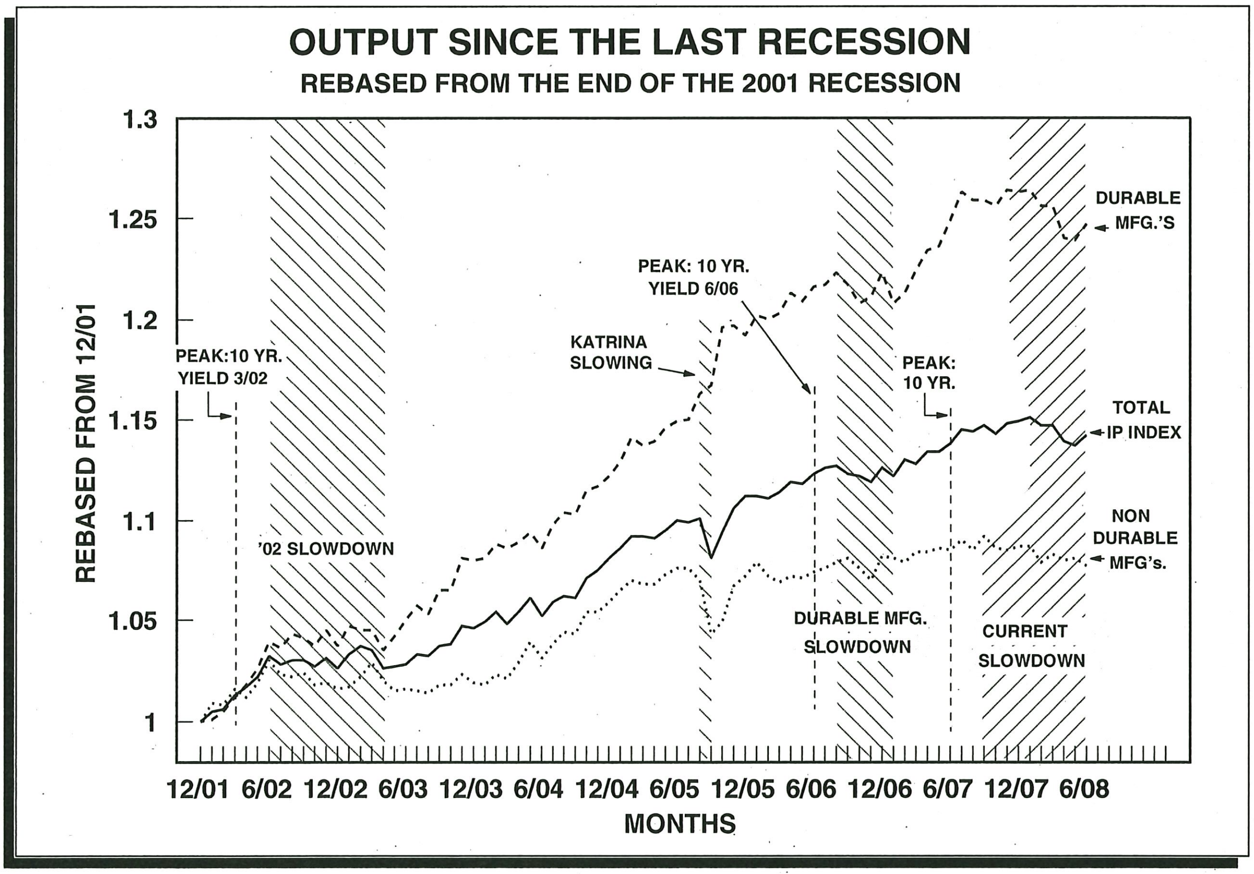
BUSINESS CYCLE DEVELOPMENTS

An improving economy will continue the inflation pressure.

June's Industrial Production **Index** turned up, which falls within the expectation for economic improvement. The 6 of 8 **Business Cycle Trough Indicators** currently signal a recovery, from the current economic slowing, in **September '08 (6/08 thru 1/09).** One month's upturn isn't as convincing as three consecutive monthly increases, but discord surrounding the economy is at an apex and that's typically where inflection points are observed - after the fact! An "improvement" isn't meant to be GDP growth seen in the 1990's, but a *general awareness* of an improving economy at the end of this year will



convince investors that inflation hasn't been suppressed. A recession or a Volcker type Fed are not within reach to quiet inflation, so commodities will sporadically offer a good hedge. Corporate earnings will begin more favorable comparisons beginning in October '08, which means stocks will provide a better hedge than bonds. The 5 of 7 **Interest Rate Trough Indicators** still center cyclical upward pressure on yields in **November '08** (May '08 thru June '09), which overlaps the bottom in the economy and the characteristic climb in yields at an economic trough. Yesterday's IP **Index** for June is only 7% above that of June 2000! Weak growth implies continued narrow leadership and trading - not buy and hold - equity markets, where nominal returns are limited and real returns are negative.

Bill Weissert #25/08 July 18, 2008