

Outside The Belt - street

June 2004

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Special points of interest:

- Jobs, Real or Statistics
- Wisdom from Yogi Berra
- Bear Market Cycles
- Prices in Wave Three
- What Money Can Buy
- In Just 3 Banks

Hocus Pocus Jobs are the Focus

Over the last few months, we have seen job numbers on the news that many pundits have been raving about as a sign that the economy is getting stronger. According to the "Employment Situation Summary, May 2004" put out by the Bureau of Labor Statistics on June 4th 2004, there were 947,000 jobs created in the last 3 months. Since these were statistics, was there anything in these numbers that could have been effected by the statistical models you might ask. Jumpin' bureaucrats, there is!

Last year the Bureau made a change called the "net birth/death adjustment". In order to appreciate this fully let's just look at the actual explanation from the BLS.

To account for this net birth/death, the BLS is implementing an estimation procedure with two components: the first component uses business deaths to impute employment for business births.

The second component is an ARIMA time series model designed to estimate the residual net birth/death employment not accounted for by the imputation. ...and reflects the actual residual net of births and deaths over the past 5 years.

Hold the presses, what does Webster's say is the definition of impute?

Im-pute— *to lay the responsibility or blame for, often falsely or unjustly. Also— to credit to a person or a cause.* Merriam-Webster Online— Now isn't that a bit of irony.

But just how much of an adjustment do these stats generate? In the **Table below** are numbers taken directly from the BLS (<http://www.bls.gov/web/cesbd.htm>)

So from an increase of 947,000 we have a substantially large number of these "jobs" coming

from an adjustment in a statistical model.

If this doesn't cause us to be skeptical about the job numbers coming out, then we certainly should be skeptical considering the fact that the according to the "Employment from the BLS household and payroll survey: summary of recent trends, June 4, 2004" the Bureau's **REVISED** numbers show that from December 2002 through the latest date of November 2003, the jobs numbers were **LOWERED** by an average of 119,000 per month or 1.4 million over the preceding 12 month period.

So next time you read about the great jobs growth, read it with a little statistical grain of salt.

January	February	March	April	May
-321,000	115,000	153,000	270,000	195,000

Words of wisdom from the great philosopher Yogi Berra

Baseball is 90% mental. The other half is physical.

I never said most of the things I said.

Three Articles of Blind Faith

Maggie Mahar's book, (2003) Bull: A History of the Boom, 1982-1999 is a great look back at the greatest bull market ever in U. S. History. The information you learn will lead you to understand the money game and markets from many different angles. This book along with Roger Lowenstein's book(2000), When Genius Failed: The Rise and Fall of Long Term Capital Management are two of the best books I have read in the last year. You will not see the 80's and 90's the same after you journey back through the markets from the eyes for these two authors. These books should be required reading for any investor today, whether individual or institution.

So what are the "three articles of blind faith"? According to Ms. Mahar the list is as follows (pg 227):

- Over time, stocks always outperform bonds.
- You can't time the markets.
- Just buy a good company and hold it, and over the long haul, you'll make money.

To look at the "Stocks for the Long Run" hypothesis, we need to examine a few periods for contrast.

1909-1921- *By August 1921, the broader market was 40% lower than 1909. (Source—David Tice, www.prudentbear.com, "Why the Bear Market is not over, Reviewed on 6/15/04)*

1929-1945— *If someone had invested their money in the stock market on September 7, 1929, how long would they have had to wait to get their money back? If you use the price index, the answer would be September 1954, but on a total return basis, an investor would have broken even in April 1945. (Dr. Bryan Taylor President, "Bull and Bear Markets, Past and Present", Global Financial Data, Inc.) Either way you skin this cat, that's a long time.*

1966-1982— *The Dow had been straining to breach the 1000 barrier for some 16 years. Finally it had succeeded. By May of 1983, the benchmark index had reached 1200. Nevertheless, the Dow still was not worth what it had been when it first brushed 1000 in 1966. Dow 1200 was equivalent to only about Dow 600 in 1966 dollars. (Maggie Mahar, Bull: A History of the Boom 1982-1999, page 49.)*

So before you accept losses from a buy and hold strategy as "temporary", keep in mind these periods in financial history. "Those who cannot remember the past are condemned to repeat it." George Santayana, *The Life of Reason*, 1905.



Which way is the traffic going? Can you tell?

"By August 1921, the broader market was 40% lower than 1909."

