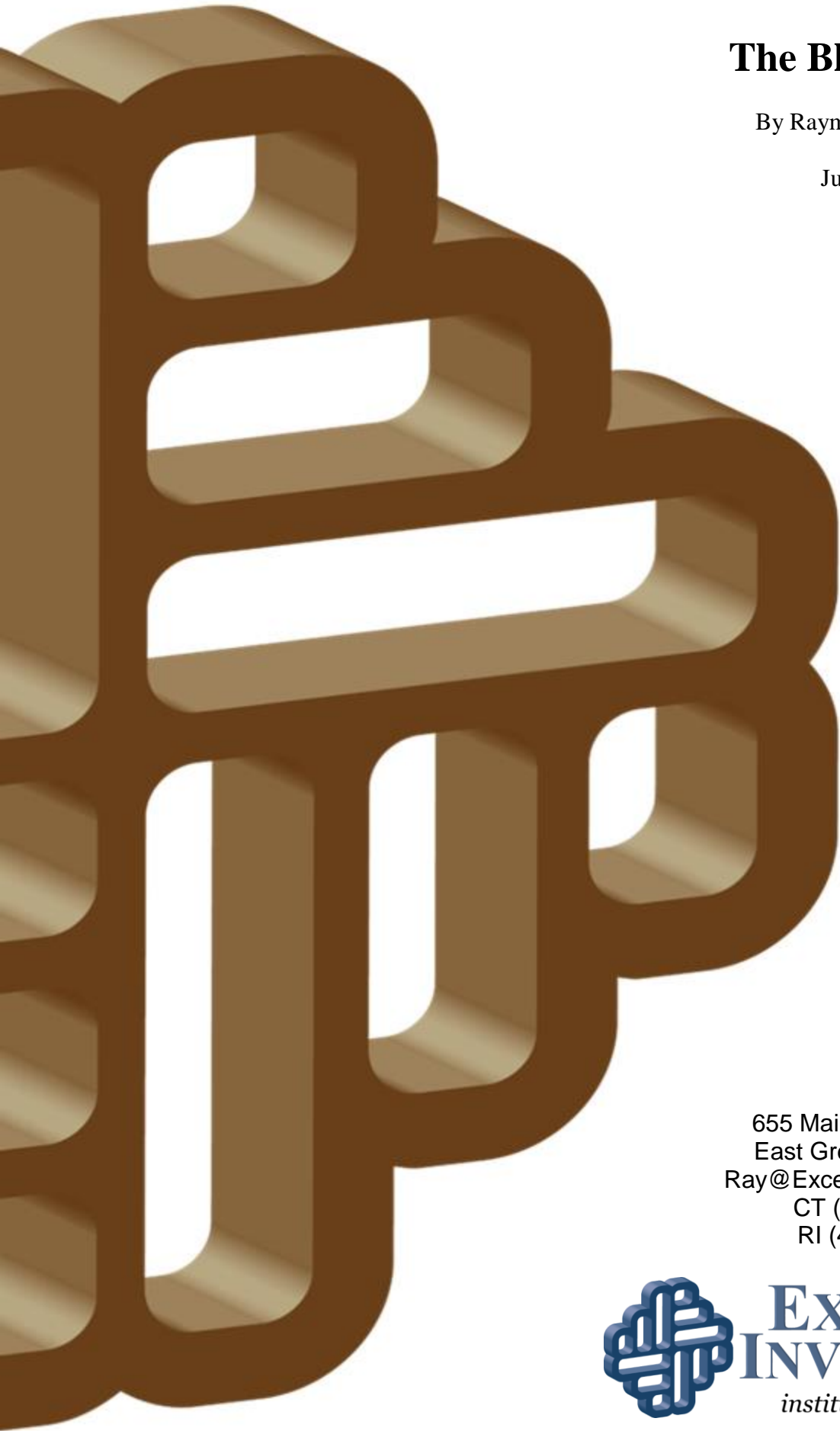


The Blazing 1990s

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All through the 1990s Mr. Greenspan, Chairman of the Federal Reserve Bank, was credited with engineering a record-breaking economic expansion. All due, we were told, to rising productivity provided by the new era “technology revolution”. Wall Street analysts and government policymakers agreed, economic cycles, they promised, would only be seen in textbooks. We were told that the “new era” would bring on sustainable, if not permanent, economic growth.

If the past decade were, in fact, a period of growth in the economic prosperity of our nation, today, or at some period in the past decade, we would have seen clear evidence of this. Here is what prosperity would have delivered to America:

- 1) A trend towards strengthening of the balance sheets of domestic corporations, i.e., less reliance of debt, especially at our financial institutions,
- 2) Higher household net-worth (secure savings),
- 3) Lower federal & state debt levels,
- 4) Lower personal debt ratios,
- 5) A growing and prudent rate of household savings,
- 6) Increased US trade competitiveness (perhaps even some years of a trade surplus).

None of the above six objective and quantifiable attributes of real prosperity are currently part of the American economic landscape. Importantly, nor have any economic indicators of real prosperity improved over the past decade. Wall Street and government bureaucrats told us to watch the stock market, that it was the best indicator of the nation’s economic health. Now they tell us that there is a “disconnect” between the real economy and stock trends. They can’t have it both ways. (In the short term, rising or falling stock prices tell little economic reality.) However, in fact, in all six measures of real prosperity the actual numbers are worse today than they were a decade ago. And these trends are worsening.

These economic facts are as clear today as they were 15 years ago. (In 1986, quoting from a report my firm published, the NYT’s featured a front page article on this subject.) Sadly, few Americans, and fewer policymakers still, are willing to face up to these economic realities. Over the past decade, these regrettable economic trends were ignored, misunderstood and/or misrepresented by Wall Street analysts and government policymakers. Yet they are as clear and obvious as the weak economic arguments that supported the bull market of this same decade.

Sadly, today, the Americans people continue to trust and seek financial counsel from the people who gave them investment advice over the past decade.

Only fifteen years ago, Japan boasted the strongest, safest and fastest growing economy in the world. Their government promised, like all governments promise, that “all will be well”. Their “prosperity” too was provided by a mirage that debt creates. The Japanese now face a slowing economy, growing unemployment, and the largest spending deficits (relative to GDP) of all industrialized nations. Most recently, the rating agencies, Standard & Poor’s in particular, have downgraded Japanese government bonds to just a few notches above junk status.

The recent performance in the American economic economy is no surprise to anyone who has been in ears reach of Mr. Mullaney. Since 1986, Mr. Mullaney has been a very public critic of the public

and private irrational debt policies in our country. He has authored dozens of articles, appeared on numerous radio and TV shows, and spoken at numerous public forums on this subject.

We cannot know what the future holds: We may be headed for serious levels of inflation or deflation. It is too soon to know for sure but early enough to reposition assets for either possibility. We will continue to watch the economic data and remain flexible in our interpretations.

As to the health of our nation's economy: All problems can be solved, provided we address the problems not merely the symptoms. This is a subject dear to my heart but not the topic here.

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