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Stamper Capital & Investments, Inc.

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

The Recent Terrorist Acts & Our Financial Forecast

(Written September 18, 2001)

With great sadness our hearts go out to those whose family, friends, and acquaintances were negatively affected by the recent terrorist acts. All upright citizens of the U.S. and this world view this act as a tragedy. Unfortunately, in addition to emotional heartache and pain, it will also have economic and financial consequences.

Economic Consequences - The easiest way for us to explain our forecast of the consequences of this terrible act is in broad economic terms. Basically, the destruction of property, in addition to the loss of productivity of the people who died, is a financial loss that will be made up from our future resources. In essence, we will be shifting some assets from the future to repair the present.

However, importantly, we at Stamper Capital were have been forecasting a drop in equity prices and a downturn in the economy for some time. In our "**January 2000 Market Commentary**" (http://www.risk-adjusted.com/) we pointed out that "at the 11,000 level on the Dow Jones Industrial Average, valuation levels relative to historical norms are…highly speculative" and "owning the market in general at the…lofty valuation levels is questionable." We also said in reference to high yield junk taxable bonds, "this credit crunch and accompanying spread widening may be the first signs of an economy that is dropping into recession. This change in the market will likely increase its volatility."

Our forecast was (and is) based on the topping of the U.S. stock market which began in early 1998 when the advance/decline line (proportion of stocks going up versus stocks going down) peaked, later confirmed by the top in the NASDAQ in early 2000 and the top in the S&P 500 a month later, both dropping from absurd valuation levels (see our January 2001 article "Money Magazine Predicts Dow Jones Plunge [by] 4,527 to 9,145 points." In addition, our forecast was based, in part, on the fact that the junk bond taxable market had been collapsing since June 1998 and is now at a level cheaper (on a yield spread basis) than it was at the bottom of the market in 1989/1990 shortly after Drexel Burnham went bankrupt.

So, we were already forecasting a very serious drop in equity prices and, while this recent tragedy definitely has specific negative financial impacts, in terms of the entire financial picture of the U.S. and the World, its actual financial effect is not that large. For example, while the direct economic cost is probably around $100 billion, almost $5 trillion of investor's paper wealth had already disappeared from the declining equity markets before this event. Accordingly, we contend the economic downtrend is much deeper than what was caused by this terrible crime - however, it certainly exposed the weakness of the

economy. The much larger effect is psychological and it confirms THE BULL MARKET IS OVER.

Market action on the first day of trading after the World Trade Towers were destroyed (Monday, September 17, 2001) gave additional confirmation to our view on the market. Previous to this day, while we believed the tops were in for the almost all equity indices including the NASDAQ and the S&P 500, we thought that the Dow Jones Industrial Average might actually barely achieve a new high (so far the Dow has dropped dramatically less that the other major equity indices). With the September 17, 2001 drop down below the previous low of 9106 on March 22, 2001, we now believe that the Dow Jones Industrial Average did top in January 2000 and is in a sustained down trend. However, in a sustained down trend, there will be significant and sharp rallies. The key is to realize the trend is down.

Thus, to us, the message is clear, we are now definitely heading into a prolonged economic contraction that will result in a dramatic drop in the prices of many financial asset classes including stocks (which are still grossly overvalued and will be much lower a few years from now), lower quality bonds, and the shocker to most - real estate which could lose more than fifty percent of its value in those regional areas where it had risen dramatically.

Accordingly, our recommendation is to batten down the hatches, cut expenses, raise cash, lower market exposure to any relatively speculative investments that have been trading in an upward trend over the past few years. We also believe that longer term interest rates could rise, resulting in a drop in the prices of long term high quality bonds. The safest values are shorter term HIGH quality bonds or HIGH quality money market accounts. **We believe SAFETY is the watchword for this decade**

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