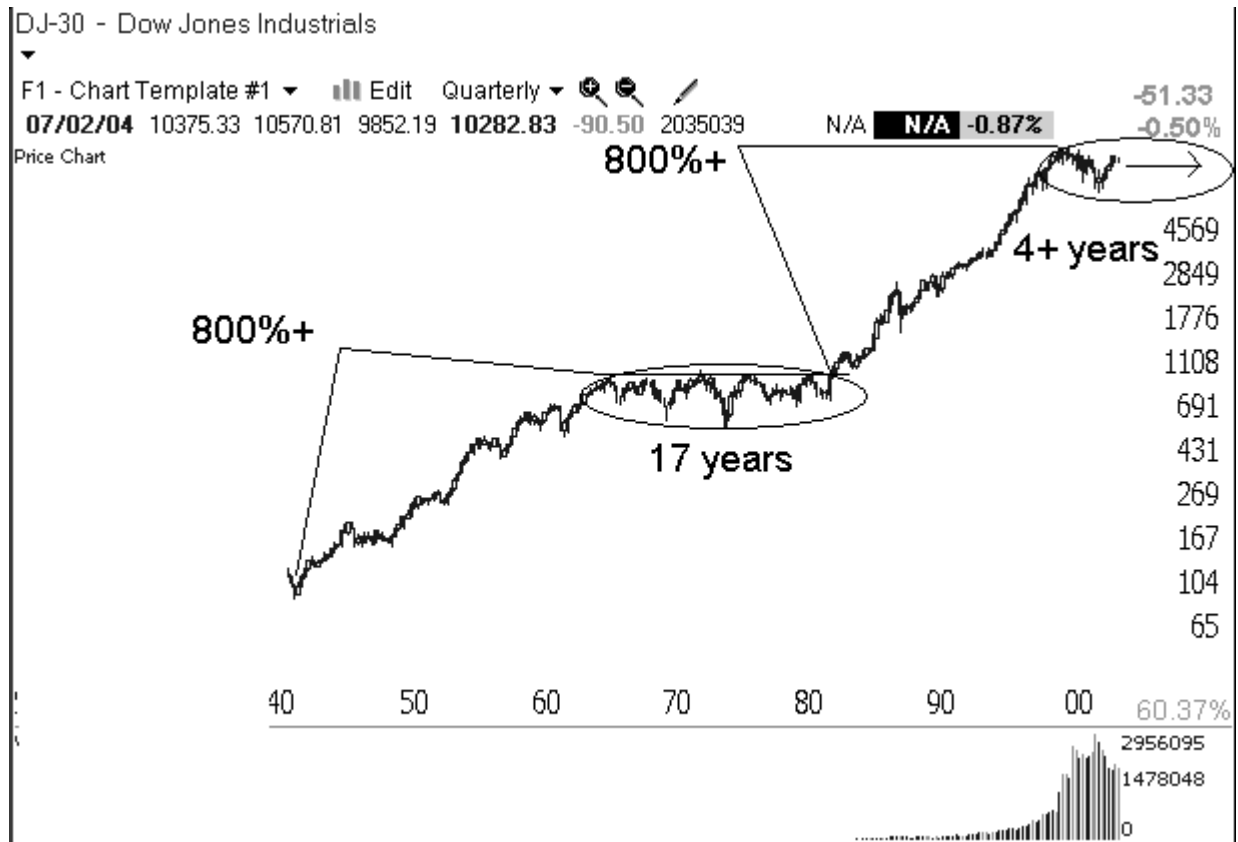


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A Road to Nowhere

Over the last year(2003), as the stock market has rallied, many investors have become encouraged by the stock market and its prospects. I am starting to see more investors taking risk in lieu of the sanctity of a money market account. In our opinion, the reasoning is simply that a 1% yield is not enough. Many investors used the same logic in 1999, when money market rates were 7% and the NASDAQ stock market was up 80%. "Seven percent is simply not enough," investors cried as they poured money into the NASDAQ at its peak. I hear arguments from the bullish investors that this is the birth of a new bull market. I hear arguments from the bears that this market is about to crash. I wanted to put forth the possibility of another scenario. I will call it a road to nowhere.



The above graph illustrates the possibility of a market that will move sideways for an extended period of time.

<u>Year</u>	<u>DOW JONES</u>
1964	874.13
1981	875.00

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Over 17 years the Dow was basically unchanged. Under this scenario both bulls and bears lose. Conservative investors have to remain patient and learn to accept the fact interest rates are low. Many conservative investors appear to be moving out of money markets, extrapolating last years' stock market performance into the future, and impatiently investing in stocks once again. These investors are behaving in this manner not because the risk/reward ratio is favorable in the stock market, but because they are desperate for a higher return. We are in an income depression and the problem could be compounded if conservative investors take chances in the stock market and lose their principal.

The above graph illustrates that throughout the sideways movement there were some large declines and subsequent advances. In fact, there was an opportunity to invest near the bottom in 1974. Most investors by that time, however, were cured of their need to buy stocks, but intelligent investors, including Warren Buffett, were buying heavily at the bottom in 1974. What would a bottom like that in 1974 look like today? If you apply valuations from the market in 1974 market to today's market you would be looking at the Dow valued at 3,000. This is not a prediction, but something that markets can occasionally do.

Todd Horlbeck
President

July 12, 2004

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