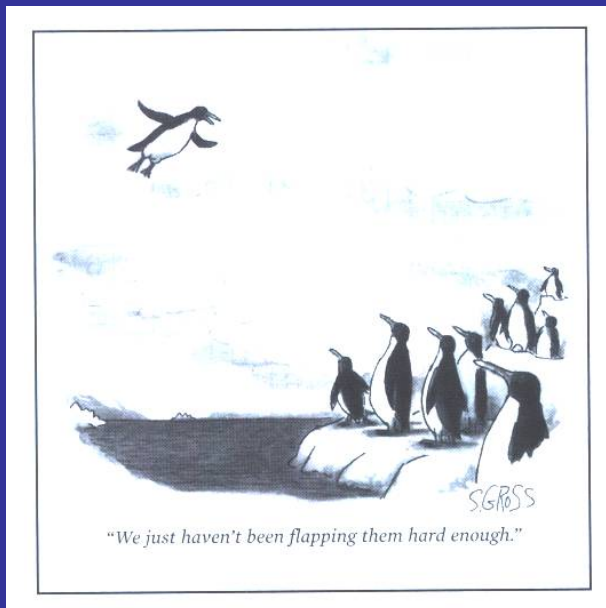


MARKET SIGNALS



Source: *Continental Magazine*

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THE MATERIAL COVERED IN THIS PRESENTATION IS THE OPINION OF THE PRESENTER AND SHOULD NOT BE CONSTRUED AS A RECOMMENDATION TO BUY OR SELL ANY OF THE SECURITIES MENTIONED. INVESTORS SHOULD SEEK THE COUNSEL OF THEIR FINANCIAL ADVISOR BEFORE MAKING ANY KIND OF INVESTMENT. THE PRESENTER MAY OR MAY NOT HOLD LONG OR SHORT POSITIONS IN ANY OF THE SECURITIES MENTIONED.

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The Times-Picayune

MONEY

MUTUAL FUNDS • F
SECTION
F
Sunday
August 1, 1999

BEAT MIKE



CELEBRITY STOCK PICKERS

1.	Peter Ficchiuti	18.30%
2.	Mary Judice	6.87%
3.	Mike Ditka	4.38%

LEADERS IN THE LOUISIANA STOCK-PICKING CONTEST

RANK	PLAYER	% GAIN
1.	Troy Sampay	25.40%
2.	Darryl Boykins	24.88%
3.	Jason Nunnally	23.09%
4.	Theodore Heine	22.81%
5.	Harold Rienstra	22.50%
6.	Stephen Eustis	22.38%
7.	Melvin Harrison	22.13%
8.	Robert Knight	22.02%
9.	Jeffrey Wilson	21.91%
10.	Melissa Holmes	21.77%
11.	Charisse Zanca	21.75%
12.	Evans Blanchard	21.66%
13.	Garry Gregory	21.64%
14.	Daoling Zhang	21.52%
15.	Joachim Fernandez	21.47%
16.	George Guzzardo	21.42%
17.	Ronald Landry	20.80%
18.	Frank Giurintano	20.69%
19.	Jeff Stern	20.69%
20.	Mark Hightower	20.55%

nola Note: Check your results on the web site www.nola.com. The Louisiana Stock Picking Contest is co-sponsored by The Times-Picayune and Tulane University's A.B. Freeman School of Business. The contest period is June 1 to Aug. 31.

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Recession Chances

- What is a Recession?
 - Two consecutive quarters of negative GDP growth
- Will it Happen?
- Bears say “yes” – Credit Crunch and Housing Worries Will Zap U.S. Consumer Spending

But, Remember

- Exports continue to grow at 15 -20% per year.
- The weak dollar will bring a surge in U.S. manufacturing.
- Business spending (unlike consumer spending) is still pretty resilient
- Sub-Prime “resets” peak by mid-2008

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A Typical Recession

- Averages 10 months in length
- Economic activity declines by 2.5%
- Unemployment rises by 2%
- - If unemployed, the average tenure is six weeks.
- We've had two recessions in the last 25 years. (early 1990's and 2000 – 2001)
- They always end and the economy always rises to a higher plateau.

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Stimulating Enough?

