Epilogue

As an investment advisor, I am standing at the crossroads. Each day, I must resist the temptation to sell my soul to the devil, for the devil is hard at work in the investment markets. There is $80 billion worth of Government-sponsored market support, false official reporting on jobs and inflation and spin-doctored information coming from the war front in the Middle East.

The devil wants me to be fully invested in US stocks and bonds, as it continues to paint the rosiest picture possible of US economic and financial conditions. I must decide whether or not the thrill of dancing with the devil is worth the risk of being taken down a ruinous path. The devil brings out the speculator in many people, while facts and truth bring out the investor.

We all witnessed the devil in action during 2000-02 when the ***dot.com*** craze ended badly and the Nasdaq tumbled from 5100 to 1100 within a span of roughly 2 ½ years.

The specter of permanently-high oil prices, rising long-term interest rates as a consequence of the deteriorating US Dollar, the burdensome costs of perpetual war for perpetual peace, the threat of de-stabilizing enemy attacks on Western soil, a growing solidarity between China, India, Russia and Iran, and the entitlements that eventually will have to be paid to 80 million aging baby boomers leaves the US markets quite vulnerable. This serves as ample justification for not being fully invested and for keeping a portion of one's investments in relatively secure areas.

The stagnant US stock market is acknowledging that the huge imbalances created during the last few years likely will be addressed in 2005 and beyond, whether we like it or not. It also may be signaling the imminent arrival of the retiring baby boomers, which will have a dramatic impact on private sector consumption patterns and public sector finances.

As I often have said, history suggests that extended periods of above-average market returns are followed by extended periods of below-average market returns. However, even during the extended downturns, market rallies can be pronounced and last for several consecutive quarters. There are clear examples of this during every long-term stock market correction, and we witnessed one of these rallies from early 2003 thru early 2004. Now, the jury is sequestered as it prepares to render its verdict. I suspect the verdict will be that the rally has run its course.

This leads to my basic premise that we are still in a bear market as conventional wisdom says that a bear market cannot end until stock multiples revert to or below the mean. We are not close.

Meanwhile, the US Government continues to use Houdini-like tricks to achieve seemingly impossible outcomes in the investment markets. It is getting a generous helping hand from Japan and China, but at what price? Not surprisingly, the audience's unenthusiastic response to the staged performances confirms that the true path of the market is down.

<u>It is very important to acknowledge that no nation has ever borrowed and consumed its way to prosperity. Otherwise, Argentina, the latest country to default on its national debt, would be among the wealthiest nations in the world today.</u> Therefore, we can have some confidence that the US markets increasingly will reflect this bad omen. As we lurch forward into this highly challenging global political and economic environment, the greatest virtue of the wealth-seeking investor will continue to be patience.

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