

Central Plains Advisors, Inc.

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Interim Update

Is This the Tipping Point?

Believe it or not the “smart” people in the financial arena have finally mentioned the “D” word: deflation. To set the record straight, we became convinced in 1995 (8 years ago) that deflation was in the cards for the U.S. economy. But, of course, as usual the conventional wisdom (Wall Street) found a myriad of reasons to believe inflation was the concern if there was any concern at all. The great selling (killing) machine sold us the new paradigm of higher and higher common stock P/E multiples for a world awash in ever increasing “no problem” debt and productivity. It was all a fantasy, but even today the pitch is little changed.

Deflation is not the end of the world, but it will require a transition period that will reorder the winners and losers in the economy. With increasing government pressure of higher costs on those who are productive, coupled with the inability to pass along price increases to those who use the goods and services, profits are a problem. High P/E ratios are crazy.

We would urge all who will listen to once again, as we did in June of 2000, lower their exposure to common stocks and increase their commitment to long government bonds. We may be very close to the tipping point. There will be ebbs and flows, but that ship we talked of recently, maybe really is coming into the dock.

Please keep in mind that the above is an “everything being equal” suggestion. We understand that there are other considerations that are important, which each individual or institution should take into account in structuring their portfolio. The point remains, in our opinion, that common stocks are grossly overvalued. Bonds, other than governments, are marching toward junk. There are only a few places one should be. This does not negate, for our purposes, the possibility that we may take some profits along the way. Everything, from time to time, becomes overvalued as well as undervalued.

Please note: Seven out of the last eight days we have had strong markets. Much of it probably has to do with short covering. We decided to take 25% of our long position off the table at this time. The future movements will decide our next move. Longer term, we remain bullish on high quality long bonds. For now, all discretionary accounts have had 25% of the assets moved to the American Century Target Maturity 2010 (BTTNX). Non-discretionary accounts have had 25% of the assets moved to cash.

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