Stamper Capital & Investments, Inc.

"Focusing on Upside Potential with Downside Protection Since 1995."

January 2004 Market Commentary

(In this discussion we will go over Stamper Capital's Upside Potential/Downside Protection Analysis on the Economy, Equities, Real Estate, Gold & Silver, High Yield Bonds, High Grade Bonds, and Municipal Bonds.)

First, a question to get everyone thinking realistically:

Do you really believe the biggest bubble in financial history was defused by one of the shortest and shallowest recessions on record?

Primary Investment Discussion Topic

We think the most important question right now as far as investing goes is:

"Was the 2003 "recovery" really a recovery at all?"

This question may seem unusual right now (January 2004), but we believe answering this question correctly will help people make better investment decisions over the next couple of years at a minimum.

Why would anyone think that the 2003 "recovery" was not really a recovery? For several reasons which we explain in detail below.

A major reason for this minority opinion is that deciding this period was "a recovery" was based on the growth of Gross Domestic Product (GDP) and the formula for deriving GDP was changed in some very important ways in mid-1995 (see below) that make this statistic less useful. It is probable those same changes in calculating GDP (that took place back in 1995), among other factors, that led many to believe in the ever increasing wealth of the new paradigm of the late 1990's. Back then, the combination of the hyped potential of the new technologies accompanied with what looked to be an ever increasing GDP quite possibly was the most important enabling factor of the dot.com/telecommunications stock bubble that pulled the rest of the equity markets up to wildly overvalued levels through early 2000. Importantly, a primary result of the mania was a huge amount of investment in inappropriate assets. Many of those assets have already been scrapped; however, it could be that only the first leg of that realignment from the huge amount of mal-investment has taken place.

Importantly, according to Business Week (January 19, 2004 page 32) in a meeting with the American Economic Association **on January 3, 2004, Fed Chairman Greenspan**

said that monetary policy could be judged "too loose" **were it not for the risk of DEFLATION!** You have read that correctly - the head of the Fed said that just a couple of weeks ago. It is interesting to us that the Fed is still worried about Deflation when we are 26 weeks into "the recovery." Alas, another hint that makes one question whether 2003 was a really a recovery.

Employment - While GDP (as currently calculated) indicates that we have had a recovery, **Unemployment (percent unemployed) and job growth indicate clearly that we have not had a recovery.** Importantly, while Unemployment is a much less contrived number than GDP (as we explain in detail below), currently, it still shows a definite bias in favor of making the economy look better than it is because the number of people who give up looking for work is taken out of the denominator as well as the numerator – therefore improvement from the June 2003 nine year high of 6.4% to the recent 5.7% is somewhat illusory. For example, December 2003's drop from 5.9% to 5.7% happened principally because more than 300,000 workers left the labor force. The bottom line is that Unemployment does not consider the 3,000,000+ people who have given up looking for work over the past four years. Many economists estimate that real unemployment - not taking out those who have given up looking for work - has been hovering at around 9% over the past couple of years and has yet to improve. The Unemployment percentage also does not differentiate between those who were working full time that are now working part time, nor does it consider that average salaries have been dropping. Thus, all by itself the Unemployment percentage does not indicate a recovery because it is still around 6% and, when adjusted for its shortcomings, the indicator points to a recession that is continuing.

Actual Jobs - A more reliable statistic than Unemployment is the actual job count or actual jobs begun and/or lost. This number is subject to less subjectivity and derivation than Unemployment, and much less so than GDP. Importantly, over 2.7 million net jobs have been lost since the recession officially began in 2001. Growth in the number of US Nonfarm Payroll Jobs began slowing in March 2000 and went negative a year later in March 2001. From that time through December 2003 the average month has seen a net loss of 79,000 jobs. Over the past five months there has been improvement with an average monthly increase of 56,000 new jobs; however, economists generally agree that monthly job growth averaging 200,000 is required for a healthy economy. Unfortunately, we expect the negative trend in job creation to resume and quickly erase the improvement of the last five months. Thus, this even more reliable index of economic strength also indicates that there really has not been a recovery.

