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Is it time to turn out the lights—is the party over?

As we write this there is, apparently, no reason to buy equities. The reasons not to buy are many and include the following:

UNDERVALUED SECTORS (CONSIDER!)
- LARGE CAP VALUE
- DIVIDEND STOCKS
- CONSUMER DEFENSIVE
- MEDICAL/DRUGS

OVERVALUED SECTORS (AVOID!)
- ASIA
- TECHNOLOGY
- INTERNET
- HOME BUILDERS

- The war is not going as expected
- Terrorism
- The housing bubble
- The consumer is exhausted
- The consumer is watching television until the war is over
- Household debt at record levels
- Worsening unemployment
- Widening current-account deficit
- Business confidence is near all-time lows
- Warren Buffett says to do nothing
- Price/earning ratios are still too high
- High oil prices will hurt the economy

We, of course, disagree with the pundits who proclaim that now is not the time to buy. We strongly believe in the equity markets and believe that if an investor has a 5-year or greater time horizon that now is indeed the time to buy. We will attempt to answer each of the above with reasoned responses.

- **The war is not going as expected:** As this is being written the war is 11 days old. The first week most investors assumed that the war would be short, producing a record rally on Wall Street. The rally was unrealistic and a deep sell-off would also be unrealistic. There will be good news days and bad news days and each will affect the market over the short term and this may make the market more volatile than otherwise would be the case. The chance of the war dragging on for months is remote in our opinion and recent events show the end to be near.
- **Terrorism:** Unfortunately a fact of life today. There is no doubt that this has and will continue to take from the market. However, Israel has a thriving market but has lived with the threat of terrorism for over a generation.
- **The Housing bubble will burst causing further damage to the economy:** Federal Reserve Chairman Alan Greenspan said recently "he thought a housing bubble was unlikely at the national level." Historically a bubble is burst only when monetary policy tightens. At this juncture we feel that there is little or no chance of a tightening until the stock market and the economy improves.
- **The Consumer is exhausted:** During the slump of the past 2 plus years there can be no doubt that the consumer has carried the economy and some slowdown is overdue. We feel that rumors of the death of the consumers are greatly exaggerated. As oil prices decline after the war this artificial tax will be removed. Remember, the only argument is over the size of the tax cut, not the tax cut itself. Both of these will put money in the consumer's pocket.

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- **The consumer is watching television until the war is over:** This is true in the short run, but if the war drags past two weeks viewers will become saturated by the non-stop coverage.
- **Household debt is at record levels:** This is a factual statement as far as it goes. While debt is higher, the cost of servicing that debt as a percentage of disposable income is not at record levels due to the drop in interest rates over the last several years. In addition, the major debt for most households is the mortgage on their home and consumers have locked in lower rates for the next 30 years because of the refinancing boom.
- **Worsening unemployment:** the unemployment rate, while higher than in the recent past, is still modest by historical standards. The weakening of the dollar will make goods and services produced in the United States cheaper for foreign buyers causing a pick-up in hiring. In addition, the proposed dividend tax cuts will provide more funds for the development of small businesses, where most of the jobs are created.
- **Business confidence is near all-time lows:** Businesses, particularly technology, based have had a rough 3 years. Their overconfidence during the boom led to a tremendous over-capacity, which will take several more years to work-off. Non-technology business has used the current slump to become lean and mean and can take advantage of the lower dollar as the economy turns.
- **Warren Buffett says to do nothing:** Actions speak louder than words. While talking down the markets, Warren has been on a buying spree. On March 3, 2003 Warren stated " despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find very few that even mildly interest us." Like any good trader, he talks down what he is interested in buying. During the past 12 months Buffett has purchased $5.1 billion worth of companies. We say do as Warren does, and not as Warren says!
- **Price/earnings ratios are too high:** Earnings have slumped the past three years, coming off market bottoms PE ratios are always high. We feel the key ratio to watch will be dividend pay-out. At current levels, dividend yields exceed that of treasury bills with the prospect of the return being tax free in the future.
- **High oil prices hurt the economy:** the high prices in the first quarter of this year have acted like a tax on the economy no doubt holding down growth. We expect oil prices to fall sharply after the war in Iraq, perhaps to the $20. per barrel level. The future is much brighter. Currently the average cost per kilowatt-hour for fossil fuels averages 7.5 cents, and this compares with an average cost of 10 cents for solar thermal energy. This cost puts a long-term cap on fossil fuel costs while assuring that technology can help America achieve energy independence.

The bottom line is two fold: one, no one knows for sure if the market will go up or down during any given period and two, the markets tend to discount the future nine to twelve months ahead. We believe that the bad news is known and has been taken into account. We would recommend companies with low debt obligations, dividend paying companies and those that develop military technology.