Spring 2008

\$170 Billion **Proposed Stimulus Plan**

Fall 2008

\$150 Billion **Drop in gas prices**

But,...

\$500 Billion **Money Taken From Home
Equity Loans in 2005**

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Solving the Mortgage Crisis

We're doing all the right things.

- Stronger firms buying out weaker firms
- Firms are “fessing up” to valuations and losses.
- Fed cutting interest rates

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The Fed's Game of "Whack- A-Mole"*

The Fed will probably bail out the mortgage mess, but.....

This "easy money" will create the next bubble

*Quote from Yardeni & Associates

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Since World War II

We've had 10 Recessions

- 23 stock declines of 10% or greater
- 9 stock declines of 20% or greater

What Counts is Corporate Earnings

Since WW II





- Corporate profits up 63 fold
- Stock prices have risen 71 fold

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Darts vs. Professional Stock Pickers

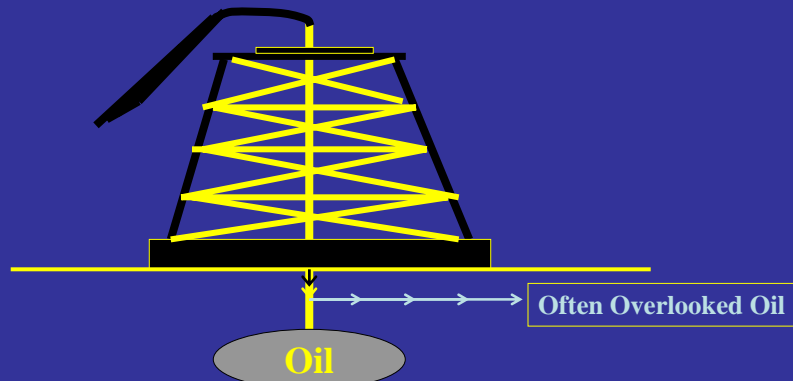


CONTESTANTS FOR THE COMING SIX MONTHS

 <p>Garrett J. Nagle Garrett Nagle & Co. BUY: GLOBAL NATURAL RESOURCES (GNR)</p>	 <p>Charles A. Knott Jr. Logan Capital Management BUY: AARON RENTS (ARON)</p>	 <p>Judith Jones Society Asset Management BUY: PRUDENTIAL REINSURANCE HOLDINGS (RE)</p>	 <p>Peter Ricchiuti Freeman Reports BUY: DREGO ENERGY SERVICES (DREAF)</p>
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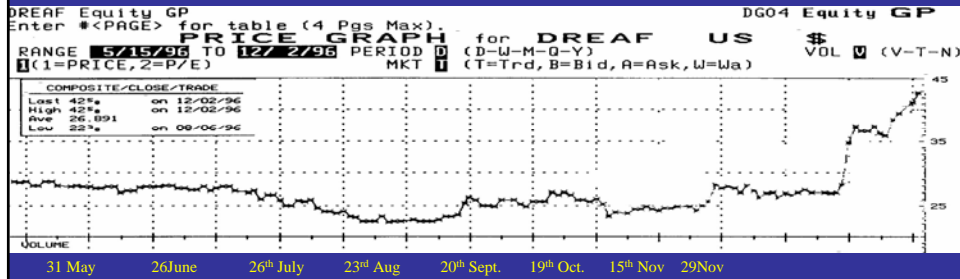
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Oil Wells



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Dreco Energy Services Price Graph



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Hang In There

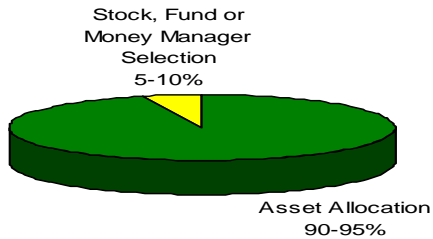
Over the past 30 years the stock market has produced an average annual rate of return around 10%.

If you were out of the market during the best 30 months your return would drop to just 3%.