Important Changes in GDP Derivation: Importantly, beginning with the third quarter of 1995, the manner in which Gross Domestic Product (GDP) is calculated was changed in a way that calls into question the usefulness of the index. Historically the index measured productivity or growth of the economy based on the **prices** of goods and services, applied on their volumes. However, at that time, The Bureau of Labor Statistics (BLS) began to focus on a new measurement method because, based on the old historical method, the economy had been stagnant from 1992 to 1995, a period when technology and computing begun to be used more broadly. Apparently, it was decided that the

benefits of the increasing use of technology was not being properly reflected in the growth of GDP. The new method took into account not just the price of computer equipment, for example, but the change in its computational power; thus, at the least, bringing a substantial amount of judgment into the computation and, as you will see, at a worst, double counting the possible improvement.

From the following examples, you can understand why the BLS decided to make this change. Holding price constant, a computer that had cost $3,000 could be replaced a year later with a similarly priced computer that was 2x more powerful in terms of computational speed and storage. So, in fact, the cost of that computational power had dropped in half. Based on the new method, now the growth of GDP for producing and selling that new computer, rather than being 0% growth (because the sales price had not changed), was 100% since the computing power had doubled.

However, some analysts argue that the increase in computational power is not real growth – being able to turn out more computational power per unit does not necessarily translate into more economic units being produced. We believe there are numerous reasons why someone may replace an old computer with a new one that have less to do with speed and more to do with the software working correctly, for example, or based on numerous other factors. Thus, we believe it is more reasonable to continue to rely on changes in real selling prices.

Now, in fact, not only has computational power increased but price has dropped dramatically. A longer period example might make everything more apparent: at Stamper Capital we have several 500 speed computers that we purchased for $3,000 a few years ago. But now you can purchase a 2,500 speed computer that is 5x faster for only $500 or a sixth of our original machines. So adjusting "growth" based on increased speed would show an improvement by a factor of 5x based on the new method, while, based on the old price-change method, the change in growth would be an 83% drop. Therefore, not only does the new method give more credit for something that does not necessarily represent economic growth, but the growth rate is not lowered by the decrease in prices.

We at Stamper Capital so far have decided that the increased computational power of new computers is not worth the increased cost – that new 2,500 speed computers do little to improve our productivity over the 500 speed computers we have been using. Thus, for us, there has been essentially no increase in productivity because of increased computer speed of 5x or more; however, if we were to make a purchase it would be at a price dramatically lower than where we purchased our original 500 speed computers.

The reality is that the benefit from technological improvements does eventually result in improved productivity, but that improvement should be measured where and when it is achieved, not as the increase in computational speed and increased storage but in the increased amount of widgets that result from the new technologies' use**. To us, the new method of calculating GDP essentially double counts because it counts the**

improvement of the speed and it counts the eventual improvement that hopefully shows up in output as a result of the increase in computational power.

Therefore, for those reasons, we believe that GDP has not been the most useful statistic since the middle of 1995 and should be taken with a grain of salt when used for investment decisions. We think that, if GDP had been calculated in the previous manner, it would help one to make a fairer assessment of whether 2003 was a recovery, or not.

What about all of the government's economic stimulus measures? In response to the decline in the stock market and the economy (including job losses) Fed Chairman, Alan Greenspan, lowered the Federal Discount Rate a record 13 consecutive times to a 45-year low of just 1.0%. In addition, President Bush implemented two income tax-rate cuts and a cut of the tax-rate applied on dividends and a cut of the tax-rate applied on capital gains. Finally, a fiscal stimulus in the form of a huge amount of deficit spending has also been under taken at the national level (somewhat offset by budget curtailments by numerous states). These are the largest and most expansive measures of economic stimulus, both monetary and fiscal, ever undertaken in the U.S. We believe there is a reason for this!!! We believe the reason is because the Fed Chairman (and the President) is very concerned about the economy going into a deflationary depression after the largest financial bubble in financial history. Again, the Fed is keeping short-term interest rates at their lowest level in 45 years even though it is 26 months since "the recovery" officially began (recession ended) in November 2001.

