

OUTSIDE THE BELT-STREET - SPECIAL EDITION

AUGUST 2004

Special Edition

A PICTURE'S WORTH...?



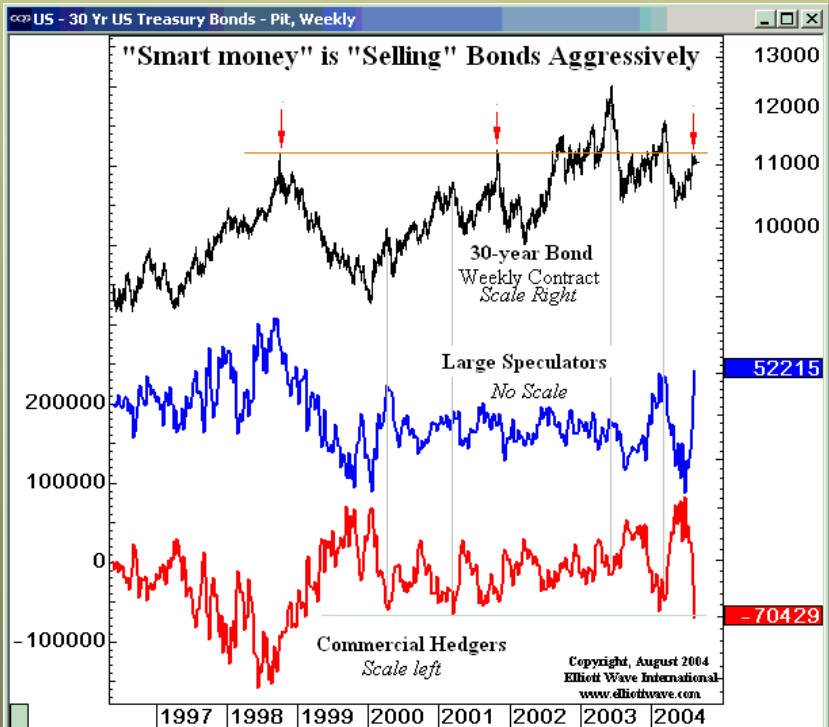
We have already moved down from the levels seen in the last Special Edition. I encourage you to review the charts in that issue on parabolic rises.

The chart to the right is from Elliott Wave International, Robert Prechter's site. (www.elliottwave.com)

The founder of the Wave Theory, Ralph Elliott, developed this theory in the 1940's.

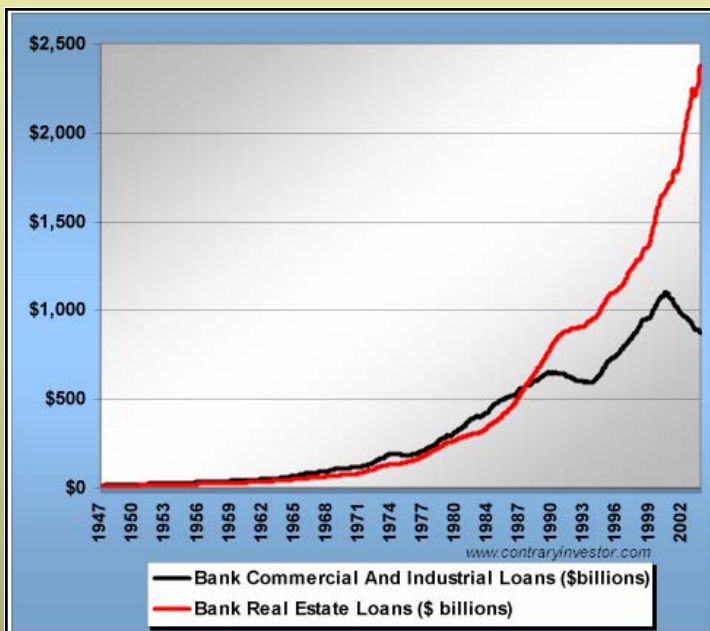
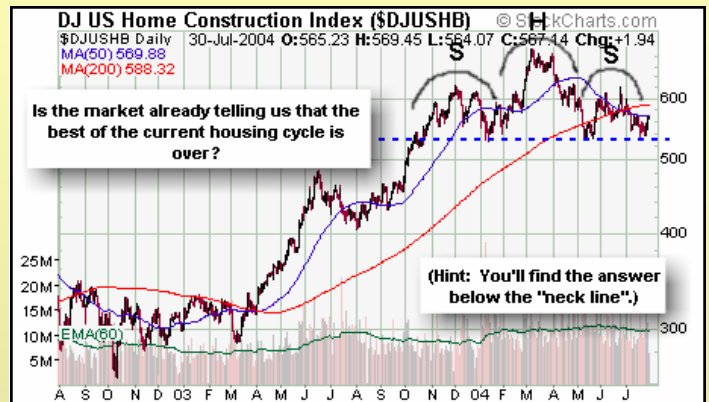
"Dwell on the past and you will lose an eye. Ignore the past and you will lose both of them." Russian Proverb

