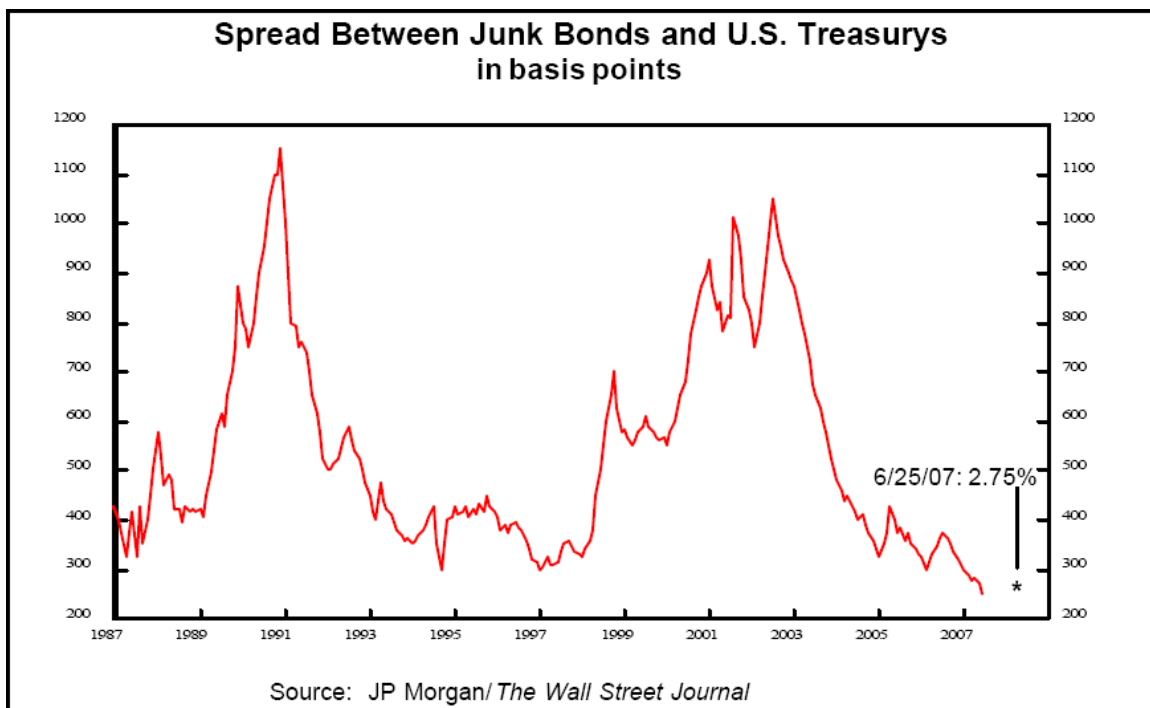


THE SAME IS NO LONGER THE SAME 07.16.2007

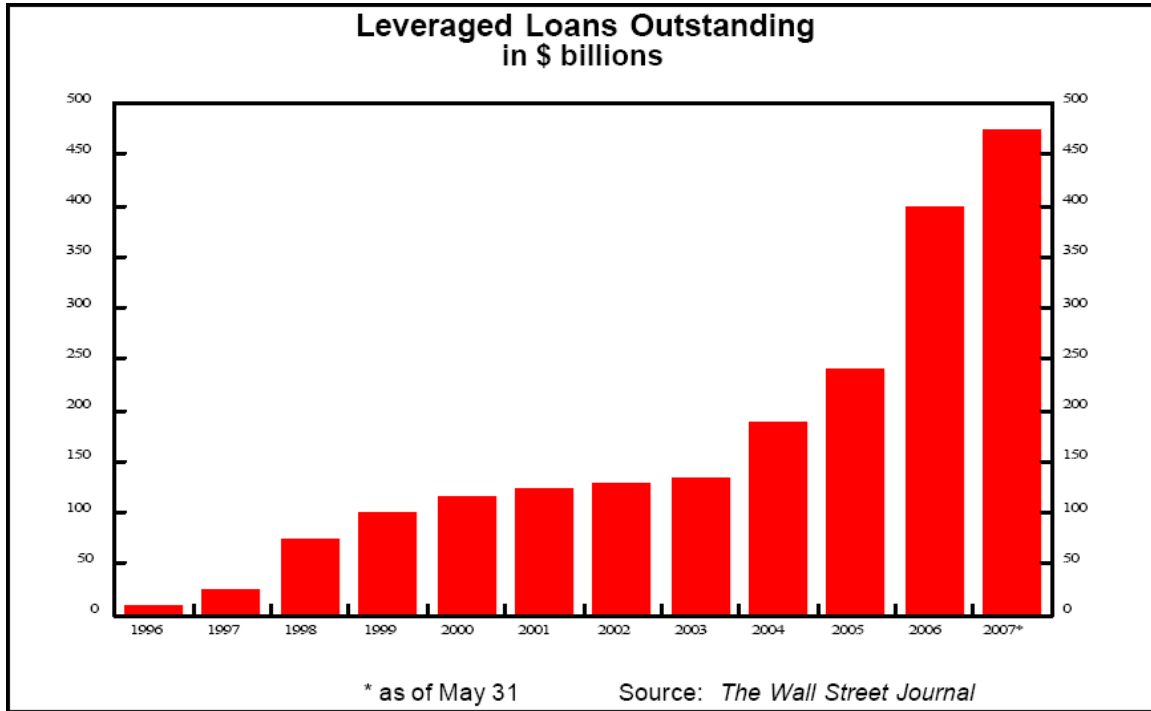
One of the interesting aspects of the rise in the stock market over the past year has been the near complete absence of the individual investor. If one uses as a proxy for the small individual investor equity mutual fund flows, the net outflow stands at \$34 billion over the last 12 months. One must assume, then, that the major participants in the stock market have been institutions and hedge funds. The action seems to be taking place in the bond markets where, up until just recently, all bonds were considered about the same. Please note the following charts taken from Gary Shilling's July 2007 Insight.



Taken from Gary Shilling's Insight July 2007

One needs to take the lack of common stock participation by the individual investor with a grain of salt. Why? Because most of what has passed as bonds over the last several years has been nothing more than common stocks dressed up in fancy duds

to look like bonds. It's the infamous "little black dress" again. The second chart gives you an idea of the magnitude of the problem.



Taken from Gary Shilling's Insight July 2007

We bring this to your attention in order to once again strongly suggest that you carefully analyze your bond holdings. Being the "same" as indicated by the tight spreads noted in the first chart is no longer operative. Historically there have been large differences in the yields on junk bonds versus yields on government bonds; not so the last couple of years.

Same is no longer the same. Many lesser quality bonds are currently obtaining bids of 50¢ on the dollar. We fear a major debacle in the low quality bond market is in the offing. Most markets, of course, ebb and flow—this market is destined to mostly ebb.