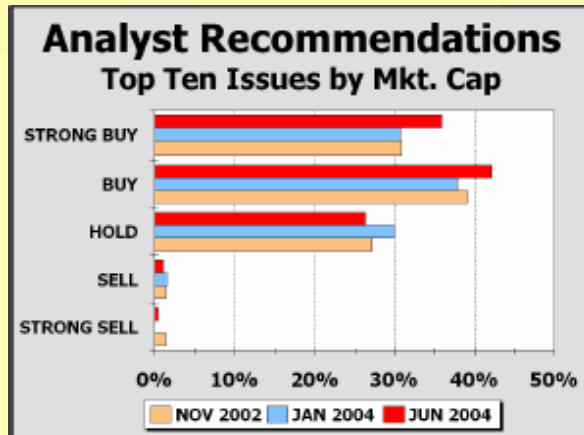


Technicals and Technicians

	2004 Highs (Start of Wave III Down)	
	Date	Level
Dow Jones Industrial	2/19/2004	10,753
NASDAQ Composite	1/26/2004	2,153

	Current Levels (In Wave III Down)	
	Date	Level
Dow Jones Industrial	6/14/2004	10,334
NASDAQ Composite	6/14/2004	1,969

My Technicians	Age or Years Advise	Viewpoint of Markets
Jim Dines	Comments since 1960	Technical Newsletter
Robert Prechter	Comments since 1975	Technical Newsletter
Alan Newman	Age-63, Comments-'80	Technical Newsletter
Richard Russell	Age-79, Comments-'58	Technical Newsletter
Dr. Stephen Roach	Comments since 1972	Economist
Dr. Kirk Richebacher	Comments for 60 years	Economist
Bill Gross	Comments since 1970s	Chief Investment Officer
Warren Buffett	Age-73, Comments-'56	Investor, CEO
John Templeton	Age 90, Comments-'40	Investor, Former CIO



Objective or Biased? "Out of 286 instances, there was one lone 'strong sell' and three 'sells'." Alan Newman, www.cross-currents.net, June 7, 2004

**As we focus
on money,
may we
never forget
what it
really can
buy!!**

(pictures from
Special Olympics
Texas-2004)



Forgetting We are Dealing with Humans

Speaking of the group of Math PhDs' that ran Long Term Capital Management until its collapse, Roger Lowenstein, When Genius Failed: The Rise and Fall of Long Term Capital Management describes their actions as follows, "They had forgotten that traders are not random molecules, or even mechanical logicians such as [themselves], but people moved by greed and fear, capable of the extreme behavior and swing of moods so often observed in crowds." (page 173)

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Securities Through Butler, Freeman, Tally Financial Group
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To Follow or not to Follow, is that the question?

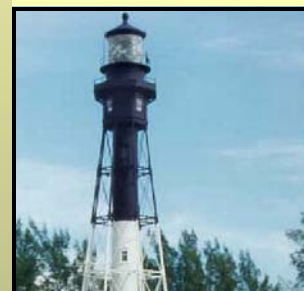
In the last few years the growth of ETFs' (Exchange Traded Funds are a bundle of securities that make up an index and trade like a stock), seems to be effected by another acronym, EMH (Efficient Market Hypothesis). The definition is as follows: *A theory that security prices correctly measure the firm's future earnings and dividends and that investors should not consistently outperform the market on a risk-adjusted basis.* So could this explain the chart on page three showing the rapid growth of ETFs? Could it be that the more we index investment decisions, the more "inefficient" our markets become? How does this fit with one of Sir John Templeton's maxims, "Never follow the crowd?"

Three Questions you should be asking today.

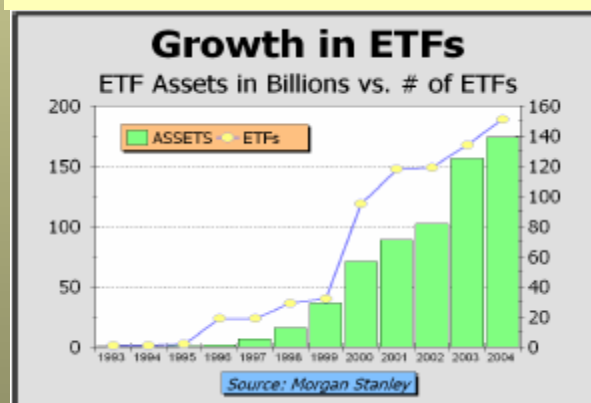
1- On May 23, 2003 Congress raised the debt ceiling by almost 1 trillion to 7.4 trillion. On June 15, 2004 the national debt was 7.2 trillion. Could this adversely affect my investments?

2- If my account declines, how long do you think it will take for the markets to bring it back up?

3- What strategies could I use to make money (NO NOT REDUCE LOSSES) during a down market?



Alan Newman, www.cross-currents.net, May 19, 04



Holding Company	Total Assets	Total Derivatives
J.P. Morgan Chase and Co.	771	37,420
Bank of America Corp.	736	15,153
Citigroup Inc.	1,254	12,579
Others	2,962	7,099
Total	5,723	72,251

These numbers were taken from the Office of the Comptroller of the Currency on the December 31, 2003 report on the derivatives market. Does something seem a little out of line to you? How about 90% of a MARKET held by three banks.