Monetary Stimulus Could Already Be Stalling – Not reported by the press but reported in the 1st Quarter 2003 Issue of THE WEALTH PRESERVER is that, in spite of the low interest rates, the broadest measure of the domestic money supply, M3, has been slowing since November 2001 (when the recession officially ended). More importantly, the measure has been experiencing negative growth since its July 28, 2003 peak - the first time in over 30 years if measured on a quarterly-change basis (and remarkably during the exact same time period as the "explosive growth in 3rd quarter 2003 GDP"). A look at the graph is quite striking. Whether looking at the actual index data points or looking at the rates of change of the index, both show up as a dramatic downturn compared to the rest of the time series. The graph of M2, a narrower measure of the money supply, has a very similar look to it. Slowing and negative money supply growth generally imply a contracting economy.

Intermediate Conclusion – If you decide that GDP is no longer a reliable statistic and if you decide to rely on Unemployment and actual job count and money supply growth, you will have a difficult time concluding that there has, in fact, been a recovery over the past year or so. As you can guess, we do not think that there has been one.

Other Important topics to consider – There are many other points to consider relative to the recovery and investing.

Stocks - We believe all stock index price drops (except the drop in the NASDAQ which dropped almost 80%) were far too shallow to be market bottoms following the size of the

1990's asset bubble. Fair value on the Dow Jones Industrial (DOW) Average is around 4,500 to 5,000 but the DOW bottomed at only around 7,300 (about 800 points higher than when Fed Chairman Greenspan made his irrational exuberance comment). Importantly, fair value is not market-bottom value. Market-bottom value on the DOW is around 1,500 to 3,500 (based comparable multiples of dividends and earnings, respectively, at the 1974 market low). Also, market participants were in no way shaken out of the equity markets like they are at a normal cycle bottom. **Currently, the DOW, at 10,460, is over 2x higher than fair value and over 4x higher than at a level comparable to the 1974 market bottom** (based on dividends and earnings). Also, insider selling has never been at a higher level for as long a period as it has been during 2003. (What do you suppose that huge proportion of insiders realize that the general investing public seems to be unaware of?)

While most stocks are somewhat below their peaks, m**argin debt and consumer debt levels** (principally credit card and auto loans, excluding mortgage debt) of individuals in the United States are both higher - both at record levels. Thus, if you include those record debt levels into the equation, stocks are at valuation levels bordering on those at their various new-decade bubble tops. **Using Stamper Capital's Upside Potential/Downside Protection methodology** on this macro level indicates there is little upside potential in equities from these record valuation levels and rock-bottom downside protection is almost non-existent at about 75% lower than current levels!

As for the stock rallies during 2003 (and for commodity prices as well), if the fall of the U.S. Dollar is considered and the stocks are valued in a currency that was stable during that year, the U.S. equity markets went essentially sideways; if the prices of U.S. stocks are valued in terms of a currency that went up in value, the prices actually went down in value. Thus, domestic equities could actually be in a stealth bear market.

