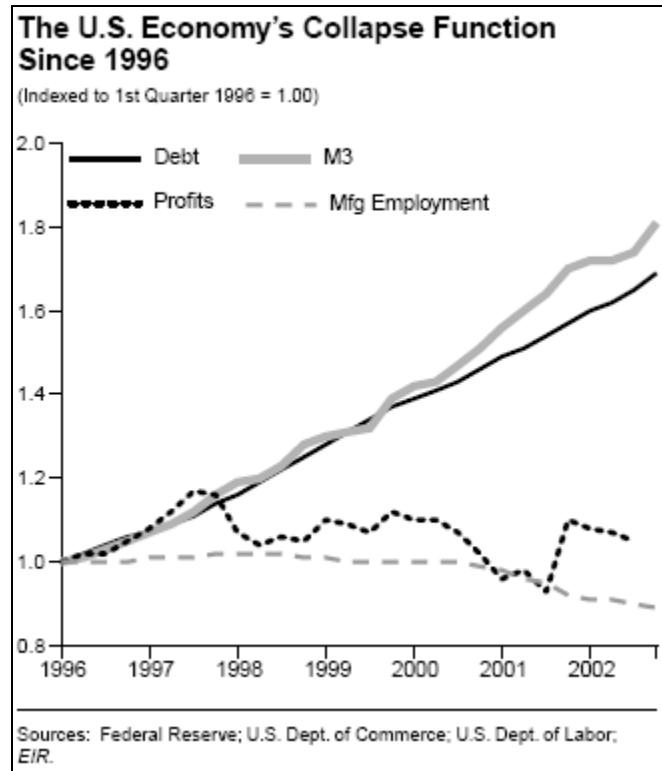


A Picture is Worth 1,000 Words

September 5, 2003

Last week we suggested you study the following chart depicting the trends of four very important economic characteristics, which in our mind reveal “the problem.”



At no time in recent history has the Federal Reserve pumped money into the economy at such a rate (note M3). And at no time in recent history has monetary stimulus failed so miserably to re-ignite profits and employment (note those lines). Why is this? Note the debt line. Does anyone on Wall Street mention the fact that excess debt in all sectors of the economy stifles economic growth? We don't see it. Don't they know that when one has large debt service requirements, one has less to spend on good and services? This is the simple reason that there will be no runaway economic growth that will rekindle inflation. There may be growth (below historical recovery standards) but no sustainable inflation. Anyway, where is it written that economic growth causes inflation? The answer is everywhere, and everywhere written it is wrong!

The Bureau of Economic Analysis made the headline recently that corporate profits increased by \$88.3B in the second quarter. Later on in their report, but not picked up by Wall Street and the wire services, was the notation that “profits before taxes with inventory adjustment is the best available measuring of industry profits.” Do you know what that was? “Profits before taxes decreased \$20.6B in the second quarter.”