

Monthly Chartbook

November 2004

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Executive Summary

The early election results alleviated the market's uncertainty at the beginning of November, providing a boost for equities. At the same time, the price of oil has declined, and there was a strong employment report for October.

Inflation provided its highest year-over-year measure in quite some time as energy price increases have partially worked their way through the supply chain.

The Fed continues to play catch-up as real interest rates are still negative and the yield curve flattens.

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The good news first...

The election was decided early the morning of Wednesday, November 3rd rather than by Supreme Court justices later in the month (or year).

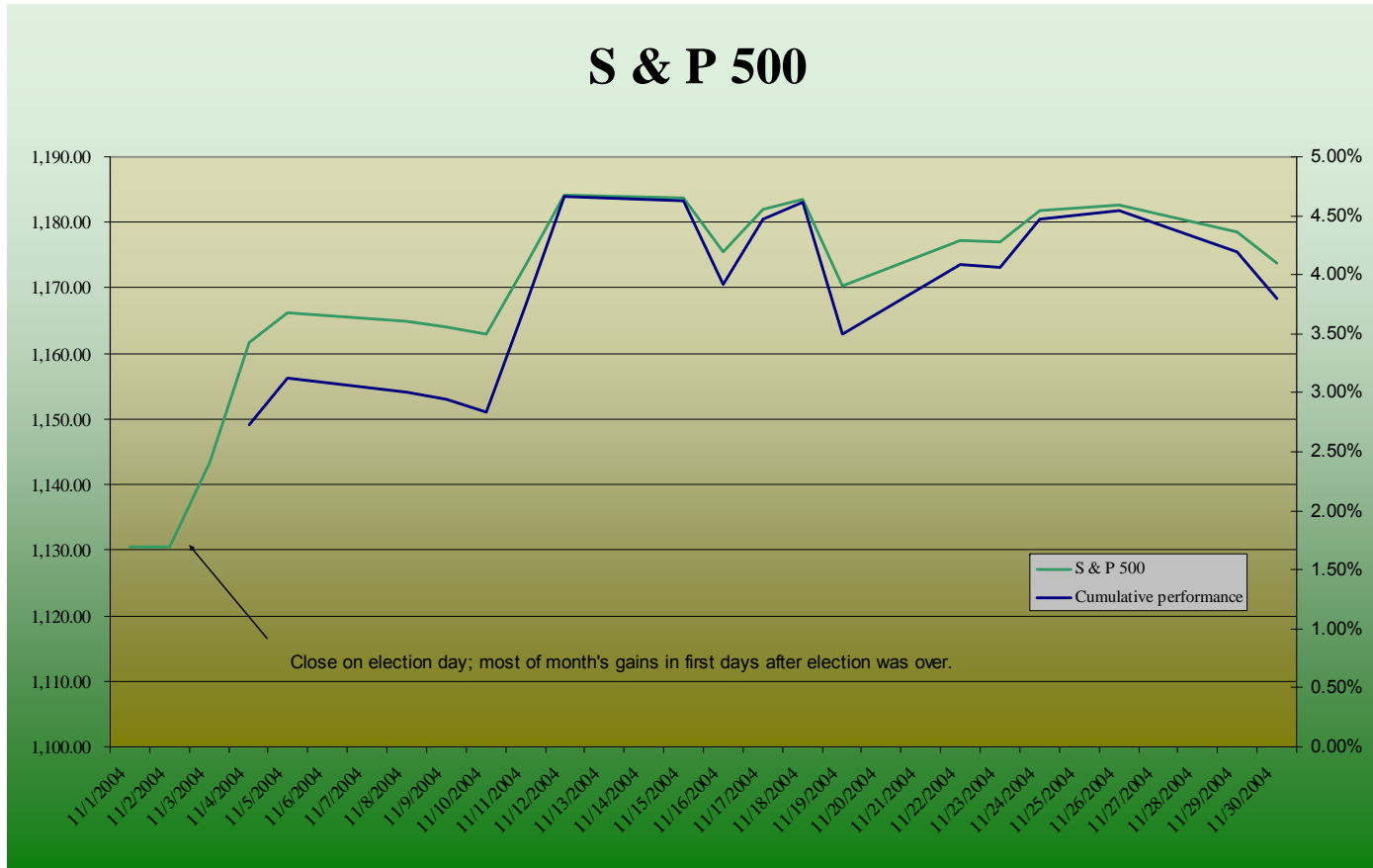
The market response was decidedly positive, primarily because it will know what to expect for the next four years.

Despite the desire on the part of our enemies, there have been no terror events; this includes both parties' national conventions, the Olympics and the Federal election.

Now, the caveat...

