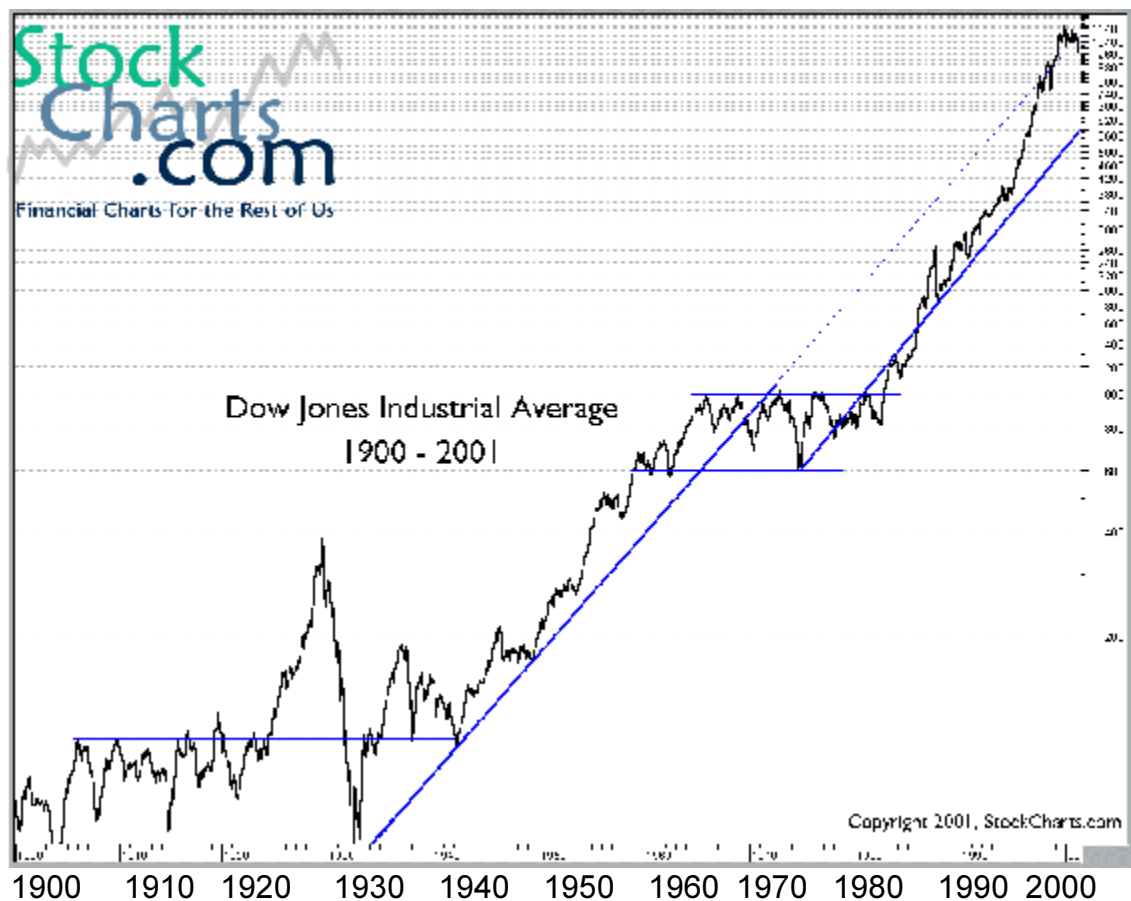


A VERY LONG TERM CHART -- ARE WE IN FOR A LONG TERM PERIOD OF STAGNATION?



A LOOK AT THE PAST CENTURY.....

Here is a chart of the Dow Industrials going back to 1900, courtesy of StockCharts.com, one of the websites that provide a good deal of information to investors. This is a logarithmic chart, spaced so that it reflects changes in percentage rather than point changes in the Dow in equal segments.

Some observations

In terms of the Dow, at least, the current bear market is relatively minor compared to the 1929 - 1932 bear market in which the Dow declined by 90%.

In terms of percentage gain, the 1974 - 1999 mega bull market was no stronger than the mega bull market that took place between 1942 and the 1960's. These periods of secular uptrend were about equal in duration.

Major market advances have tended to be followed by years of relative stagnation. The advance of the 1920's was followed first by a bear market, and then by just about ten years of sideways action. The long bull market between 1932 (or the early 1940's, depending on how you measure) and early 1966 was followed by just about 16 years of flat movement. The sample is not all that large, but based upon what there is in the way of past precedent, the implications are that the end of the current bear market is likely to be followed by many years of essentially flat market movement on a long term basis, though there may be wide, very tradeable swings within the pattern.

Even with recent declines, the Dow is trading at the upper boundary of its long term trading channel.

Fundamental Considerations.....

Current fundamentals appear to support the above conclusions. For example, the S & P 500 at 22 - 23 times earnings stands at levels more associated with major market tops than bear market bottoms. (P/E ratios were about 8 at the 1982 bottom.) Ditto for dividend payout ratios. Stocks are simply not cheap. In the best of worlds, we might hope for the market to trade flat until earnings catch up. In the worst of worlds.....