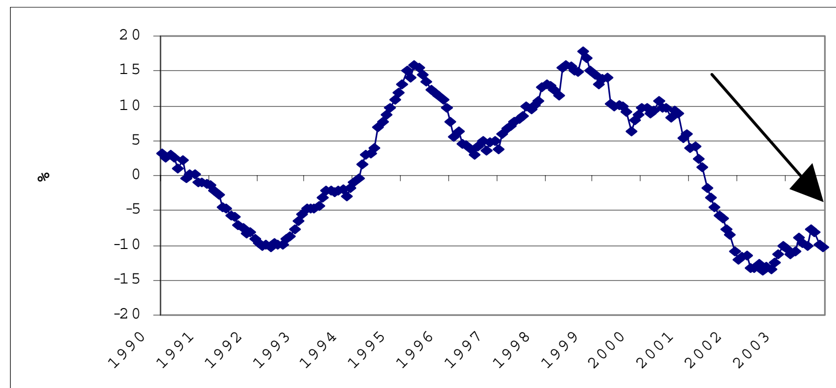
The graph of the S&P 500 show's what we think is "The Eye of our Perfect Storm" after the initial 49% drop.

Unfortunately, based on the evidence we have shown (and written about previously) we believe we will be exiting "the eye" shortly and will be resuming the downward path. Using the !929-1932 Dow and the 1989 to present Nikkei, we can expect an eventual drop of 64% to 86% from current levels. **On the Dow Jones those drops from the current level translate to a bottom of between 3,512 and 1,365**, respectively, which is in line with the forecast we made in the January 2001 THE MONTHY MISER (since renamed THE WEALTH PRESERVER) based on multiples of dividends and net profits applied related tohe 1973-1974 stock market bottom. Accompanying the drop in the stock market indices, will be a drop into a financial depression that we have written about previously. If this happens, obviously most other financial assets will also see huge declines in value. Accordingly, we are recommending shorting exchange traded funds (ETF's) and sticking to the highest quality, short term bonds.

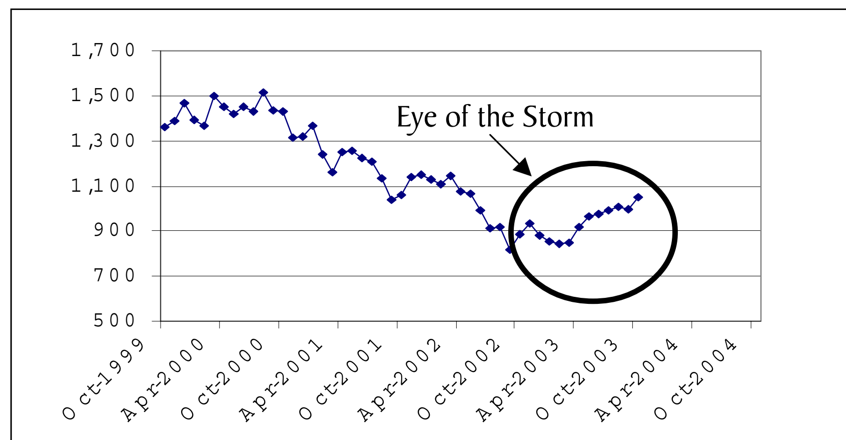
M3 Rate of Change



Negative Business Loan Volume



S & P 500



Our Fund Performance

Stamper Capital & Investments, Inc. has managed the Evergreen High Income Municipal Bond Fund since June 1990. The $1 billion fund has been repeatedly recognized by Morningstar as a top-performer among its class, with the highest ratings in the overall and three-year periods. Stamper Capital & Investments, Inc. is a Registered Investment Adviser that specializes in the municipal bond market and is dedicated to helping investors earn the maximum return per the amount of risk taken. **Check out our website at www.risk-adjusted.com to find out more about how our strategies can reduce your overall portfolio risk, while maintaining equity-sized returns!**

Short-Term Municipal Bond Fund Category, Morningstar Rankings

Period As of 10-31-03	E.H.I.M.B.F.* Rank	Number of Competitors	Category Average Total Return	E.H.I.M.B.F. Tax-Free Total Returns	Pre-Tax Equivalent Total Return[1]	Morningstar Ratings[2] (5 stars possible)	Percentage Ranking
1 Year	**25**	95	3.08%	3.62%	5.57%		
3 Years	**25**	83	4.54%	5.20%	8.00%	★★★★★	Top 10%
5 Years	**30**	71	3.87%	4.00%	6.15%	★★★★★	Top 10%
10 Years **	**14**	32	4.15%	4.24%	6.52%	★★★★★	Top 10%
Overall	**-**	-	-	-	-	★★★★★	Top 10%

*E.H.I.M.B.F. = Evergreen High Income Municipal Bond Fund, subadvised by Stamper Capital & Investments, Inc.

** Results from the B shares. A share estimate: 4.24 + 75 basis points = 4.99% or 7.68% pre-tax equivalent

The above chart summarizes the performance of our mutual fund client. We also offer Private Account Management with different strategies and greater opportunities to earn higher yields. **To give you an idea of the types of strategies available and the potentials offered through our Private Account Management, be sure to check out our website at: www.risk-adjusted.com.**

Stamper Capital & Investments, Inc.

1011 41st Ave., Suite A

Santa Cruz, CA 95062

888-206-6295

Season's Greetings!

Disclaimer: Prior Performance achievements are not necessarily an indication of future performance. In other words, past performance does not guarantee future results. There are many types of risks and returns, and the trade-offs among them can result in different positive or negative returns depending upon the subtleties of the specific credit and security characteristics.

1. The pre-tax equivalent total returns are figured based on the highest Federal income tax bracket of 35%, no state taxes were included in the calculation.

2. Morningstar's proprietary ratings reflect historical risk-adjusted performance within a narrow investment category. Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance, including the effects of sales charges, loads and redemption fees, placing more emphasis on downward variations and rewarding consistent performance. The ratings are subject to change every month. Morningstar ratings are calculated from the fund's three-, five- and ten- year (or life of fund, which ever is shorter) average annual returns in excess of 90-day U.S. Treasury Bill returns (on a monthly basis) with appropriate fee and tax adjustments and a risk factor that reflects the fund performance below 90-day T-bill returns (on a monthly basis). The top 10% of the funds in each category receive the highest a rating of five stars. The next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars, and the final 10% receive one star. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.