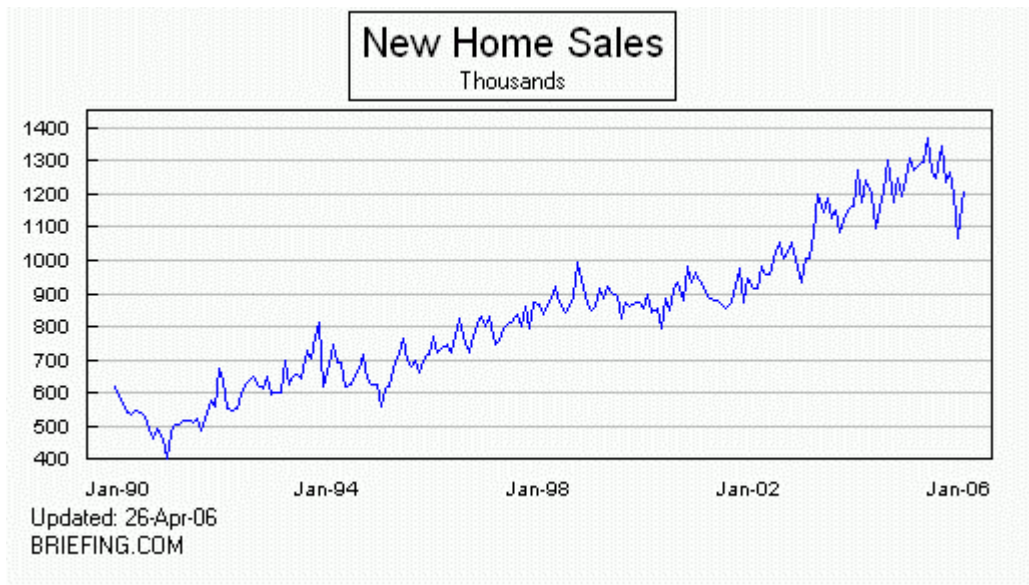


Strong Housing? We Didn't Think So.

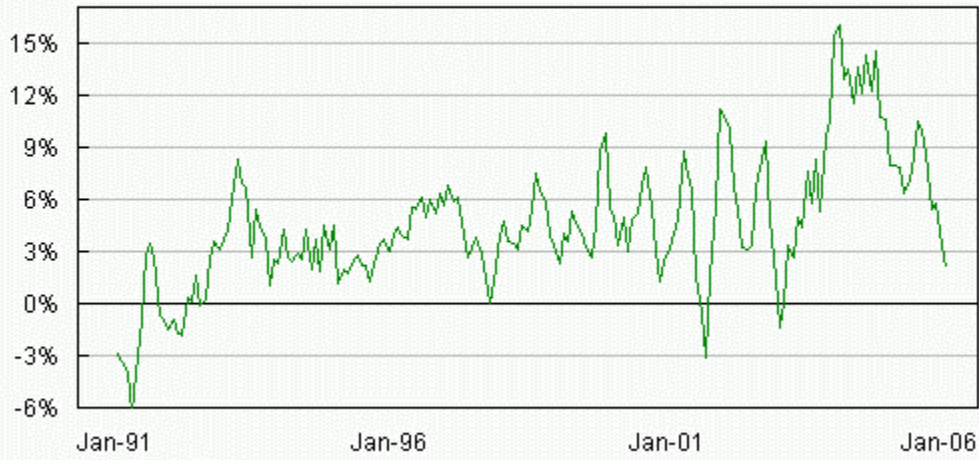
May 1, 2006

Some may say and rightly so, that we as fixed income (bond) managers are pulling for weak economic news. At least 90% of fixed income managers equate growth with inflation and inflation kills the bond market. We, however, do not. An unfettered capitalistic free market economy of high growth in reality is deflationary. Unfortunately, our brand of capitalism has a good bit of interference from Washington, which is the ultimate purveyor of inflation. Therefore, we can at times see economic growth cause inflation – but it is rare, and particularly so in a global economy. No, we are not biased toward wanting slow growth and recession. Our analysis of the economy, among other things, has to do with what the Fed may do with short-term interest rates. We love real growth.

Please pay attention to the following two charts that come to us from the Elliott Wave people. Last week the headlines proclaimed that the housing boom continues due to a large increase in March new home sales. What these following charts tell us is (1) March was a bounce off of February's large decline and (2) Median new home prices are going down – is that bullish? If you have to lower prices to make sales is that the characteristic of a strong economy? We don't think so. There is more of this to come.



Median New Home Price (3 mo average of annual price growth)



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