Real Estate – Real estate is somewhat of a regional phenomenon. Thus, its valuation or overvaluation depends more specifically on particular locations. However, we do have a methodology that we use to value assets which can be applied fairly easily to specific and general situations and shed light on them, especially when things are as out of whack as they are currently. We look at housing prices in terms of the cost of financing them related to the rental income they would throw off if rented. Locally, here in Santa Cruz, we know of a large house in a higher-end neighborhood that has been turned into apartments and is rented out to a few tenants for a total of $5,000 per month or $60,000 per year. Although this figure is before expenses, we will capitalize it at the going rate for loans as large as would be required if this house were purchased and financed. That rate is 6%. So $60,000 divided by 6% is $1,000,000. However, a smaller house on a lot that is exactly half of its size sold just a few months ago for $2.5 million (and the buyer is going to tear it down). Thus, the subject house on twice the lot would mostly likely sell for at least $4 million (we will be conservative and not just double the price to $5 million). Thus, based on our model, real estate on this street is overvalued by about 4x, $4 million versus $1 million. We have performed these calculations numerous times on many situations we have become aware of and, at least in California, based on rental income, residential real estate is generally overvalued by a factor or 2x to 4x. Thus, we

see little upside potential and poor downside with rock-bottom protection at around 50% or lower.

Consumer Credit Expansion – Importantly, the economic stimulus has had two primary effects: 1) increased borrowing for consumption, and purchasing & refinancing residential real estate and 2) purchasing equities. US consumers now owe nearly $2 trillion, up from $1.5 trillion three years ago after the stock market peak, an increase of a whopping 33%. U.S. household debt (revolving debt consisting primarily of credit card debt and auto loans) is a record $18,700 per household. Thus, the country's citizens are clearly more in debt now than they were at the 2000 market top.

Just as important, the stimulus has not positively impacted investment, which is the engine of future growth. To the contrary, the result has been a consumer credit driven rebound. Unfortunately, a consumer credit financed rebound is most likely to be unsustainable as it is consumption rather than investment. Business borrowing has been continuing at around a **negative** 10% growth rate for the last few years – financially secure businesses do not want to borrow and banks do not want to lend to poor businesses. At the same time, consumer debt (credit cards and auto loans) and mortgage debt have provided most of the "growth." The problem is that consumption (including real estate which does not provide future growth like a farm which gives us future food, or a wall board plant which helps make future housing more affordable) does not provide much value in the future (a house does not grow more rooms for people to sleep in). The entire buildup from the middle of the 1990's including through the 2003 "recovery" has been based on individuals and governments using up their assets (and borrowing ability) to consume rather than to invest for the future. You can see this in the record debt levels and liabilities of individuals and Federal, State & local governments, and most large corporations. Thus, over this time period we have "consumed our future and paid for it with the savings of the past and with borrowings due in the future." This situation has continued during "the recovery" and is almost certainly not sustainable.

Retirement & Pension Funding Problems – We have covered this subject in great detail a few times before – a complete analysis could easily fill a few graduate level textbooks. The short version on the Retirement Pension Plans is that only 34.5 million people are covered by private pension plans and that the estimated under funding for these plans is more than $350 billion (under funded). This estimate is after the recent stock and bond market rallies. If the markets trade off, the situation will only get worse. Similar to Social Security, which has a much larger deficit, the real problem is not the return on investment; it is the shortfall of investment to fund the promised liabilities in the first place. There is an insurance fund, the Pension Benefit Guaranty Corp., that is funded by insurance premiums paid by the corporate plans; however, the PBGC already has a record $11 billion deficit of its own.

Another closely related subject is the Health Benefit Retirement Pension Plans (as opposed to the Living Benefits). Some retirees not only have retirement benefits but also health insurance benefits when they retire. There is an excellent article, "The Hidden Bite of Retiree Health" in the January 19th 2004 edition of BUSINESS WEEK that

makes an additional point to the fact that Government and Corporate pension plans are grossly under funded. The articles subtitle pretty much sums up that point: "At Many Companies, the Costs [of Retiree Health Benefits] May be a Bigger Drain than Those for [Their] Pension Plans." In great detail, the article explains how to dissect the footnotes of a corporation's annual financial statement to determine just how bad it is. Cutting to the chase, the article points out that health care retirement costs "consumed at least 15% of 2002 operating cash flow at General Motors, Dupont, and Delta Air Lines." The implication is that most corporations with such plans are in similar situations. In detail, the article analyzes SBC Communications ("SBC"-NYSE), the $88 billion market-valued equity telecommunications company and determines it has a $20 billion retiree healthcare plan deficit (this does not include its retirement pension plan deficit) or 23% of equity value but the balance sheet only shows $10 billion (because of the fuzzy accounting that is permitted).

