

WHAT WAS WEAK IS NOW EVEN WEAKER 10/23/2006

A recent article indicated that investor money has been moving out of gold, one of the hot investment items over the last several years. Where is it going? To the stock market, of course. According to Trimtabs, \$2.2B went into mutual funds in September—a new high for the year to date. In October, another \$2.6B followed suit. Momentum buyers who, over time in memoriam, have been the fools in the greater fool theory are at it again. Now that the Dow Jones Industrial Average has become even after 6 years, it's become a good boy again. Human nature is a wonderful thing.

In August, the U.S. Commerce Department, along with the Bureau of Economic Analysis, announced revised GDP numbers for the last several years. Please note in the first chart below the numbers as they stand now. First of all, the recession of 2001 began in the 3rd Quarter of 2000 rather than in the 1st Quarter of 2001. Do you remember that Dick Cheney, dare we mention his name, told us this leading up to the election in November of that year? Please also note the large revision in the first quarter of 2002. Rather than an increase of close to 6%, the actual number was less than 3%. What we already recognized as the slowest recovery post World War II was even slower than first thought.

The second chart below tracks the Conference Board's coincident indicators, which are another good measure of the state of the economy. It would tend to indicate that

the “short, shallow” recession of 2001 was actually a “long, deep” downturn in economic activity. What, if anything, do these charts indicate for our economic future? In our opinion, it shows with no certain ambiguity that the U.S. economy is in a slow disinflationary to deflationary business climate. Corporate profits have been good as technology and outsourcing have increased profit margins. The downside to this, however, is that labor has not been experiencing any of the fruits of this productivity. We don’t know when, but we do know that at some point this will all come home to roost. The question is sure to be raised, “Where have all the buyers gone?” Our middle class is becoming no class at all. Main Street and Wall Street have never grown so far apart.

Chart 1
Real GDP Revisions by BEA

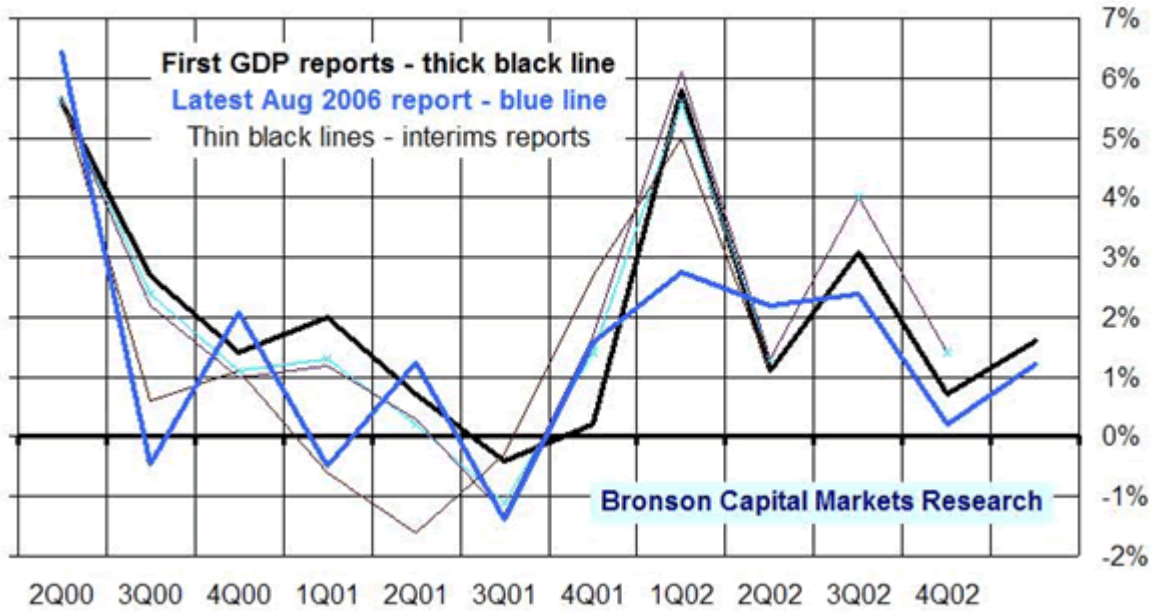
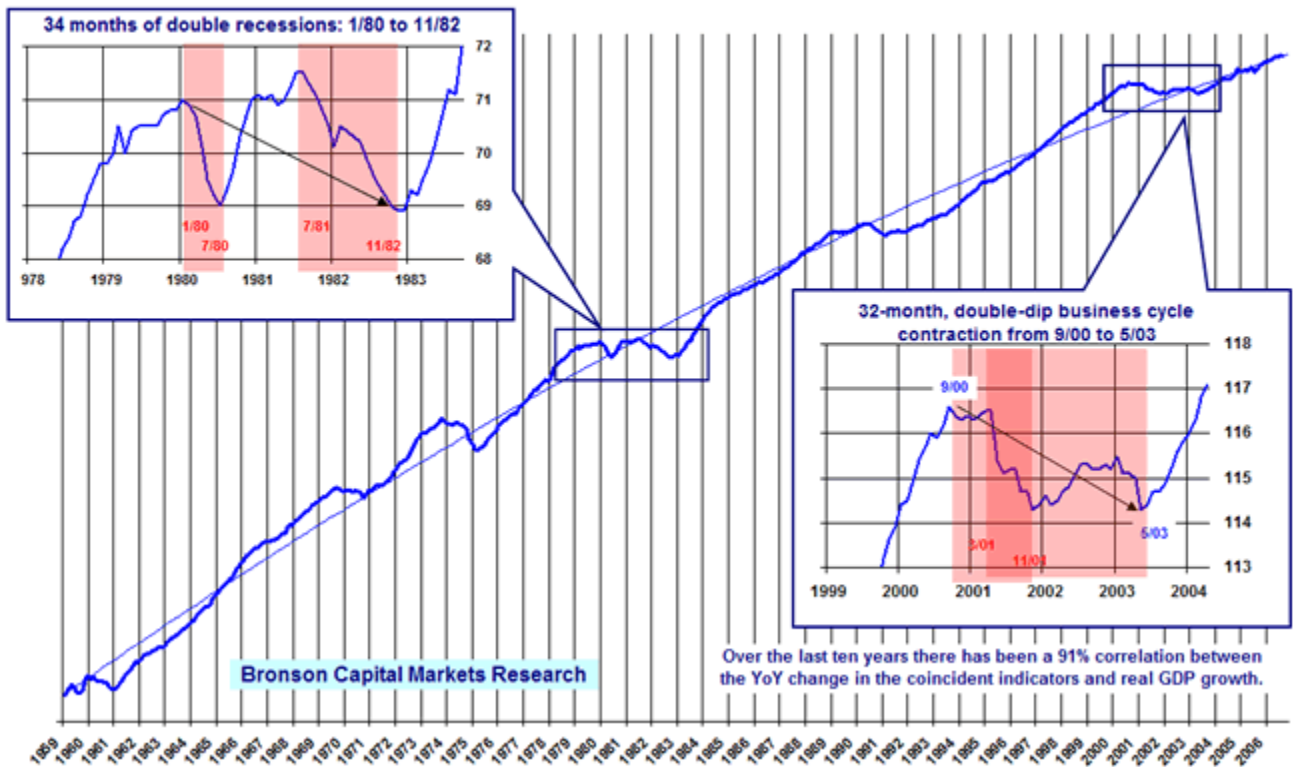


Chart 2
The Conference Board's Coincident Indicator Of The US Economy



Charts taken from Financialsense.com