

Our Bet is on the Turtle not the Hare

June 28, 2004

The increase in debt continues. Please note in the following table the annualized increase in various categories of borrowers. The overall annualized dollar increase is north of \$2.7T, which by any measure is extremely high. The Fed in their “open mouth” policy is telling us that this rate of increase is destined to level out due to their upcoming open market policies. We shall see. It is our opinion that the Fed understands that the lingering huge on going problem is deflation. In that regard we expect them to proceed with utmost caution in any tightening off monetary policy. Things of course could change, but at this point in time “haste would make waste” as it concerns the economic future. We expect only turtle moves toward registrant.

Debt Increases 1st Quarter 2004 Annualized %'s

Increase from a year ago

Non-financial Market	+8.6%
Federal	+11.6%
State & Local	+9.6%
Household	+10.9%
Total Mortgage	+10.7%
Bank Credit (mostly financial assets)	+12.9%
Credit Union	+11.0%
REITS	+27.0%
B/D's	
Security Credit	+36%
Repos	+18%

Decrease from a year ago

Financial Market Debt	+7.3%
Business	+4.1%
GSE	+1.7%
MBS	+2.4%
ABS	+4.0%
Finance Companies	+5.4%