

Central Plains Advisors, Inc.

October 2002

Interim Update

Another Chance To Do The Right Thing

Another bear market rally in stocks and bull market correction in bonds is underway. We have had several of these over the last 2 ½ years and will probably have them again before these two markets play themselves out. For those of you who have not reduced your exposure to stocks, you are getting another opportunity to do so. To those of you who want, or need, high quality assets with reasonable returns, you are obtaining another opportunity to make that move in the government bond market.

Stocks, as an asset class, will under perform over the next several years. Bonds of less than AAA quality also will under perform. The only place to be is in government bonds. Our preference is long dated bonds (30 years) and our second would be intermediate term (15 years).

A note of caution: It is our belief that the corporate bond owners of America may end up owning what's left of U.S. Corporations. Please note the pleadings of Bill Gross (PIMCO) in this regard. He is preparing his people (bond clients) for bad news to come, but which might end up okay after years and years of lawsuits and other problems. After this lengthy time period, such bond holders will become the new stockholders. The old stockholders will get what the bird left on the pump handle. In the meantime, we are safe, or at least as safe as one can be, in government bonds. Good gains are also quite likely.

Please note the article on the back of this page.

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Past Performance is no Guarantee of Future Results

October 21, 2002

Rally is a "Bull Trap"

From <http://www.comstockfunds.com/screenprint.cfm?newsletterid=850>

Even with the weakening economic statistics, the market is continuing to rally. It seems that every time we get these rallies almost everyone worries about missing out on the start of the next bull market. We have had 4 major rallies this year (and more since the start of the bear market), and we have missed each and every one of them. Bear markets, as we have stated in the past, always have sharp rallies that act to test the conviction level of the bears. In order to try to play these rallies on the long side of the market we would have to give up our short positions, which we believe will continue to make money for the mutual funds we manage until the bear market runs its course.

You have to keep these bear market rallies in perspective. It may look like the S&P 500 made a double bottom at about 775 on October 10th (or less than 2 weeks ago) and it may seem to some to be the start of a major move up. However, you will not get the start of the next bull market coming from the condition of the masses being worried that they are missing the next up move. It won't come until they are totally and completely fed up with stocks. None of the major averages are anywhere near their 200 day moving averages and none have even risen above the last "bull trap". The S&P 500, at 900, has not exceeded even the August high of 965, or the May high of 1107, much less the high in March of 1174. Markets that are making lower highs on the way down are technically weak. The DJIA, at 8322, has not risen above the August high of 9129, the May high of 10,400, or the March high of 10,730. The NASDAQ, at 1309, has not risen above the August high of 1427, the May high of 1760, or the March high of 1946.

The economic news continues to show signs of weakness as the Leading Economic Index declined for the past 4 months with the September number coming in at -0.2% month over month. There was also weak earnings news reported after the close on another tech stock, Texas Instruments, which disappointed, not so much in the 3rd quarter, but in their assessment of the 4th quarter. The truly amazing part of the release to us is the fact that they are still reporting "pro-forma" earnings that we thought would have been history with all the earnings shenanigans that have been perpetuated on the public since the stock market bubble. It is bad enough that the strategists on Wall Street are still using "operating earnings" which exclude "write offs" that recur year after year, but "pro-forma" earnings can mean anything management wants them to.

The market continues to be technically weak, as well as over-valued, and over owned by the public and foreign investors. It also doesn't seem to us to be discounting the weakness in the economy. We believe this rally should be used to short stocks or use derivatives to benefit from the next decline.

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