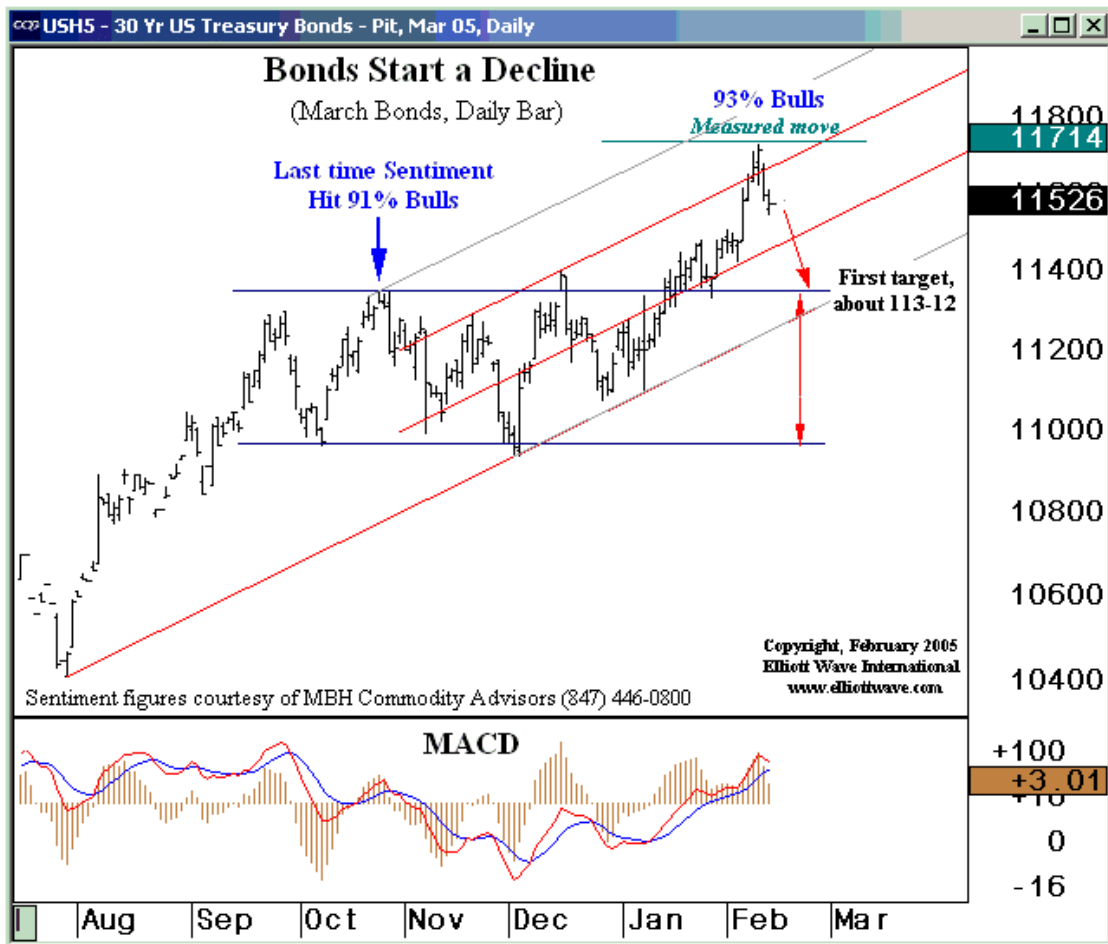


The Past Seems Sure to Return

February 14, 2005

Last week the Commerce Department announced that the balance of trade for December was less than for November. What helped December was a 3% increase in our exports. This caused a 10 basis point increase in the yield on the 30-year government bond (note the chart below). Why? Wall Street has always believed that any sign of growth in the economy is a sure sign of future inflation. No matter that this has not been true for over 20 years. It was in the 1970's, when "other things being equal, were not," which causes this to be true. However, this was an aberration that seemingly cannot be expunged from the minds of those who should know better.



Fri Feb 11 2005 15:50:52

CCG © 2005

Sentiment in the stock market and bond market seems to have changed primarily because of this and the long awaited (at least on our part) back up in bond yields may be at hand. On the other hand, even though the 3.1% real GDP for the 4th quarter of last year may be revised upward due to the reduction in the trade deficit, as mentioned above, there is no boom out there in our future. We believe it is better than 50/50 that this will be the year the consumer backs out of the spending stream. In other words, we believe an "old fashioned" business cycle is under way whereby the consumer, housing, inventory, and capital spending all go down in that order.

Be careful with your money and look out below.