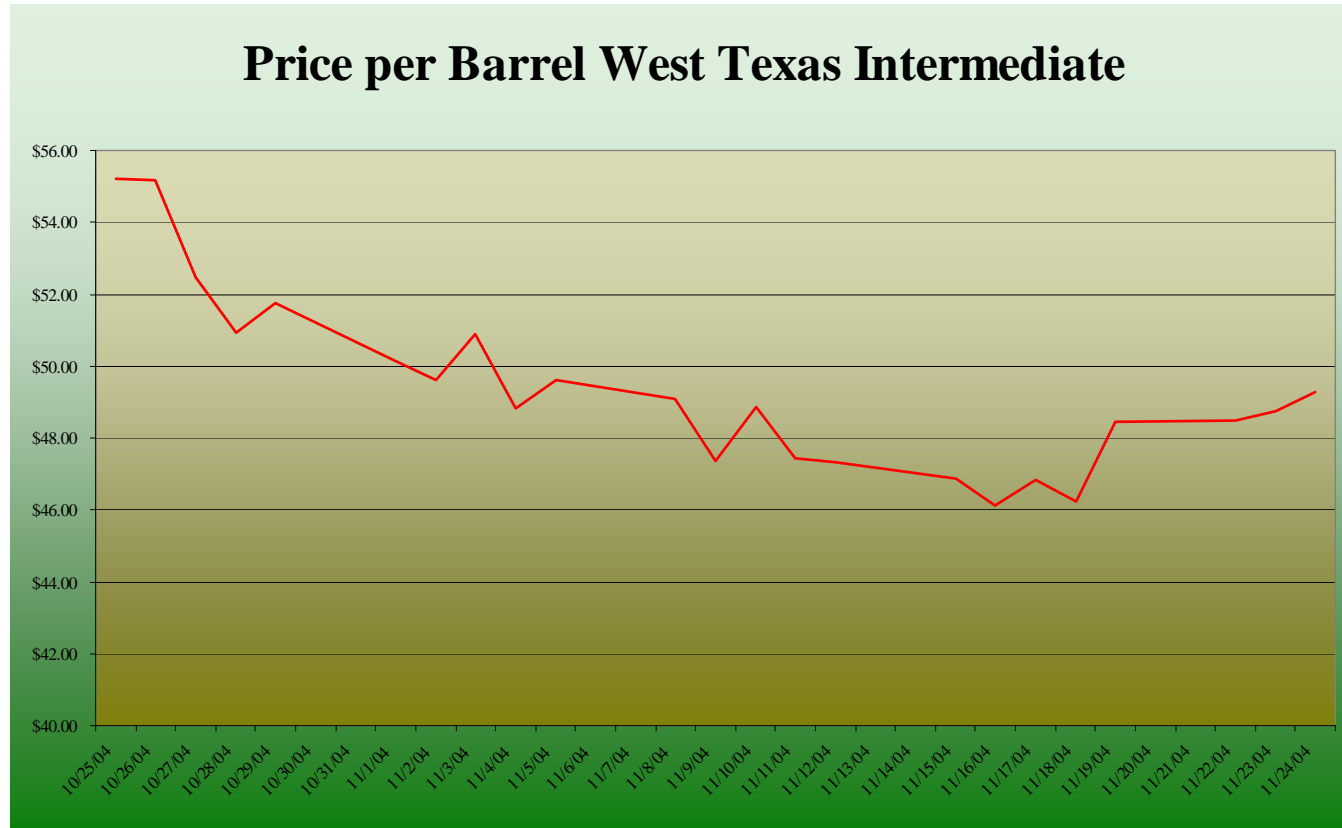
The Republican party is now the governing party, and this is a tremendous responsibility. It is time to truly serve the party's constituency through fiscal prudence and attempting to solve some issues that loom large over the next fifteen to twenty years.

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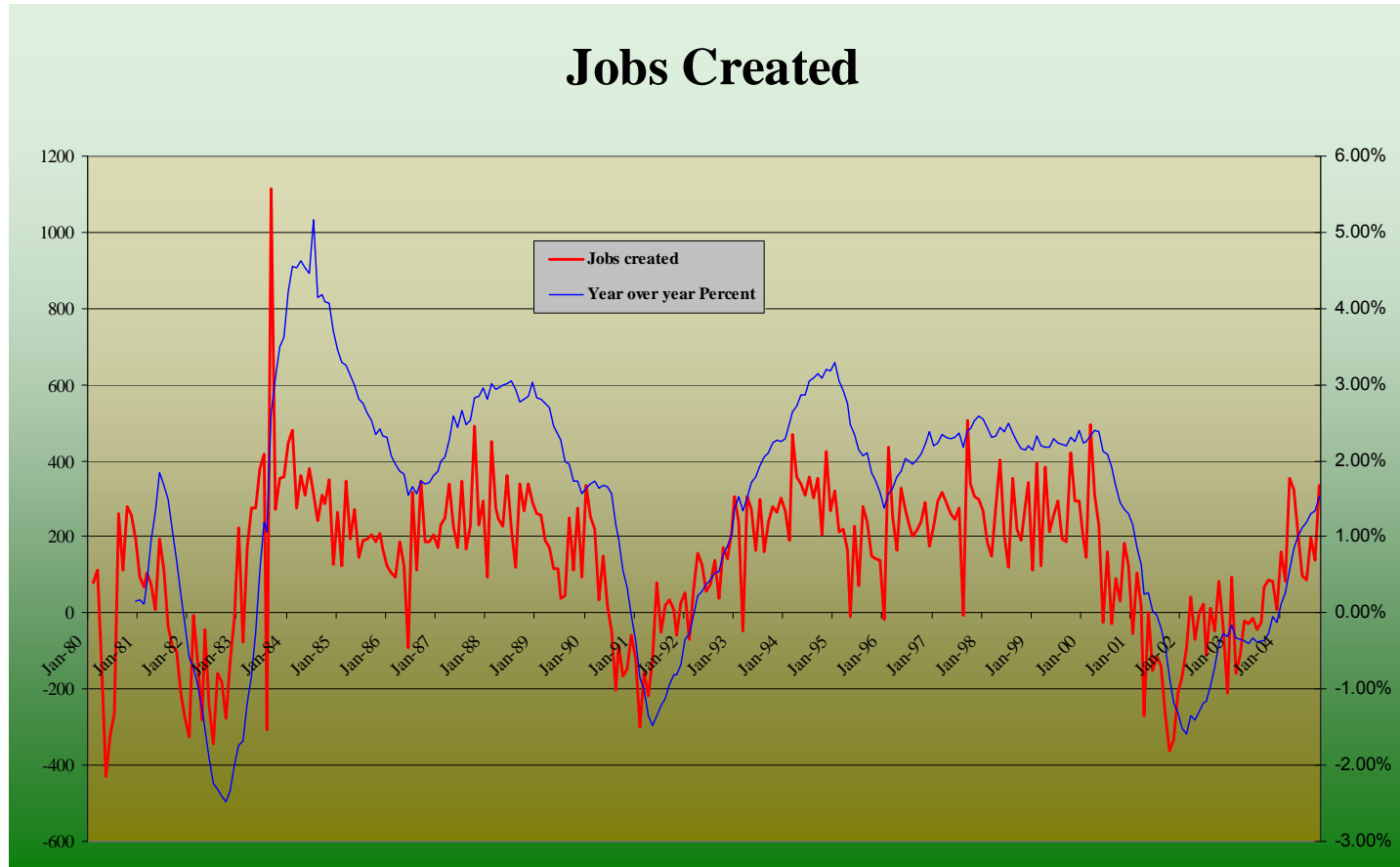
The markets rallied this month primarily due to the reduction of uncertainty; for the month, the markets gained over 3.8%

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At the same time, the price of oil on the worldwide markets has fallen almost 10% from its late October highs. This suggests that there may have been some global political manipulation of oil in an attempt to keep its prices artificially high going into our election since many world leaders were hoping for a change here.

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A strong jobs report also buoyed the markets at the beginning of the month (337,000 added in October and 674,000 in the past three months). This is the report Republicans had been awaiting for months, and it would have been especially disheartening if they had lost the White House two days before its release.

