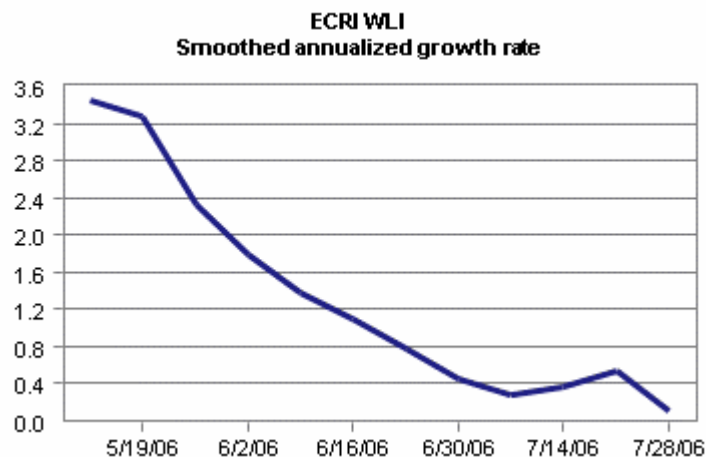


Indicators Pointing South

August 14, 2006

As of July 28, 2006, the Economic Cycle Research Institute whom we have a great deal of respect for is forecasting a near zero annualized growth rate for the US economy. You may recall from our previous writings that, this group of researchers built upon the work of Geoffrey Moore at the National Bureau of Economic Research. Mr. Moore along with Wesley Mitchell and Arthur Burns were the originators of the leading, lagging, and coinciding indicators. These were developed during a period in the 1990's when the original indicators seemed to no longer work, and their usage to wane. This new organization made the adjustments necessary to account for the structural changes in the economy and once again is providing a very good indicator of future business activity. Good, but not perfect. Using the jargon of the day it works for us! The following chart displays their most recent projection. Please note that the decline began in earnest around the recent top in the stock market.



On another matter, we all know now that the Fed paused last August 8th after 17 straight ¼% increases in the Federal Funds rate. This was expected by us. If our analysis is correct, this will be it for this cycle, and we see no way another “bubble” can be blown. We just may be at the point where lenders won’t lend and borrowers won’t borrow. If so, and it will happen at some point, we are in for the deflation we expect, but which has been delayed by the Fed “forever blowing bubbles.” The last, of course, being housing which is going south every day.