We have been tracking retirement and healthcare pension plans in corporate and municipal issuer's financial statements for some time now. The liabilities are very difficult to pinpoint, most likely are not understood by most investors and are under represented on the balance sheets and income statements; thus, allowing for people to overvalue the associated assets versus the increasing claim against them. We believe these types of under-funded liabilities are a financial time bomb that will most likely "go off" in the not to distant future. If they do, they will significantly impact the value of the associated investments.

Technology, The Internet & Deflation – When we look at advertisements in the Sunday paper, we clearly see deflation. Prices of cashmere sweaters at $50, leather coats at $50 to $100 (even at Macy's), top of the line Nike shoes at $45 (down from $80), cars are either at 0% financing for five years or $2,500 off (thus, they are down $2,500 in price and the quality is much higher than even a few years ago), 900-megahertz cordless telephones have dropped from $200 a few years ago to $25, compact discs are down this year from $18 to around $12, residential rents are down (even though residential real estate is up?), commercial real estate and rents are both down, computer prices are down easily by 50% and are 100% faster in computing ability. Importantly, not only are the prices of these goods lower, but the quality is higher – thus, you get much more for your money – i.e. deflation.

The only areas that are not experiencing deflation are those in which the government or government regulation is heavily involved. Yes, tuition at University of California is going up dramatically (to help fund the State's deficit) but it was subsidized to start with and is still below market cost so it is not a useful statistic. Yes, prices of residential real estate are going up in many areas, but residential real estate is one of the most well known pet programs of the U.S. government. Healthcare – heavily government regulated. Drugs – heavily government regulated. Non-government regulated items and services – down in price.

Importantly, both Technology & the Internet have been enabling and increasing this deflation. (It is ironic that the engine that people thought was going to dramatically

increase everyone's wealth is causing deflation; luckily, over the much longer run, it should eventually increase world wide wealth.) Both Technology and the Internet have helped productivity to increase – that is, for more goods to be produced with less labor and at lower cost. Thus, they both have hurt employment (in the short run) by making some employees less valuable (and expendable). Importantly, displaced employees would normally be rehired into other jobs (and they eventually will after cycle bottom), but, because of the high levels of consumption rather than savings & investment over the past decade, there have not been enough new plants, factories and businesses to create new jobs or replace discontinued jobs (yet). The result is a falling demand for labor, rising unemployment, and falling wage rates. Also, Technology and the Internet both have allowed U.S. marketers and manufactures to export jobs (at lower wages) and import goods (at lower prices). Thus, the Technology & the Internet combined with huge debt levels domestically and the trend toward globalization are combining to create not only increased productivity but also deflation, unemployment, and falling wages which are very painful when record high debt levels have to be paid down.

When you think about it, the majority of the best performing stocks over the past two decades have been disinflation & deflation plays: Home Depot ("HD"-NYSE), Dell Computer ("DELL"-NASDAQ), Costco Wholesale ("COST"-NASDAQ), and Wal-Mart ("WMT"-NYSE). It's also very interesting that these are all retailers - so they are also consumption plays - they relied on delivering more and more value at lower and lower prices. In fact, I know quite a few people who, because they did not realize we were in disinflation (much less deflation), purchased more than normal amounts of merchandise from these retailers because the prices were so low and they assumed they would not see these bargain prices ever again. To their chagrin, prices continued to drop. People who made such purchases with credit cards were probably even more upset since the liabilities they took on to make such purchases held constant (or grew with interest) while the prices of these products kept falling. (Note: As great as these companies are and have been the prices of their shares are still dramatically overvalued along with the rest of the equity markets although they should continue to outperform on a relative basis.)

