Epilogue

A combination of war, a technically bankrupt US Government, embedded price inflation and an aging population is going to produce a very challenging environment for investors in the years ahead. The eventual ruin of the US Dollar is virtually guaranteed by the $45-51 trillion black hole. The question is one of timing and whether or not there will be a tipping point recognizable to the mass public.

On the more immediate horizon is that the Islamic insurgency movement has demonstrated that it can use strategically placed explosives to influence a major election (e.g., Spain.) Even if a major population center is not the target of an attack, there are abundant pipelines, refineries and shipping terminals throughout the major oil exporting nations that are well beyond the protection of US military forces and the Dept of Homeland Security. This infrastructure is vulnerable to the type of attack that favors covert operations and not a large military force with the latest weapons.

In the background, the official numbers being released by our Government are as preposterous as the superficial weight loss claimed by the cheat who places only one foot on the bathroom scale. The numerical measurements are grossly inaccurate because the methodologies behind the data collection are dishonest and politically motivated.

These concerns underscore the case for seeking both safety and inflation protection in one's investment portfolio. Traditionally, a combination of cash equivalents, natural resources and certain commodities have been a means to achieve both safety and inflation protection.

It is only a matter of time before the markets acknowledge that the huge imbalances created during the pre-election period will have to be addressed in 2005 and beyond. When the markets begin to factor in what must occur in the aftermath of the election, the bear once again will be on the prowl.

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 out on whether or not this rally has run its course.

My basic premise continues to be that we are still in a bear market. Conventional wisdom says that a bear market cannot end until stock multiples revert to or below the mean. We are not close.

In conclusion, we need to continue our heavier than normal weighting in cash and/or contrarian investments such as precious metals until conventional wisdom comes to pass. The greatest virtue in this market continues to be patience.

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