In this Special Edition I am going to take you into the cockpit of my airplane and allow you to look at some of the pictures that have come across my flight path in the last several weeks. As July was the major turning point for so many indexes, going below their 200-day moving averages, it has become urgent that you understand what is coming on the "radar screen." For their own benefit, please share this with anyone you care about so they can learn as we fly through these historical times.



Mon Aug 23 2004 15:14:53

C:QG © 2004



These charts on housing are from www.contraryinvestor.com and www.stockcharts.com. These pictures certainly do not show a long, sustainable trend, but one that is coming to a major fork in the road.

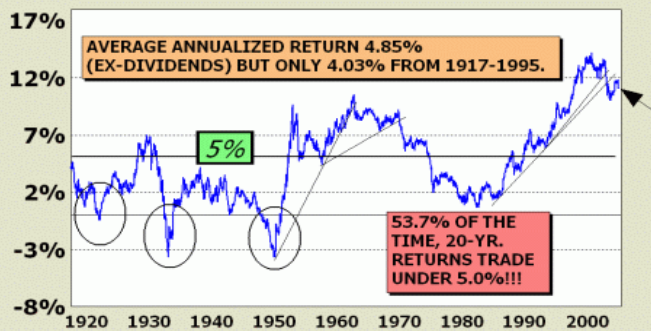


Mutual Fund Cash Levels

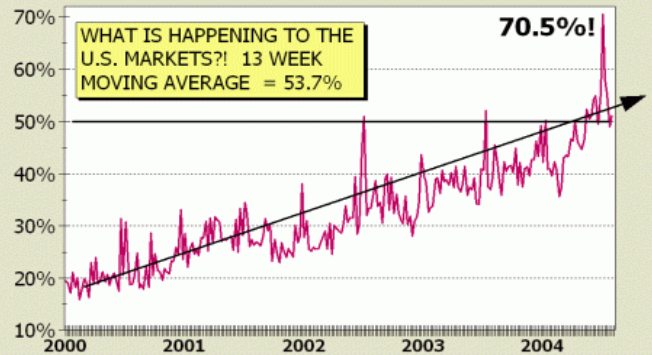


When institutions are running out of cash to stoke the financial engine's furnace, then are we taking on less risk in the stock market or more?

Annualized Returns For DJIA Over All 20 Year Periods 1917-2004



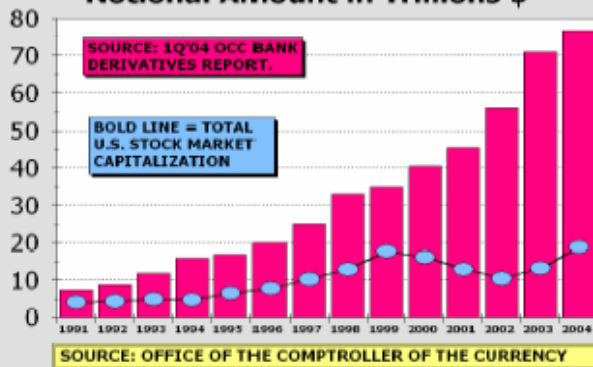
NYSE Program Trading Stated as a Percent of Total Volume



At this level of program trading (the computer indicating when to buy or sell), does this look healthy for the markets? If the markets start to sell off, what could this mean?