Credit Contraction – Unfortunately, sooner or later we are going to have to eat our cooking. That is, we will realize that the result of the "investment" mania and the recent fiscal stimulus was that it increased borrowing and consumption and not investment. We have consumed our future - the future for the baby boomers is going to arrive soon and we will have fewer assets to pay for their retirement than we thought (in part, because of inadequate accounting, both corporate and government, and because of low savings rates, poor investments, and money wasted on what will soon be seen as extravagant luxuries) so we will have to stop consuming and have to start saving. In general, we will have to lower consumption just to make ends meet.

We have read that the value of the average retirement account is only about $50,000 while the average household has almost $19,000 in revolving debt (a record level). We have documented that the private pension funds are dramatically under funded and we know the situation for Social Security is even worse. We have also detailed (in THE WEALTH PRESERVER) that most State government and municipal pension plans are

also grossly under funded. We know that the savings rate has dropped to 2% of after-tax income in the first half of 2003, according to the Feds. Ten years ago, the savings rate was 9%. What do you think is going to happen when the 77 million baby boomers smell the coffee and realize they are going to have to lower their consumption and raise their rate of savings? One thing - lots of goods that we deem "necessities" like compact disks, cell phones, a daily Starbucks coffee, even a more recent auto, etc. will be deemed extravagant luxuries and their prices and manufacturing/sales volumes will drop dramatically. These declines will ripple as employees for those industries will be hard hit and will lower their consumption of other items. Basically, it will be the late 1990's but in reverse and probably worse. As for investing, it means that we will see a lot more bankruptcies (individual (already at record levels), corporate, municipality, and possibly even some States). Accordingly, prices of equities and low quality debt will drop dramatically if this situation ensues as we think is likely.

The U.S. Dollar – Another Wild Card - The U.S. Dollar, to the advantage of the government and citizens of the United States, has been the reserve currency of the world. Thus, essentially, the U.S. government has been able to export dollars to foreigners, which they have decided to hold. This situation has let the citizens of the U.S., in effect, be subsidized by those foreigners. To our credit, the reason foreigners have freely decided to hold U.S. dollars is because of its historical stability and the perceived strength of our country. However, recently things have been changing. Principally due to the deteriorating credit quality of the U.S. and its dollar (due, in part, from the recent stimulus programs), foreigners have begun to sell the Dollar. In fact, compared to the Yen, the U.S. dollar's value has dropped by about 33% (over the past two years), which means that the cost of goods that we purchase abroad should rise. Sooner or later, the Federal Reserve will want to stabilize the dollar relative to other currencies. Such stabilization could take the form of getting other nations to purposely cut the value of their currency (also) or it could entail the Federal Reserve raising short-term interest rates. If the Fed raises domestic short-term interest rates, the result would most likely be the stalling of our economy.

Middle upward leg of a "Sideways Right-Tilted W" - or - The Eye of the Perfect Storm - In the 2nd Quarter 2002 THE WEALTH PRESERVER article, "'W'hat the Economy Might Look Like," we detailed that we thought that the downturn from 2000 would probably take the shape of a "W" that was tilted with the right side lower than the left side, a sideways right-titled W, if you will. The current rebound from October 2002 would be the leg up to the middle point of the W, with the next leg to be downward, and because it is to be right-tilted, this next downward leg would be a much bigger drop than the first down leg (from 2000).

