

Central Plains Advisors, Inc.

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Interim Update

As The World Turns

To date we have seen it only one place (Brian Wesbury, Chief Economist of Griffin, Kubik, Stephens & Thompson, Inc.) but he had it exactly right. When it is finally understood, the big news that will have a lasting effect on interest rates is that only because of deflation did the 4th Quarter GDP become positive. Two other factors were of benefit to the GDP but not good for the economy. The first was the 81% increase in auto sales due to zero interest rate financing and secondly, the near 10% increase in government spending due primarily to defense procurements. If any of you believe these two expenditures add to the economic pie then we have a skyscraper in Wichita that's for sale, cheap.

Nominal GDP was -0.1% for the 4th quarter of 2001, however, because of declining prices of -0.3% real GDP was +0.2%. In our opinion, this is the first hint of things to come. It will take time for investors to truly understand that cash in the bank over the last quarter returned +0.3% even if it was in a non-interest bearing account because the dollar you placed in the bank on 10/01/01 will now buy \$1.03 worth of goods. And guess what, it's nontaxable.

We are all going to have to learn "new math" in order to properly analyze the economy and its implication for asset returns. Just as we "old timers" needed to understand that real GDP was important rather than nominal in the inflationary times of the 1970's, we now need to relearn it is once again nominal that's important. Economic turns are difficult to realize as they are occurring, but if we can somehow unlearn what Wall Street has taught us over the last twenty years, we just might end up in "tall clover".

We may or may not be in a recovery. It would seem reasonable that just due to inventory re-accumulation and defense spending, a positive GDP may be in the works for the 1st quarter of 2002. What is missing is a driver that will materially enhance corporate profits. Again, it is debt levels in the private sector that have a death grip on strong growth. High quality long dated non-callable fixed paper is the key to absolute and relative performance.

Example of "New Math"
GDP Nominal vs. Real

<u>2001</u>	<u>Item</u>	<u>4th Q 2001</u>	<u>3rd Q</u>
	Nominal GDP	-0.1%	+0.9%
	Price Index	(-) <u>-0.3%</u>	(-)
	<u>+2.3%</u>		
	Real GDP	+0.2%	-1.3%

Nominal GDP = Total purchases in reported dollars
 Price Index = Adjustment due to price changes
 Real GDP = Actual constant dollar activity

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