

# Others are beginning to see the Light.

June 14, 2005

The questions of the day remains – are we experiencing just another “soft patch” or are we in fact moving toward a recession. The bond market since March is indicating the latter however most all economists including the “Maestro” himself say otherwise. We believe you know our feeling on this matter. It remains our best guess that an inverted yield curve and recession is the most likely outlook. One thing does seem certain – a slowdown is under way as this economy continues its trek toward a service economy leaving the manufacturing to our brethren overseas.

Please note the chart below, which traces the movement of the 10-year treasury note over the last six months. The most interesting aspect of the recent downward move in yields has been just who is buying these notes. Almost to a man, Wall Street has been calling for higher yields for over four years. Many have said the central banks in Asia are the ones, but recent flow of funds data indicates they on balance have been a small seller since the first of the year. We believe we know who the buyers are, but are not sure. Could it be that a whole new group of buyers has come on the scene? Who, you say would that be? The answer just might be disgruntled stock buyers who are beginning to see the light.

