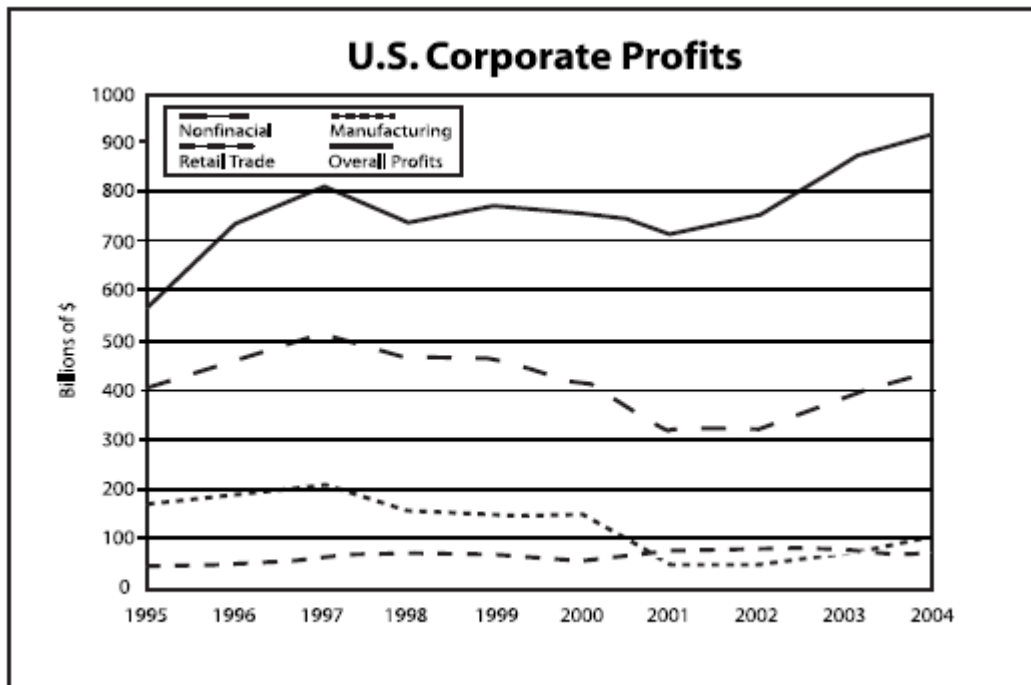


# Something for Everyone

March 7, 2005

The February jobs report has something for everyone: 262,000 new jobs of which 20,000 were in manufacturing and an increase in the unemployment rate from 5.2% to 5.4%. The stock market loved the 262,000 and bond buyers rejoiced in the increase in unemployment. Our take on the numbers is just more of the same. In other words, the “same ol’, same ol’.” The economy is lumbering along at a sub par pace as concerns employment and income generation. In lieu of income for spending purposes, we have borrowing and when that stops the tide will go out and we find out who is swimming naked. Our guess is that many of those naked will be banks in the mortgage and consumer loan area. The 4<sup>th</sup> quarter flow of funds report will be out later this week, which will give us a fresh look at the debt bubble that has given us much worry.

The theme that we continue to preach relentlessly is that the financial economy is doing extremely well (Wall Street) and the real economy is nothing to write home about (Main Street). We recently noted a dissertation on corporate profits, which is depicted by the chart below. Please note what is not detailed as a source of profits. It’s the financial companies and they account for near 100% of all the increase in corporate profits since 1997. Interestingly enough, if one would extract financial profits from GE, GM, and Ford plus many others, it would distort the profit picture even more.



My friends, we believe this is the most distorted of all economic maladies of our time. Forget the Federal deficit, forget the trade deficit. Our major problem is lack of income, lack of savings, which is all made up by borrowing to live a lifestyle we no longer can afford. With that happy note, we sign off for another week.