Capital Markets Expectations

Index	Current	Forecast		Range	Time Frame
S&P 500	1173.82	Trading range	↑	1050-1250	1st quarter 2005
Ten Year Treasury	4.34%	4.65%	↔	4.25%-4.875%	6 months
Inflation (all Urban)	3.24%	2.75%	↔	2.50%-3.50%	6 months
Fed Funds	2.00%	2.00 – 2.50%	↑	2.00 -- 2.5%	6-9 months
S&P 500 Earnings	\$56.28	\$58.50	↑	\$56-59	1st quarter 2005
	Legend:	↑ "Good"	↓ "Bad"	↔ "Indifferent"	

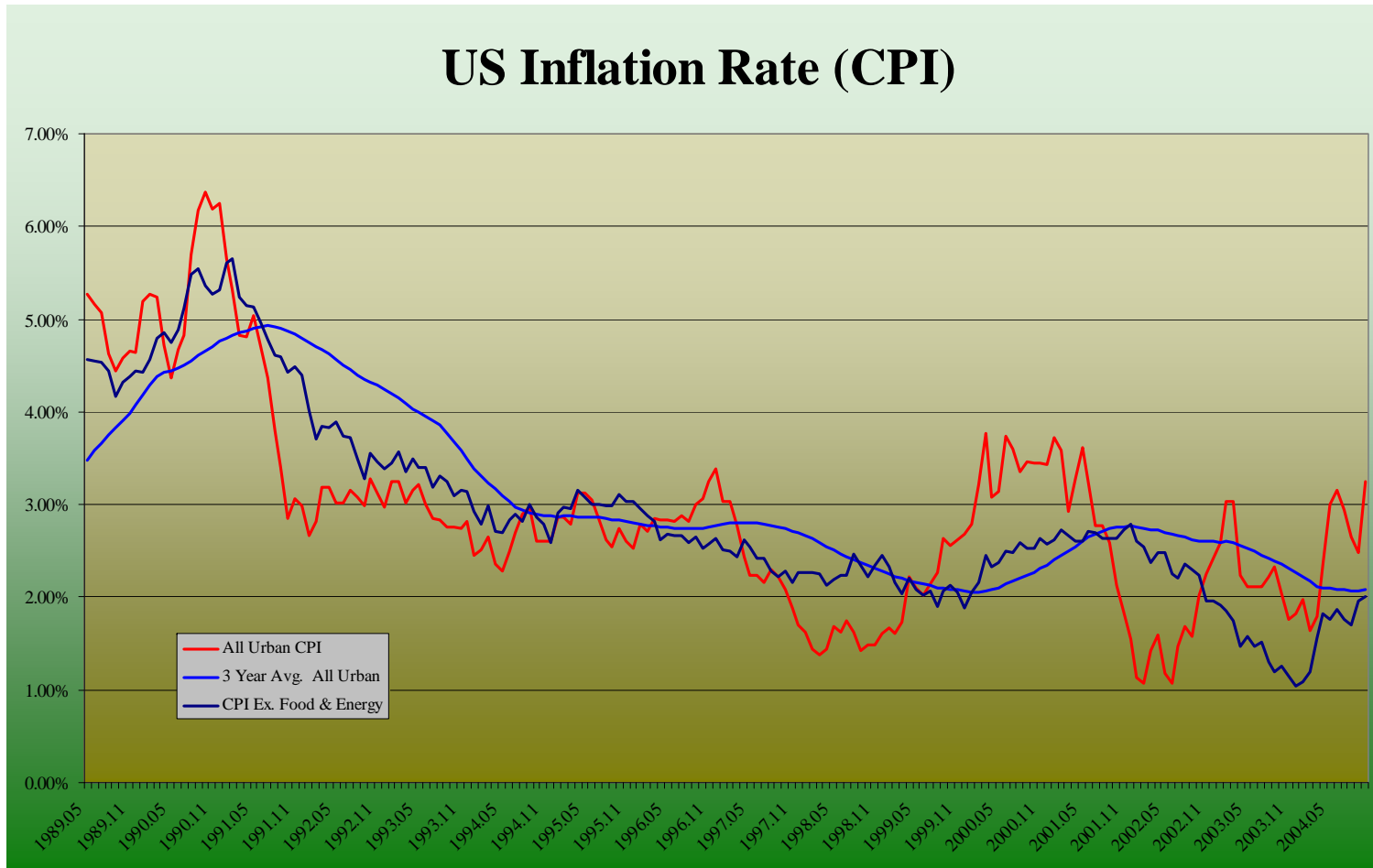
Inflation expectations

Inflation has increased dramatically in the recent month as higher energy costs have been priced into the products we buy even though our dependence upon energy has decreased significantly since the energy crisis in the early 1970's.

However, this was the highest year over year measure in three & a half years at 3.24%.