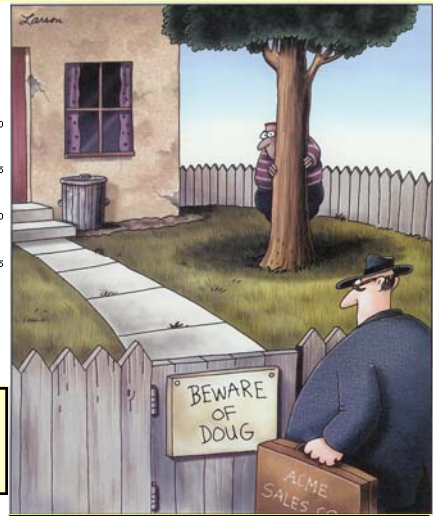
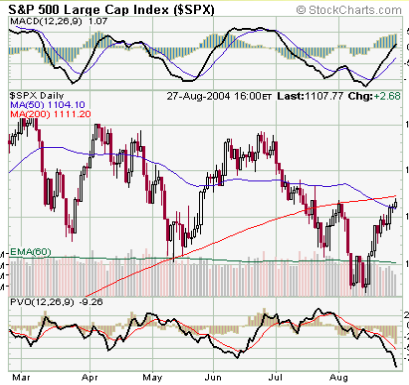
Do the numbers above look like what you are expecting for future returns? If the Dow goes down 5-10%, how hard is it to get that back? What about a decline of 20% or more?

U.S. Banks - Derivatives Outstanding Notional Amount in Trillions \$



With less cash and more program trading, how does a market that has over a \$76.5 trillion value affect risk? What if that market was made up of over 85% (66 trillion) in interest rate sensitive contracts? (1st quarter 2004 Derivatives Report, The Office of Comptrollers Currency, www.occ.gov)

All charts on this page are taken from Alan Newman's site at www.cross-currents.net.



Traders who look at technicals, would see the patterns above and below as bearish. We are under the 200-day average, and are hitting lower highs, & lower lows with declining volume.

My twelve year old son, Joel, found this far side cartoon.

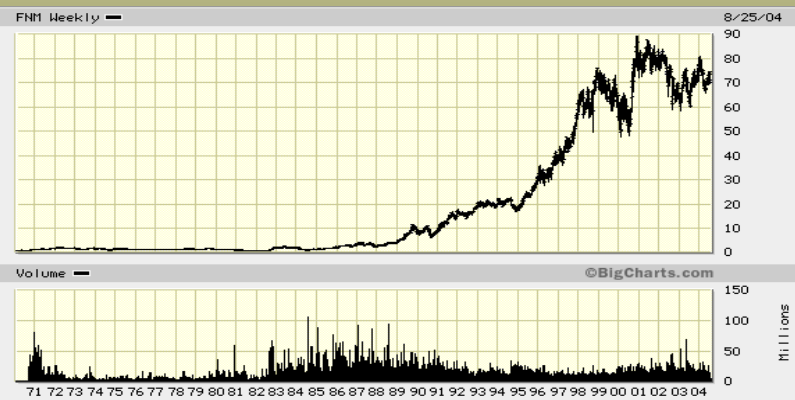


The chart below, of Fannie Mae, reflects a substantial move up. In fact if you go back to the August newsletter, you will be astonished by how much it has increased!! Can it really stay at its current level?

Please Note: Information contained herein has been obtained from sources believed to be reliable but is not necessarily complete and accuracy is not guaranteed. Any market trends mentioned in this issue are not to be construed as investment or trading recommendations specifically for you. This report is for informational purposes only.

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