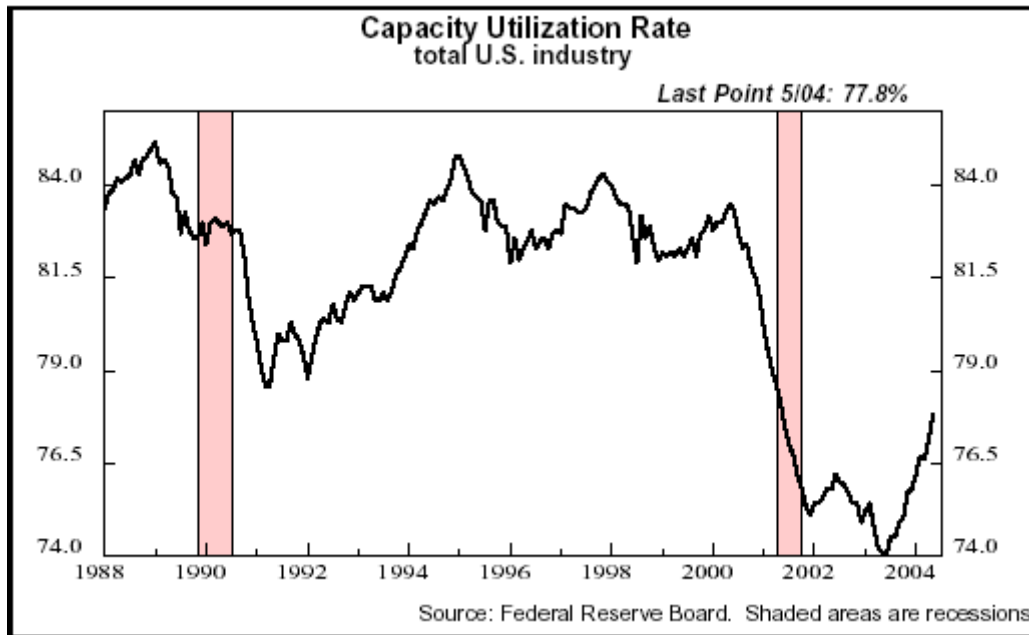


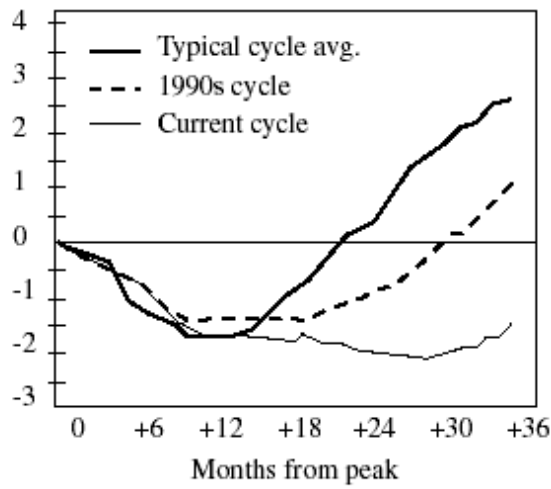
Sea Change Ahead

The greatest thing we have going for us in our investment position is the worldwide central banks intense fear of inflation. As we said so many times – “The world has an excess of everything except brains.” Please note the Capacity Utilization Rate in the first chart below. With huge excess capacity being the case, why are central banks so fearful of inflation? Our guess is that they as well as most investors have never known anything else in their life times. It’s hard to expect something (deflation) when you have never experienced its existence.

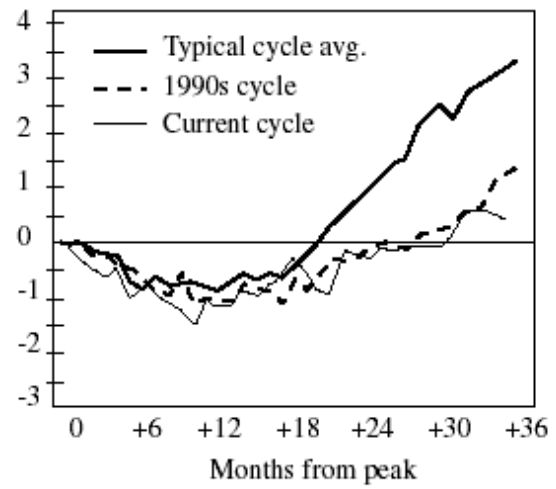


Everything we see indicates that under present worldwide conditions, inflation on a consistent & persistent basis is near impossible. The current recovery is the weakest in terms of employment we have seen post WW II – note the second chart below. With the Fed now in the process of fighting inflation with increases in short term interest rates we expect the economy to slow down and guess what? By year-end, deflation will once again become the fear de jour good for us, bad for others.

Employment (Payroll survey; percent change from previous peak)



Employment (Household survey; percent change from previous peak)



Source: International Monetary Fund, Economic Outlook: 2004