1975-2005

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Sources of Long-Term Performance



**Portfolio Rebalancing Makes a Big
Difference**

www.burkenroad.org

HEADLINE:

**Lou Dobbs Hosts *Moneyline*
From Window Ledge**



Source: www.theonion.com

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Relevant Economic/Financial Issues

1. Deficits
2. Energy Issues
3. Interest Rates
4. Domestic Politics
5. Valuation Levels
6. Investing Demographics

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Deficits

- Budget Deficit
- Trade Deficit
- Weak Dollar

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Energy Issues

- Oil & Gas Prices will remain stubbornly high
- Demand Strong – Especially China and India
- Supply Weak –
 - Increasing reserve “decline rates”
 - Shortage of new prospects

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New Refineries?

- NIMBY
- BANANA
- NOPE

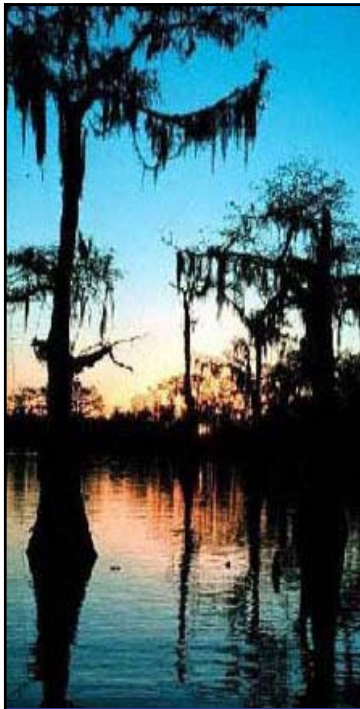
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Pricing: Oil vs. Natural Gas

- Historically, a barrel of oil has sold at 9 times the price of and mcf of natural gas.
- The difference can be accounted for by:
 - The weakness of the U.S. dollar
 - Supply fears (Geopolitical, hurricanes etc.)

Note: There seems to be an inverse relationship between oil prices and world peace.

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Gulf Coast Wetlands

Of Critical Importance:

- 1/3 of the nation's energy production
- Bulk of Country's refining capacity
- 30% of America's Seafood
- South Louisiana is the Nation's largest port
- Wetlands are a buffer against storms

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The Yield Curve As Prophet

Fall 2000

3 month 6.00% 10 year 5.70%

Slope -30 basis points

Predicting a sharp decline in corporate earnings.

Summer 2003

3 month 0.95% 10 year 4.35%

Slope +340 basis points

Predicting a huge increase in corporate earnings growth

Summer 2006

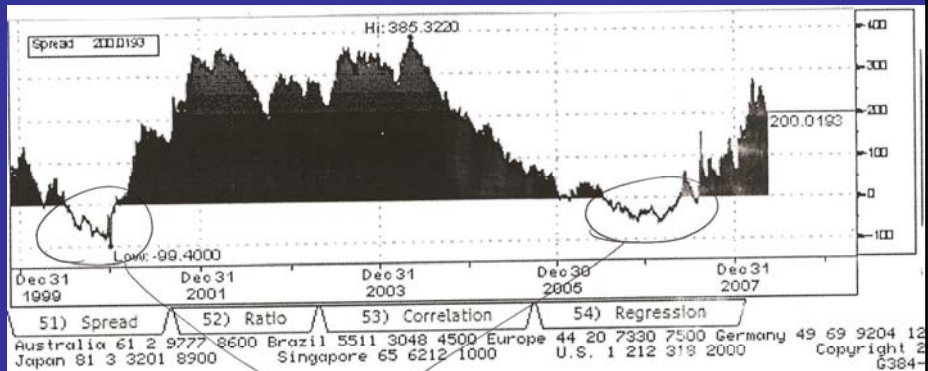
3 month 5.10% 10 year 4.50%

Slope -60 basis points

Projected and end to double digit EPS growth.

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Important Yield Curve Spreads



Both inverted yield curves preceded economic slowdowns!

