

January 31, 2002

Economic Model Update

Clients of our firm are familiar with our proprietary Economic Model, which we have maintained for years. This Model has been useful in the past in identifying turning points in the economy. The last such occurrence was in early 2000 when the Model correctly anticipated the downturn which eventually showed up in GDP figures that summer. Now, this Model, along with the Conference Board's index of Leading Economic Indicators, is signaling a new economic recovery which we believe will commence by mid 2002.

The Model's components are:

Sales	Encompassing both consumer and business consumption;
Employment	Derived from several components of the Labor Department's monthly Employment Report;
Housing	A primary driver of consumption and indicator of consumer confidence;
Inflation	Measured at both the consumer and business levels;
Manufacturing	Activity in all areas of the industrial landscape;
Liquidity	A broad gauge of money supply.

More specifically, the economy slid throughout the first eight months of 2001. By late summer, signs of an incipient expansion had emerged. However, the 9/11 terrorist attacks derailed that recovery. In retrospect, the full effects of those events were absorbed fairly rapidly, and the economy probably bottomed in the fourth quarter of 2001. Since that time, the economy has stabilized, driven largely by the unprecedented liquidity injected into the global banking system in response to the terrorist attacks, and should before mid year show signs of positive momentum.

Confirming this view is the statement this week of the Federal Open Market Committee - - interpreted positively by the financial markets - - which, in part, read as follows:

Signs that weakness in demand is abating and economic activity is beginning to firm have become more prevalent. With the forces restraining the economy starting to diminish, and with the long-term prospects for productivity growth remaining favorable and monetary policy accommodative, the outlook for economic recovery has become more promising.