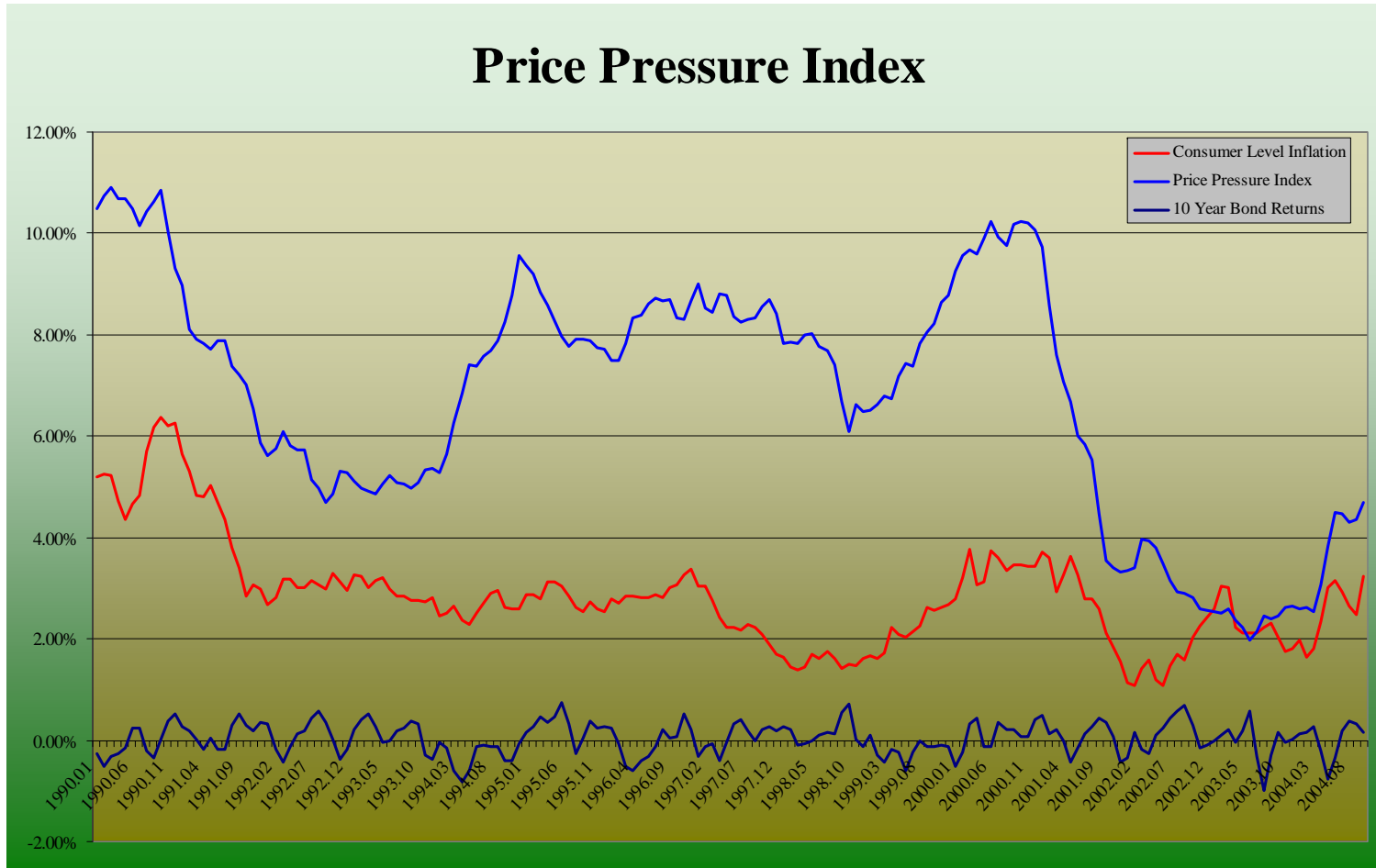
The 2% year over year inflation measure minus food and energy was also the highest in two years indicating that not all price increases are directly associated with energy.

Inflation Expectations



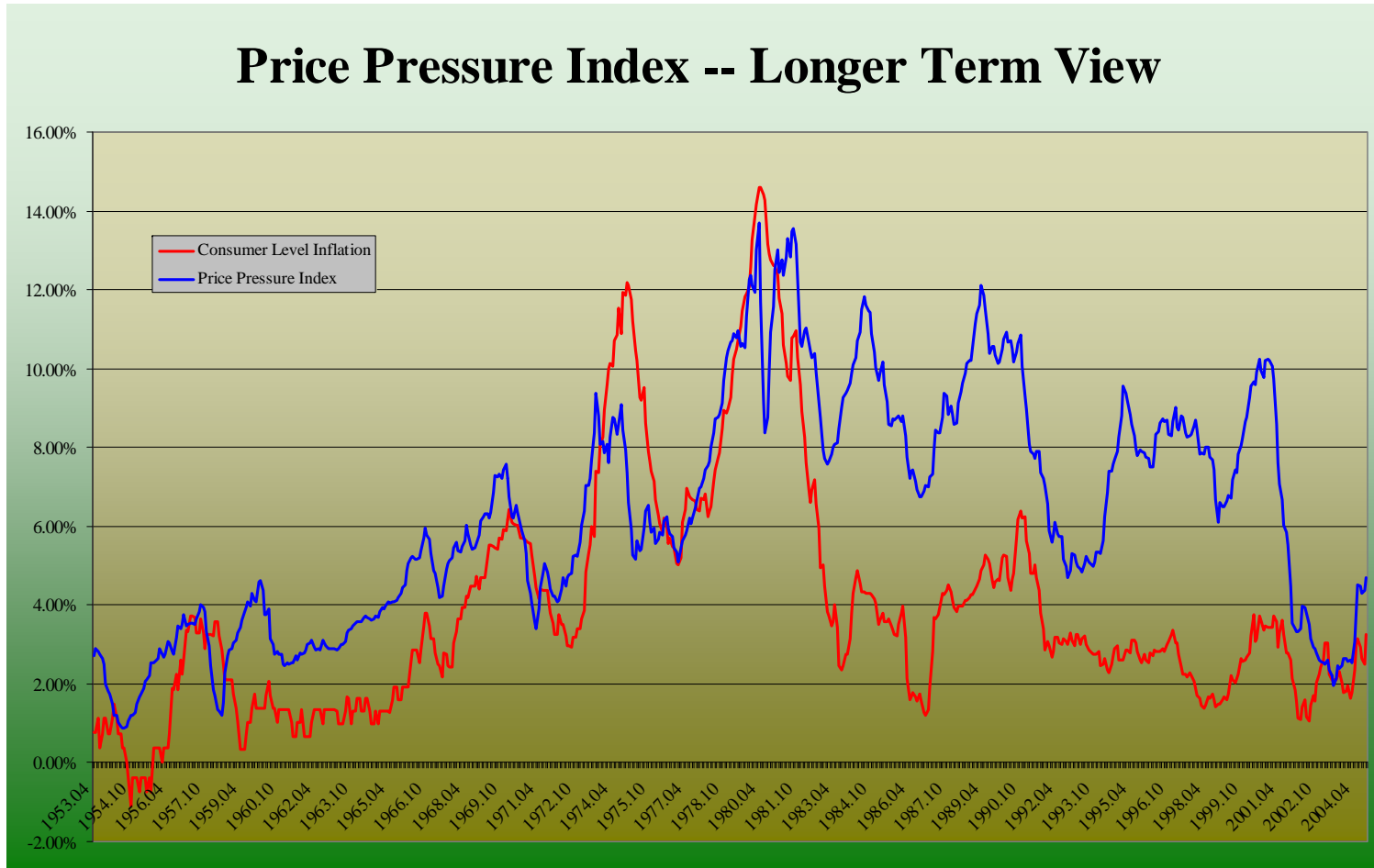
An increase in energy costs forced the year-over-year change in inflation to its highest measure in three and a half years at 3.24%.