Current Slope +300 Basis Points

Ten year treasury note (4.00%) minus 3-month
treasury bill (1.00%) www.burkenroad.org

Stocks Told The Same Story

- Fall of 2000: Consumer packaged goods stocks outperformed the market by about 30%. **The Economy then began to slow.**
- Summer of 2006: Consumer packaged goods stocks outperformed the market by about 30%. **What Now?**

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Consumer Confidence Vs. Reality

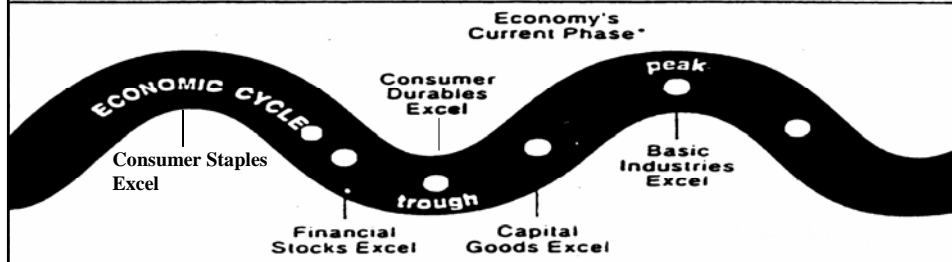
The 1982 recession was the worst since the Great Depression. Consumer confidence is now 10% below the level it was back then.

	<u>1982</u>	<u>Now</u>
Real GDP	-2.7%	+ 2.5%
Unemployment	11.0%	+ 6.1%
Inflation	+10.0%	+ 2.3%
Ten-yr. USTN	14.0%	3.7%

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Stock Market and Business Cycle

Many stocks are cyclical in nature. They tend to perform better in specific stages of business cycles. Forecasting these cycles can help to put you in the right stocks at the right time.



Source: Fortune Magazine: 3/21/94

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HEADLINE: 'Wheel of Fortune' Contestants Hit Hard as Vowel Prices Skyrocket



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Domestic Politics

The first year of a presidential term is usually worst for stocks.

Ranking

- Third year is best
- Fourth year is second best
- Second year is third best

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Presidential Race 2008

- Like no other
- No sitting president or vice president is running
- We've had a Bush or a Clinton on the ticket since 1980

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Federal Reserve Valuation Model

$$\frac{\text{EPS for S\&P 500}}{\text{Price of the S\&P 500}} = \text{Yield on 10 Year Treasury Note}$$

$$\frac{\$80.00^*}{875.00} = 9.10\%$$

The 10 yr. Treasury Currently Yields 4.00%

*Forecasted 12 month EPS.

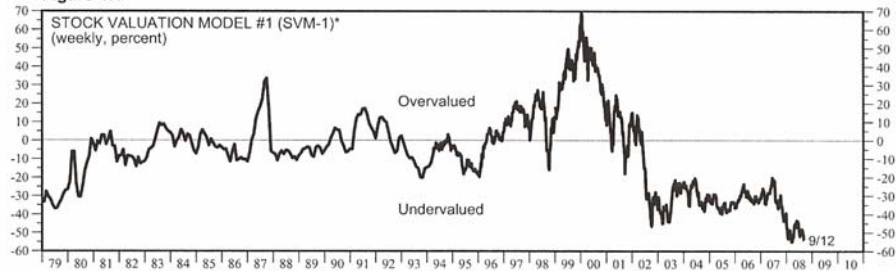
10/27/08

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Federal Reserve Model

- Valuation: SVM-1 -

Figure 47.



* Ratio of S&P 500 Index to its fair value (52-week forward consensus expected S&P 500 operating earnings per share divided by the 10-year US Treasury bond yield minus 100). Monthly through April 1994, weekly thereafter.

Source: Yardeni and Assoc.

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HEADLINE:

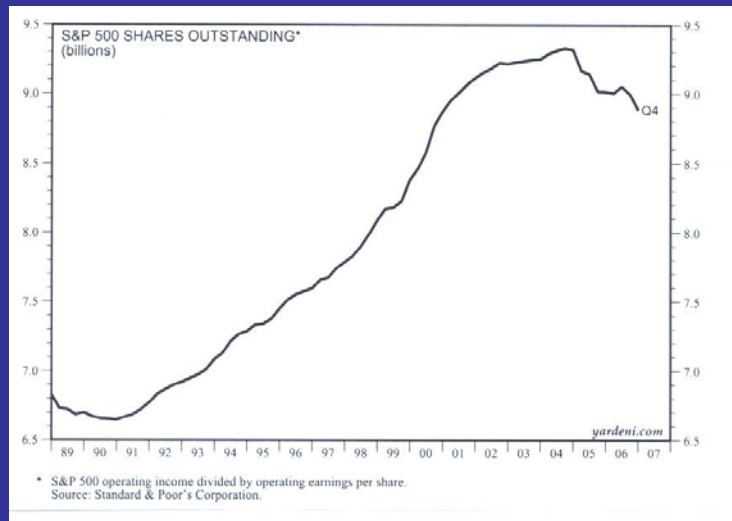
Mason-Dixon Line Renamed IHOP-Waffle House Line



