



Greenspan, inflation, Asia and the stock market. Alan Abelson, in his recent article in Barron's referred to Alan Greenspan as "The Great Waffler" because Mr. Greenspan, in testifying before Congress, stated that a significant correction in the stock market could occur. He did not know when however. Abelson further stated that Greenspan's *"alarums have had all the impact of a lily pad laid gently on the hide of an elephant."* We occasionally enjoy the humor of Mr. Abelson. More importantly, we have respect for Mr. Greenspan and his management of the economy.

Relative to his colleagues, Mr. Greenspan has been a true visionary. The focus of the Federal Reserve is controlling inflation. Not past or current inflation, but future inflation. The common tool of the Fed is to raise short-term interest rates to bring inflation under control. At this time current inflation is moderate and well within acceptable parameters. However, more than one of Mr. Greenspan's colleagues has argued for higher interest rates to control future inflation. They have been doing this for more than two years. Mr. Greenspan finds it necessary to placate these opposing views by taking action that seems to serve their interests. *The action he took recently was to use moral suasion to talk down the stock market, and it worked.*

Mr. Greenspan argued that analysts have been raising earnings expectations to levels that are not reasonable. He stated that long-term annual earnings forecasts were now at 13%, and this expectation is way too high. We agree. We also feel that a stock market that was up nearly 20% for the year before the recent crack deserves a breather. *A racehorse runs a defined distance and then rests before the next race. This has been a racehorse market and it needed a rest.* Mr. Greenspan provided a stimulus for that rest.

So often, today's stock market is compared to 1987, when one day in October it suffered a 20% decline. A recent Wall Street Journal editorial page article pointed out differences between that time and now. *First the long Treasury bond was priced to yield about 9% in 1987; that yield is now about 5.75%. Secondly, the U.S. banking system in 1987 was in tough shape. Today, it is in excellent condition. Finally, in 1987, the market had a difficult time handling what was panic volume. Today, market internals are much improved. So, the odds favor corrections in the stock market rather than sharp declines in percentage terms. We support this argument.*

The Asian problem is hard to quantify. If it gets out of hand it could affect both interest rates and the stock market. There are rumblings of a currency devaluation in China. We read that Korea is dumping product in neighboring China and that is not good. We also read that reserves of corporations in China are moving out of the country in order to be in currencies that have stable value. *Needless to say, China, Japan and the rest of Asia are short-term issues which could affect our markets, but we feel long-term opportunities world wide more than offset short-term problems.*

World wide, we are in a period of significant innovation that should positively influence the marketplace. According to Harry S. Dent, Jr. in his new book, The Roaring 2000s, states that, *“the trends of the past two decades will not only continue, they will accelerate.”* He claims that the Internet is the key to future growth, because of greater ease of use and bandwidth expansion. The latter refers to the capacity of the Internet to handle data.

We were impressed with Dent’s hypothetical example of internet usage in the mail-order catalog business:

“A mail order catalog customer is calling. While the phone is ringing, a computer is at work behind the scenes analyzing the number to decide if it is a previous customer. If so, the computer will access the customer’s record to find out vital commercial statistics such as age, income, past buying history, credit approvals, ages and birthdates of family members, comments about past preferences and experiences, credit card numbers and so on. The file and the call will be routed to the sales representative who last spoke with the customer, so that she can handle the transaction...Everything will be done in milliseconds, before the sales representative can even pick up the phone....”

All this information will appear on the computer screen of the sales representative, so she can negotiate a purchase with the buyer. With this information the sales representative may even guide the buyer (in this example, a forgetful husband) to a more appropriate, perhaps higher priced, selection for his wife. From her screen the sales rep notes the husband tends to buy low price merchandise while his wife prefers upscale items. Finally the sales rep arranges next day delivery, because this typical husband is late in remembering to buy a gift for his wife’s birthday and is at the panic stage.

Now, this example purchase is made possible by use of the telephone. This is our next focus. We have been beefing up the area of telecommunications in our stock portfolios for nearly two years, because of its strong growth potential. We have added stocks of *telephony equipment suppliers, satellite manufacturing and launch companies* and *internet communications companies*. Megamergers dominate this area and foreign country privatizations are important. Regarding the latter, Brazil is a recent example. It was interesting to note when reading information regarding Brazil’s privatization, *in Brazil today only 50% of telephone calls go through the first time.* That means 50% fail to go through. This fact alone represents a tremendous opportunity for improved service and growth. We are excited about the profit potential for this area of client investment portfolios.

Y2K is ok. Over six months ago, we began to contact custodians of client portfolios regarding their compliance with the year 2000. We want to be sure that our clients experience a seamless transition as we move into the new millenium. *According to responses received, each custodian is addressing the problem and will be prepared to bridge the centuries.* Also, our investment software provider, Advent, assures us that their systems will be in order. We have tested our computers for the year 2001, and they show compliance. As we approach the critical time, we will be sure to advise our clients of any issues on this topic.

Referrals. They are the life-blood for this and any other service-oriented business. Please keep us in mind when uncovering potential investment management opportunities. Our experience, flexibility and strong performance record could be a benefit to those who wish to work with us. Thank you.

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