

Markets Continue To Mark Time

March 22, 2005

The markets don't seem to know exactly what to do. Most all indexes remain flat to slightly down for the year to date. Patience in our opinion will be rewarded out in the meantime it seems difficult for many to just sit tight and wait for the bargains that are sure to come.

As you know, we at CPAI have had our clients in high quality money market funds for approximately six months. The bond market is right where we sold in September having been both higher and lower from our sell point. From a valuation standpoint, the long government "should be" 4.80%. That number comes from adding 2.3% (year over year CPAI increase) to 2.5% (historical premium for long dated government bonds).

Interestingly enough, 4.80% was exactly where we sold in September '04 and where it closed as of March 21, 2005. Last September, the market was overvalued as inflation was lower and is now fairly valued as inflation has moved upward. We are happy with what we have done – for 6 months we have assumed no risk, credit or market, during a period where there was no gain to obtain. Why take risk when there is no reward? Risk should be taken when there is potential gain to achieve.

A buying point will rear its ugly head one of these days – and we will be ready. Remember total returns are not linear – a year's reasonable return can come in just days. Be thankful – we were prepared to "preach" to you again about behavioral industry mistakes that come during such times as this. We deferred!