Inflation expectations



The Price Pressure Index has increased significantly in recent months as the cost of commodities and raw materials have been priced more directly into goods and services.

Inflation expectations



Yet still, inflation and inflationary pressures remain reasonably low relative to past business cycles even though they are up sharply in recent months.

Federal Reserve Watch

Another 25 basis point raise in rates has no effect on the marketplace; the yield curve is becoming more flat as short rates rise while long rates stagnate due to international holdings and purchases of Treasuries (especially by China and Japan).

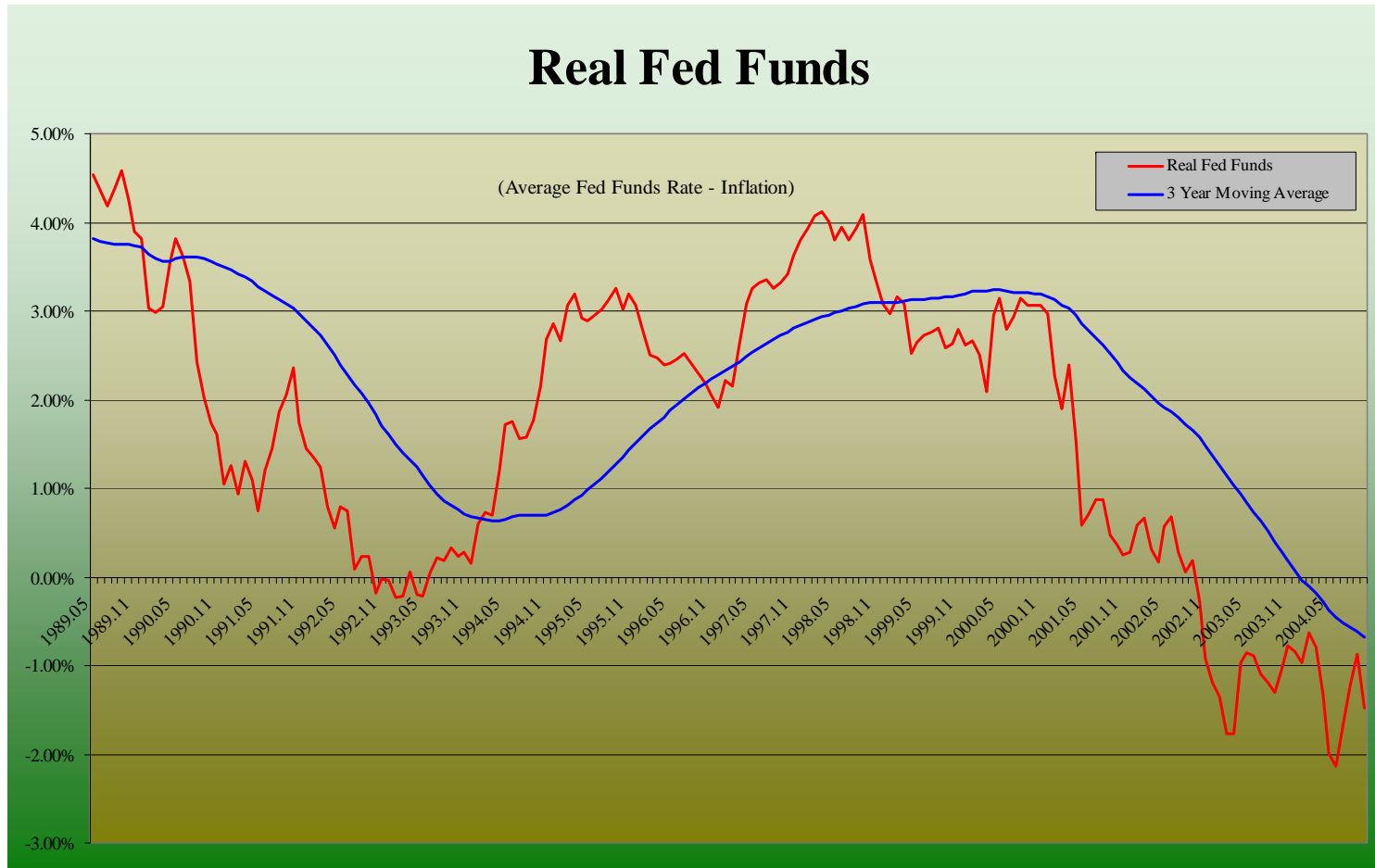
Real Fed funds **STILL** negative; will people ever put cash to work?

Raising interest rates (to bring this relationship into parity) and slowing the money supply seem to be Fed's priorities.

What does that mean for stock market?