While we did not believe that the current economic rebound (from October 2002) would last as long as it has, we are still, unfortunately, confident in our forecast of this shape. In the 4th Quarter 2003 THE WEALTH PRESERVER article "U.S. in the Eye of the Perfect Storm" we updated our analysis and came to the same conclusion. In that article, we highlighted the "eyes" of two different storms: one in the middle of the 1929-1933 drop in the Dow Jones Industrial Average and one in the middle of the 1989-present drop

in the Nikkei average in Japan. In 1929, after its initial drop of 49% in the DOW, the "eye" of that storm was a choppy but persistent 49% rise over five months. After its initial 63% drop for the Nikkei (from the 1989 top), the "eye" of that storm was over a much longer period and was also more tumultuous moving up 49%, down 33%, up 57%, down 43%, and up 62% for a net move upward of 46% over almost eight years (for an average annual return of just 5.6%, not much considering the huge volatility). Now here is the most important part - **Upon exiting the "eyes" of their respective historical storms, the DOW fell relentlessly over the next three years losing 86% and the Nikkei lost 66% over the next three years (and is probably not finished yet).** Total wipeouts from the initial tops to the bottoms were 89.2% for the DOW and 80.4% for the Nikkei (so far). What we think could be the "Eye" of the Perfect Storm (Perfect because our current situation is so similar to Japan or 1929 but worse with much higher levels of debt than Japan had or that existed in 1929 in the U.S.) began on 10-9-02 at 7,286 on the DOW after the 38% drop from the 2000 top. With the DOW currently at around 10,550 the current rebound is 45%. Based on the history we just reviewed, if we are correct in our forecast of the shape of the current economy and markets, and we are about to exit what would turn out to be "the eye of the current storm," drops like those highlighted represent reasonable precedents and are not out of the question.

Summary of Economic Resolutions - With debt levels at very high levels after rampant consumption of goods, which essentially produce no future value (as opposed to investment), the U.S. is now experiencing a price level decline (i.e. deflation) because of increased productivity from improved technology and from exporting jobs at lower wages to import goods at lower costs. On top of that, the problem is that the record high debt levels need to be paid off with dollars that are ever increasing in value. It is very similar to the inflation of the 1970's but in the other direction. Importantly, the 1970's inflation was created by artificial increases in the money supply (printing by the government) which when stopped turned out to be not too painful. The current situation, including the 1990's bubbles, is different in that it was created not just by increases in the supply of money from printing but from huge increases in credit, i.e. debt that has to be paid back. It is the fact that the debt has to be paid back (or the borrower goes through bankruptcy and the lender gets cents on the dollar) and that it has to be paid back with dollars that are increasing in value (deflation) that makes the end of a credit/debt cycle potentially much more difficult than the end of a monetary inflation (increased money supply from printing) cycle. Essentially, we had a "soft landing" from the 1970's inflation cycle. We believe we will be extremely lucky to have a "soft landing" from this extra large credit/debt cycle. The more likely outcome is declining values of investments and products.

Back to the question, "If not a recovery, then how do we characterize 2003?" We think eventually (in a few years) it is very likely historians will record it as one of the following:

1) **The shortest and most muted recovery on record - "The Dead-Cat Bounce Recovery",**

or

2) "The Eye of the Perfect Storm" - a “breather” in a giant credit contraction/recession/depression that began when the 2000 market bubble top was first pricked.

Our Forecasts: Based on Stamper Capital’s Upside Potential/Downside Protection Analysis, in part, on the macro level as explained above, and, in part, on a micro basis at the actual investment level, we see essentially no upside potential and very poor downside protection in U.S. equities (which are currently at extremely high valuation levels based on almost all historical measures), in lower quality bonds (i.e. junk bonds which are at very low yields on an absolute basis and also relative to higher quality bond yields), in Gold & Silver (which will likely fall from their current peaks as deflation becomes evident), long duration (lots of interest rate risk) high quality bonds (which will fall in price as interest rates rise from their 45 year lows), and in real estate (which we demonstrated is now about 2x to 4x overvalued based on rents in most markets). For even more details, see our January 2003 forecast which still holds. We believe high quality, short duration bonds are still about the best place to be invested.

For us, “safety” continues to be the watchword for this decade.

(Posted January 16, 2004)

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Stamper Capital & Investments, Inc. has been the sub-adviser to this Fund since October 1995 and B. Clark Stamper, our President, has been its Portfolio Manager since June 1990.

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