Source: www.theonion.com

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Fewer Shares Outstanding



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Investing Demographics

- “The Pig and the Python”
- Very high birth rates from 1946 – 1964
- Investing Concepts
 - Financial Services
 - Healthcare
 - Leisure

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Source: Standard & Poors

HEADLINE:
**Single Woman Meets
"Slightly Imperfect" Man At
Outlet Mall**



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What Drives A Stock?

$$\frac{\text{Price}}{\text{Earnings Per Share}} = \text{P/E ratio}$$

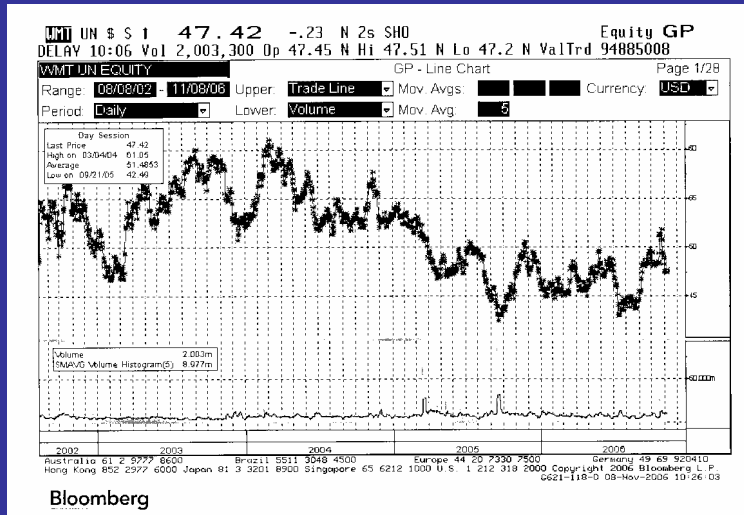
Using Home Depot for Example:

$$\frac{\$40.00}{\$2.70} = 14.8x$$

9/18/06

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Wal-Mart Stock Graph



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Wal-Mart Stock P/E's vs. Earnings Per Share

2007 \$43.00 = A PE of 13.0x
 \$ 3.30

2001 \$43.00 = A PE of 29.0x
 \$ 1.50

The stock has remained flat as EPS growth has mirrored the decline in its PE ratio.

In 2001 Wal-Mart shares were "ahead of themselves"

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Three Stages of a Bear Market



<u>Stage</u>	<u>Characteristics</u>
1. DENIAL	Economy shows signs of slowing and stocks fall from their highs, sometimes sharply. Investors shrug it off and act as though the bull market will last forever.
2. REALITY	Stocks continue to decline. Investors start to realize how weak the economy really is.
3. SURRENDER	Fear of deeper losses and a recession become so worrisome that investors give up on stocks, setting the stage for a rebound.

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It's Not A Stock
Market...
It's a Market of
Stocks

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Important Issues

- Favorable Demographics
- Sour, Bumpy Financial Markets
- Troubles in the Housing Market
- Changes to Pension Plans

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Great Reading

Popular Books

One Up On Wall Street, Peter Lynch (Simon & Schuster)

A Zebra in Lion Country, Ralph Wanger (Simon & Schuster)

The Money Masters, John Train (Harper & Row)

Analytical Books

The Intelligent Investor, Benjamin Graham (Harper & Row)

Security Analysis, Benjamin Graham (McGraw-Hill)

Sophisticated and Well Written

Common Stocks and Uncommon Profits, Phillip A. Fisher (Harper & Row)

The Contrarian Investment Strategy, David Dremen (Random House)

Oldies but Goodies

Reminiscences of a Stock Operator, Edwin Lefevre (George H. Doran)

Extraordinary Popular Delusions & the Madness of Crowds, Charles
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MacKay (L. C. Page & Co.)

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