

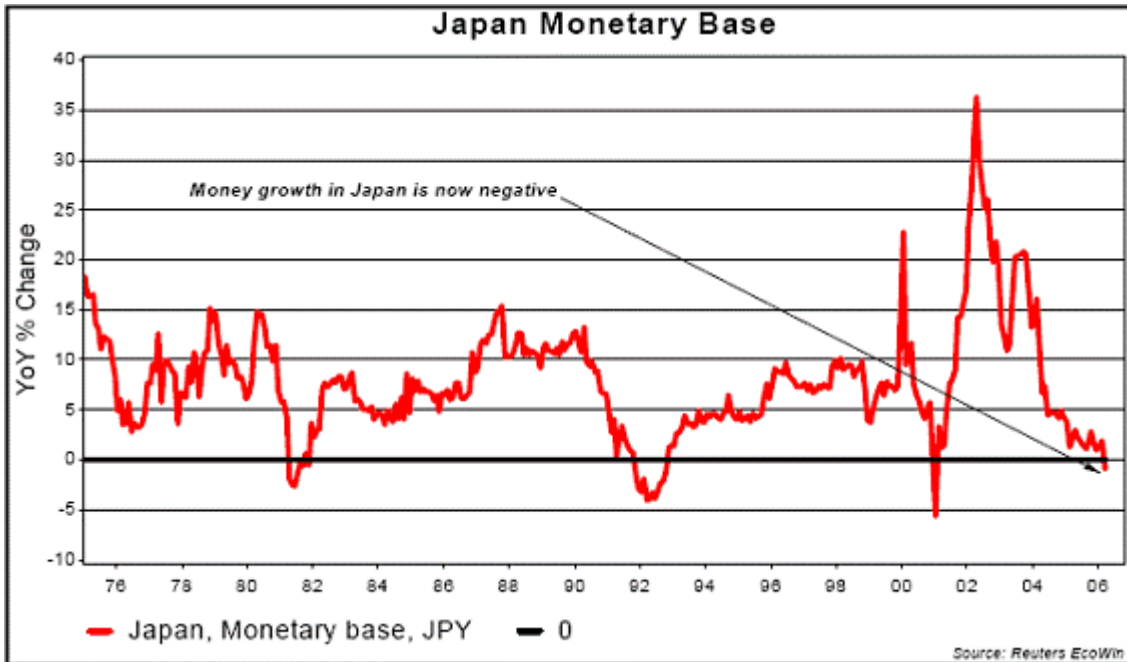
So Much to See and So Little Time

May 15, 2006

The more time goes on the more we are impressed with the work done by GaveKal research based in Hong Kong. We have mentioned them several times before when citing their studies. As you may remember, they are the authors of the Brave New World. As an aside, one of the principles, Louis-Vincent Gave, married a Bartlesville Oklahoma girl, normally spending a month each year in that "Phillips 66" founded community. To the point, they like us, have miss timed the cyclical downturn in the U.S. (thus eventually world-wide). Some time ago they postulated that due to the fact the "greatest" generation created considerable wealth after WWII, the boomers and their offspring are "living up" that wealth. Two results of this are: (1) The lack of need to save by the boomers, and our course they haven't. (2) The boomers are partially living off the WWII vets portfolio income. The cycle is being extended by this "goings on," but has serious longer-term effects.

Recently in a paper entitled "What We Missed: Japanese Liquidity Flows," makes the case that because of Japan's past monetary policy the world is flooded with liquidity thus fostering the bubble commodity market. Also it has allowed the financial community to engineer all types of speculative financial instruments to help prolong the "good times." Please note the chart below: Japan is now clamping down on money growth.

All of this however, creates debt piled up debt, which is certain to destroy all economies which indulge, and the U.S. is by far the major player in this Ponzi scheme. Nothing has changed concerning the end game, only the timing and severity in our opinion.



Note: To read this GaveKal paper, go to John Mauldin “Outside the Box” email of May 8, 2006.