"Buy a share in America"

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Don’t be a Yield Pig

There is an old saying on Wall Street “Bulls Profit. Bears Profit but Pigs get Slaughtered.” We feel that a group of investors may be unknowingly setting themselves up as the markets new hogs. The state and federal governments have long discouraged smoking but at the same time politicians are desperate for tax revenue and have raised taxes on cigarettes. Why do these actions set some investors up to be slaughtered? To help balance budgets many of the states think they have found the financial fountain of youth. Cash strapped states such as California have sold more than $19 billion dollars of municipal bonds backed by the 1998 tobacco settlement. Currently, many of these bonds yield close to 7%. In early January, officials from California were pitching the investment merits of these bonds. According to the Economist, “one manager has been regaled by government officials with stories about how teenagers are taking up smoking in ever-greater numbers.” At the same time, jury awards are increasing, taxes are going up, and new laws are restricting smoking to fewer places.

The governments have shifted the risk of tobacco companies defaulting to municipal bonds investors. The latest offering document for California states that “there have been at least a dozen court decisions against tobacco companies.” If the tobacco companies are unable to pay the settlement, the holders of the bonds will be left holding the bag. This scenario could occur if any or all of the companies seek bankruptcy protection to avoid judgements, or if the number of smokers in this country declines to due increased restrictions on smoking.

It could give a new meaning to the phrase “smoked ham”

Truth is stranger than fiction

We could not make up a story as good as this. On February 4, 2003 a company named Juris Travel (otc:bb JTVL) was trading at $0.20 per share with 10 million shares outstanding giving the company a market capitalization of $2,000,000. One might think that at this price the company was overvalued due to its lack of revenue and only $24,000 cash on hand. But on Friday March 28, 2003 the stock closed at $5.82, giving the company a value of $58,000,000. What changed? Not the cash, just the name! The company announced that it was changing its name to Dogs International (otc:bb DOGN). The company will now “focus its efforts on building/acquiring a chain of upscale pet care facilities under the name “Bed & Biscuit Inn ™. Bed & Biscuit Inns are to be designed to offer a wide range of boarding, 24/7 supervision by a professionally trained staff, off-leash playgrounds and training facilities, and a bakery/café. In addition DOGN plans to have a Groomingdale’s, an onsite pet grooming facility at each location.” $58,000,000 for a dog kennel? This just proves that there are a number of people who call themselves investors who just want to be separated from their money.

And don’t forget to check us out on the World Wide Web

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Truth is stranger than fiction deux

At the Centurion Counselor we normally write all of our articles but we have made an exception in this case. Chad Kultgen wrote this and it is reproduced in its entirety.

'TIME-TRAVELER' BUSTED FOR INSIDER TRADING
Wednesday March 19, 2003 *By CHAD KULTGEN*

NEW YORK — Federal investigators have arrested an enigmatic Wall Street wiz on insider-trading charges — and incredibly, he claims to be a time-traveler from the year 2256!

Sources at the Security and Exchange Commission confirm that 44-year-old Andrew Carlssin offered the bizarre explanation for his uncanny success in the stock market after being led off in handcuffs on January 28.

"We don't believe this guy's story — he's either a lunatic or a pathological liar," says an SEC insider.

"But the fact is, with an initial investment of only $800, in two weeks' time he had a portfolio valued at over $350 million. Every trade he made capitalized on unexpected business developments, which simply can't be pure luck.

"The only way he could pull it off is with illegal inside information. He's going to sit in a jail cell on Rikers Island until he agrees to give up his sources."

The past year of nose-diving stock prices has left most investors crying in their beer. So when Carlssin made a flurry of 126 high-risk trades and came out the winner every time, it raised the eyebrows of Wall Street watchdogs.

"If a company's stock rose due to a merger or technological breakthrough that was supposed to be secret, Mr. Carlssin somehow knew about it in advance," says the SEC source close to the hush-hush, ongoing investigation.

When investigators hauled Carlssin in for questioning, they got more than they bargained for: A mind-boggling four-hour confession.

Carlssin declared that he had traveled back in time from over 200 years in the future, when it is common knowledge that our era experienced one of the worst stock plunges in history. Yet anyone armed with knowledge of the handful of stocks destined to go through the roof could make a fortune.

"It was just too tempting to resist," Carlssin allegedly said in his videotaped confession. "I had planned to make it look natural, you know, lose a little here and there so it doesn't look too perfect. But I just got caught in the moment."

In a bid for leniency, Carlssin has reportedly offered to divulge "historical facts" such as the whereabouts of Osama Bin Laden and a cure for AIDS.

All he wants is to be allowed to return to the future in his "time craft."

However, he refuses to reveal the location of the machine or discuss how it works, supposedly out of fear the technology could "fall into the wrong hands."