FOR IMMEDIATE RELEASE

Economist, Futurist and Market Strategist David L. Smith reaffirms January 4, 2000 recommendation to stay out of stock market. Recommends Gold and Oil & Gas.

September 16, 2001

CYCLICAL INVESTING COMMENT: Interesting times.
Before the reopening on Monday, September 17, 2001

As of the close, Monday, September 10, 2001
DJIA: 9,605 NASDAQ: 1,695 S&P 500: 1,092
Yields: 30-year T-bond: 5.44%
Euro: 89.95 U.S. cents/euro Pound Sterling: $1.46 dollars/pound
DJ Stoxx: 278 Britain FT-SE: 5,033 Germany DAX: 4,713 France CAC 40: 4,383
Yen: 120.93 to the dollar Nikkei 225: 10195
Gold: $273.70/oz. Domestic oil: $28.03

As of the close Friday, September 14, 2001
U.S. Stock markets closed Sept.11-14
Yields: 30-year Treasury bond: 5.36%
Euro: 92.47 USD: euro Yen: 117.25 to the dollar Nikkei 225: 10008 (Mon. am:9,520)
DJ Stoxx: 243.91 Britain FT-SE: 4,755 Germany DAX: 4,164 France CAC 40: 3,909
Gold: $295/oz. Sep. 17 early am Domestic Oil: N.A. Spot Brent crude: $29.43/bbl

After last week's tragedy it feels like the pull of earth's gravity has doubled and oxygen has been drained from the air. We all know the world has changed, but no one knows exactly how. Everywhere there is talk of war that nobody can define. Never in my lifetime have I experienced greater uncertainty and foreboding. As a young naval officer on a destroyer off the coast of Cuba during the '62 Missile Crisis, I never believed the balloon would go up. Three years later as a naval gunfire officer on hill 327 outside of Danang, I never thought the conflict would go global. I was plenty worried when the U.S. and its allies prepared for the Gulf War, but never doubted it would be won. But this. . . this is something else again, stirring my worst imaginings of a global holy war between historical antagonists, fueled by oil as the driving agent of economic polarization. Religious, ethnic, racial and economic polarization on a global scale -- it doesn't get any worse than that. I'll have more to say about this in the Fall CIQR to be posted in a couple of weeks. Right now it is too daunting a task to approach in a *Comment.*

Since the September 11 attack, world markets have signaled expectations of oil supply interruptions from the Middle East with all the associated damage to oil-dependent economies of the West -- inflation and serious economic contraction. Oil prices have risen to nearly $30/barrel, despite OPEC's assurances of intentions to keep oil prices around $25. Gold has jumped over $20 an ounce, consistent with expectations of inflation and social upheaval associated with another oil shock. The dollar is tumbling against the yen and euro as international investors flee "ground zero." Stock prices around the globe have plummeted in anticipation of a figurative bloodbath following the real thing on Wall Street when the U.S. stock markets open tomorrow. U.S. bond yields have tumbled as investors have sought safe haven in Treasury obligations. Rarely have the markets spoken so eloquently and unanimously.

I can only hope that you have followed my longstanding advice to remain on the sidelines holding cash equivalents, in which case you came through last week without financial uncertainties and worries to add to your burden. If you haven't, and remain invested in stocks or long-term bonds, all I can say is pick your moment to get out. Unfortunately, I don't know what that moment is. Some think the stock market will be sustained by the Fed's infusion of money into the banking system and willingness to approve generous bank lending to brokerage subsidiaries (despite rules to the contrary), suspension of rules limiting the amount of stock companies can buy back and a stockholder reluctance to sell stocks based on patriotic sentiment. Foreign markets are telling us there will be panic selling. The truth is, the situation is unprecedented, and nobody knows what the immediate reaction in the markets will be. I tend to think any positive effects will be temporary, and stocks will sooner or later head lower based on the political exacerbation of the previously deteriorating economic situation.

Bonds are now responding to the "flight to quality" based on fear of the stock market and expectations of lower interest rates to accompany a weaker economy. However, if oil supplies from the Middle East are curtailed, the resulting inflation from higher oil prices could send interest rates up again and bond prices, which move inversely to yields, down. Moreover, I don't think the bond market has yet digested the inflationary implications of a flight from the dollar and the Fed's infusion of new money into the economy in the latest rescue attempt. So hold off on lengthening bond maturities for the time being.

It's time for gold, and adding to oil and gas reserves (which I have long recommended). I suggest gold bullion coins (between 5-10% of liquid portfolios) and direct ownership of oil and gas reserves in non-liquid portfolios for those of you with adequate liquidity.

When the Chinese say "May you live in interesting times," they mean it as a curse. We live in interesting times.

Fall 2001 Cyclical Investing Quarterly Report due in two weeks.

Sincerely,

David L. Smith, Editor
Cyclical Investing Reports