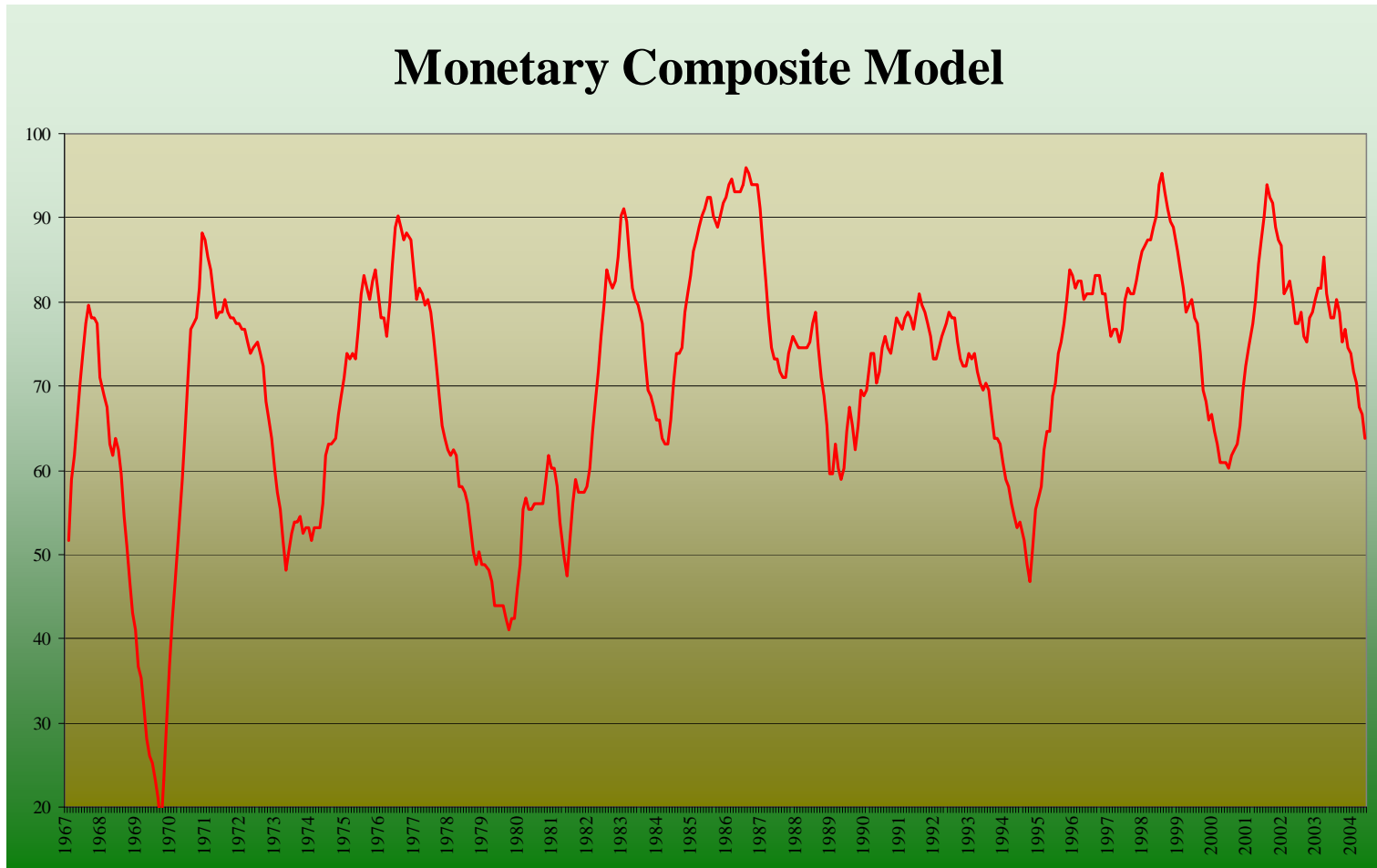
What might all of this mean for the international value of the dollar?

Federal Reserve Watch



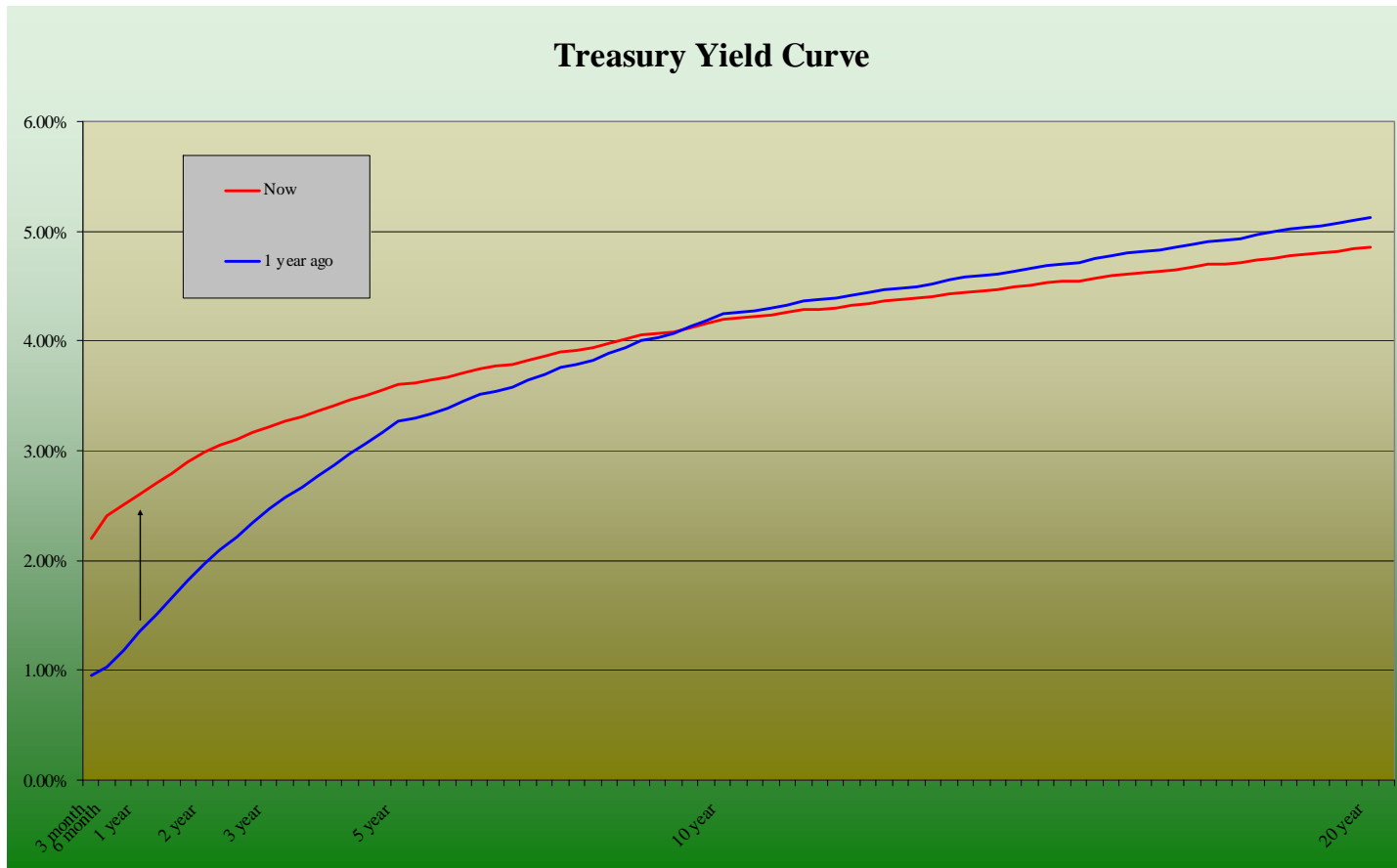
Will the Fed have to chase inflation? Even with increases in rates, the spread has become more negative as inflation has increased. We believe real rates will move higher as the Fed attempts to bring this relationship into a more normal range relative to its history.

Federal Reserve Watch



Even though the monetary composite indicates the Fed's policies are accommodative (with a value above 50), the trend is down as both interest rates are being raised and money supply growth is moderating.

