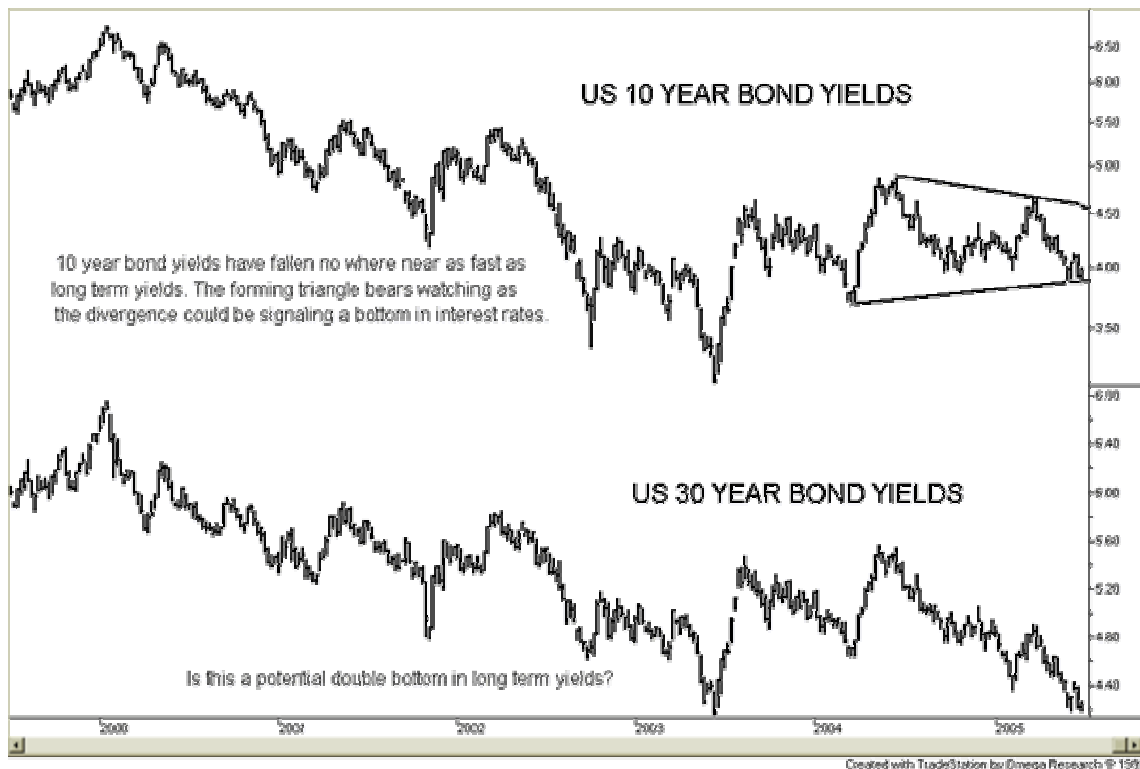


# The Beginning of the End

July 5, 2005

The Federal Reserve continues to increase short-term interest rates in the face of world wide slowing economic conditions. This, we believe, is as serious a mistake as their explosive easing that took place in 1995 through 1998 (irrational monetary policy). Our quarterly Economic Commentary will delve into this in more detail, but suffice it to say that monetary policy over the last 10 years parallels that of the 1920's. Economic problems (maybe serious) are probably in our future.

On another matter, note the chart of the 10 year and 30 year government bonds. Every year since late 2001 Wall Street has told their customers to stay short in maturity, as long term rates were sure to rise. Now, we are beginning to see a change of attitude in that regards. Several "experts" are now saying that long rates can go even lower. This, in our opinion, is the beginning of the end in the downward trend in rates. It is too early, however, to go to cover.



Suggestions to hedge funds – buy the long government and short junk. It may be the trade of the year.