

Central Plains Advisors, Inc.

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November 2003

Interim Update

No Bull Here

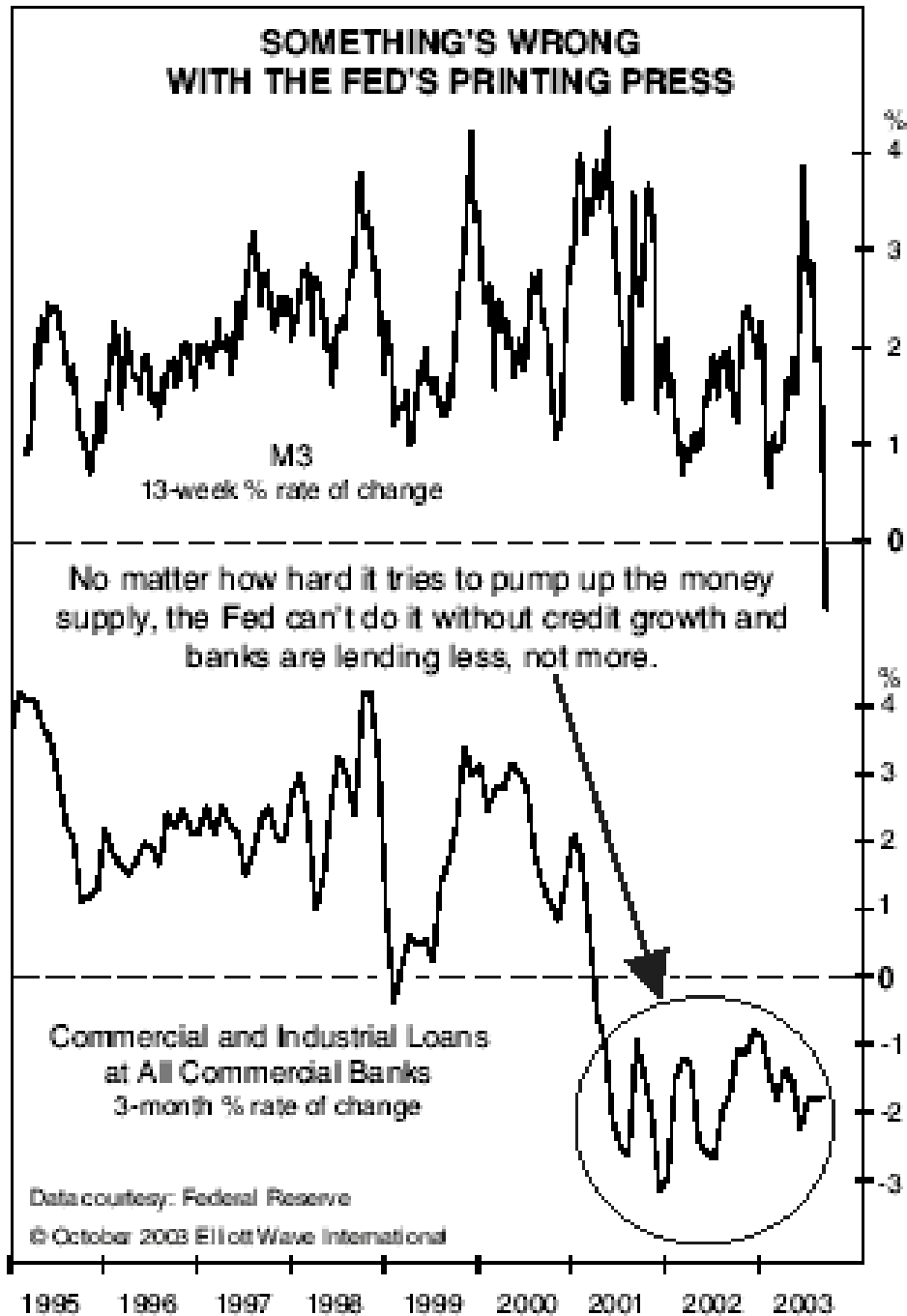
The 7.2% real GDP number has emboldened the bulls and well it should. Quarters this large on a seasonally adjusted annual rate are rare indeed. In a recent Webb Buzz we opined that this, in all probability, would prove to be the top of the weak recovery off the recession low – November 2001. Why do we stick by our guns in the face of this 7.2% number? Indeed, why even in the face of 3 months of workers being added to the labor force? Doesn't this add the missing link to what will become a strong economic recovery and expansion? For answers to these legitimate questions we offer the following reasons:

Reason # 1: Little noticed in the financial press, but of immense importance, are the following charts, the first depicting the US money supply and the latter bank loans. The top chart is a broad measure (M3) of money supply – please note the precipitant decline since July of this year. Why July? That's the month the leveraged bond traders decided the Fed's "carry trade" was no longer assured. The "carry trade" of course is borrowing short at 1% and investing at 5%. Sir Alan gave a slight hint in June that the Fed may no longer consider buying long-term governments. After the sharp decline in long government prices, he told us he didn't really mean it, but the damage was already done. Why is this important? As Ferlin Husky once said, "Love makes the world go around but money greases the wheel." Although the credit markets are wide open, the banks need also to help if this recovery is to be sustained. Note the lower chart. Loans are not being made to the commercial and industrial business community. What we are now facing, big time is a liquidity trap. These two charts, unless revised quickly, most certainly indicate economic difficulty to come and in all probability soon.

Reason # 2: The recession, which officially ended November '01 (2 years ago), was hailed as shallow and short. However, the recovery has been the same, particularly as it relates to jobs. As mentioned above, however, that seems to be changing but consider this: almost 80% of the jobs created over the last 3 months have come from non-competitive and non-growth creating areas like education, health services, temporary staffing, and government. The manufacturing area continues to lose jobs and the overall business sector, which amounts to at least 40% of the economy, is still suffering. Auditors auditing other auditing firms does not add to the economic pie.

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The Elliott Wave Financial Forecast, Oct. 31, 2003

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