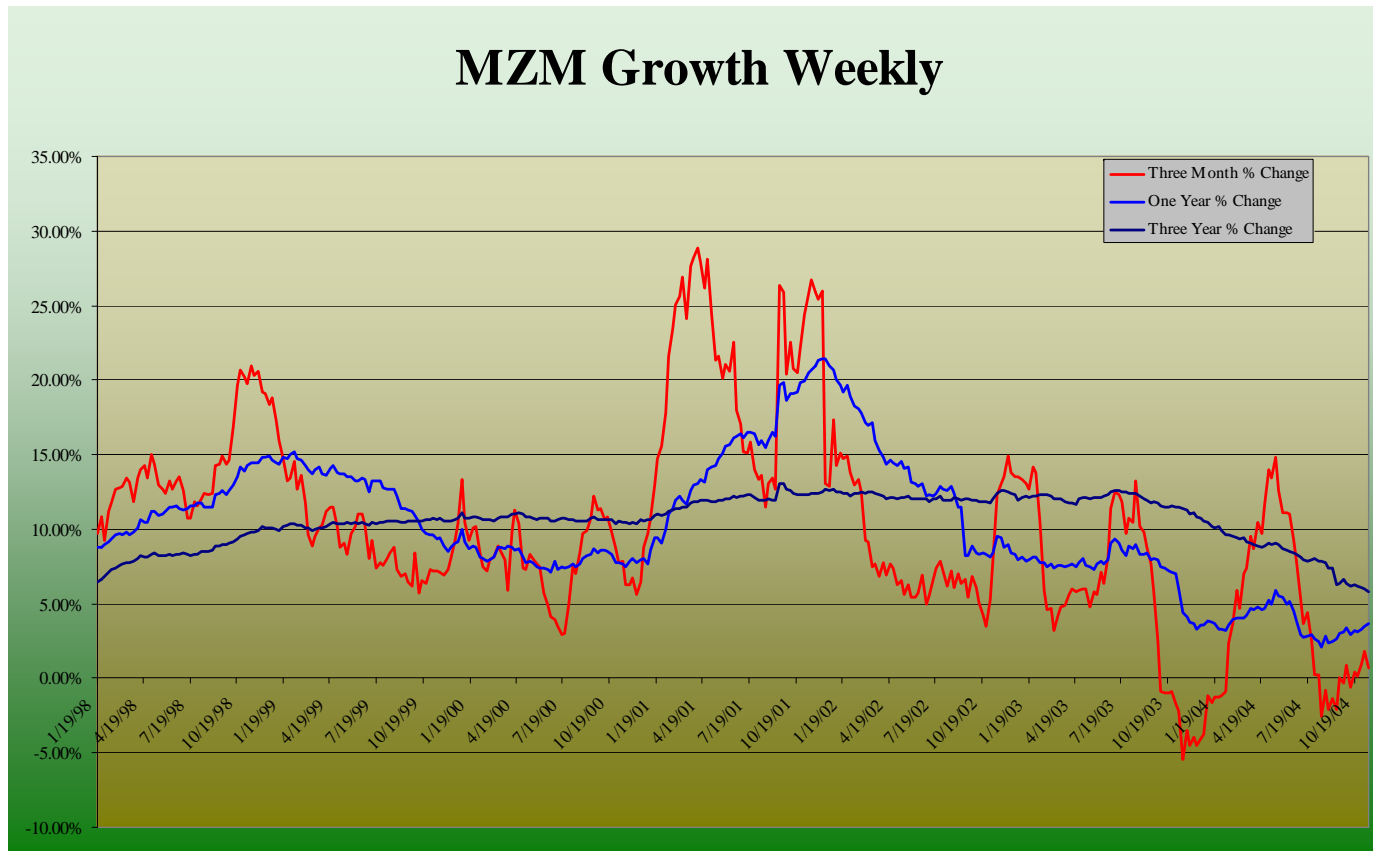
Federal Reserve Watch



The yield curve has flattened in the last year.

Distant interest rates are lower now than they were a year ago, before a 1% point increase in the Federal funds rate; international purchasers of US Treasuries (primarily for currency exchange rate maintenance) have kept the longer rates from increasing while short rates have moved upwards.

Federal Reserve Watch



The 13 week growth rate of Money Zero Maturity (MZM) has picked up somewhat in recent weeks, but is a result of comparing against the slowed growth of money supply since the end of April.

Outlook & Forecast

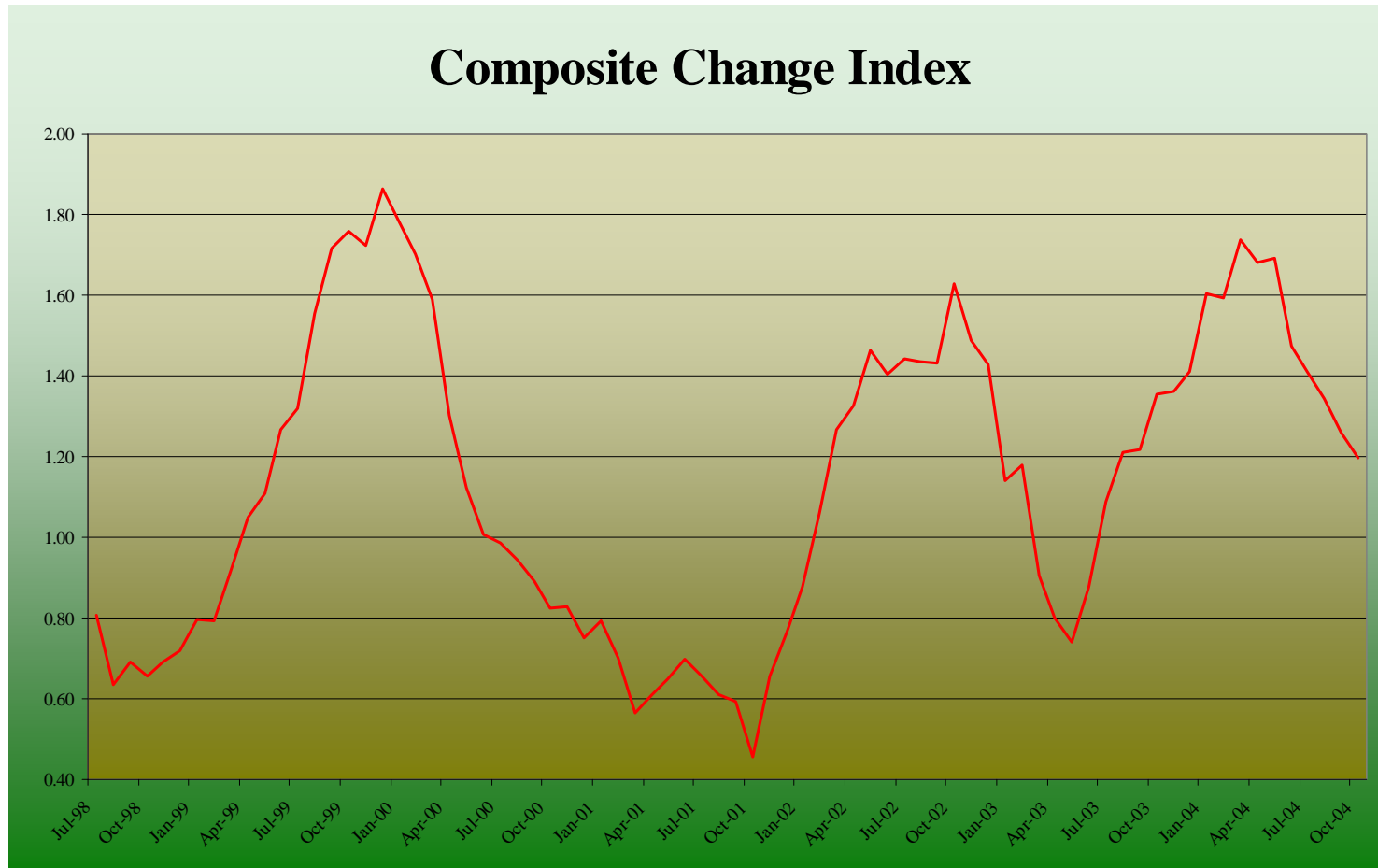
We remain Cautiously Optimistic

The United States equity market is neither significantly over-valued nor significantly under-valued.

We believe capital market returns over the next 3-5 years will be modest, and the Republican party has a unique opportunity to address some significant structural issues within the U.S. economy and some of our country's entitlement programs.

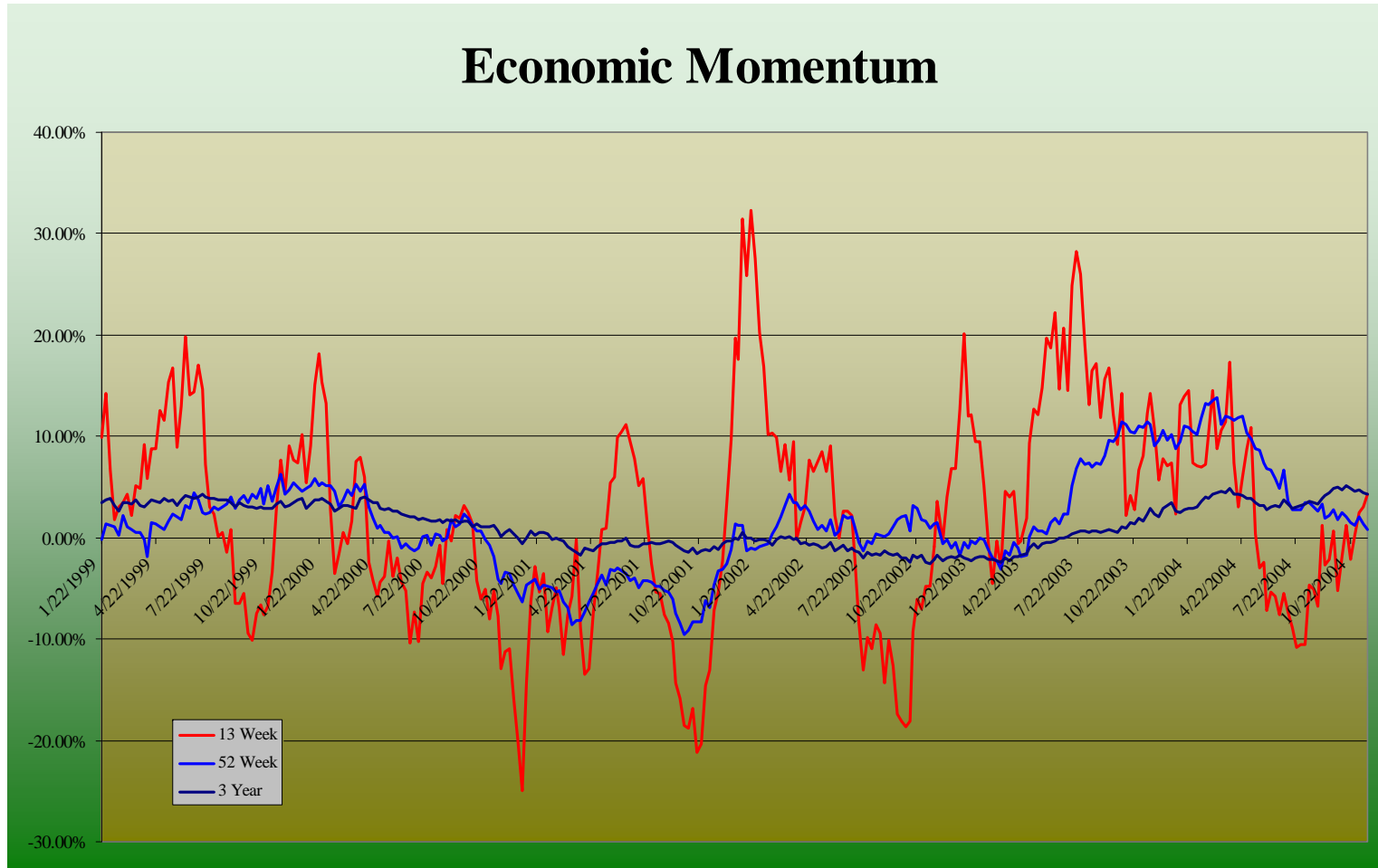
If these can be properly handled in the coming years, we could potentially look forward to a very bright future and our markets will continue to be among the most attractive to all the world's investors for the next fifteen to twenty years.

Outlook & Forecast



The composite change tends to lead earnings, and values over 1.00 are considered bullish. Growth for the cycle may have peaked but positive growth continues.

Outlook & Forecast



Data presented is the ECRI Weekly Leading Indicators (source: www.businesscycle.com).

The trend in the 52 week rate of change is still above long run averages, indicating to us that moderate growth continues.