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The reddish color indicates a heightened risks for holding stocks.

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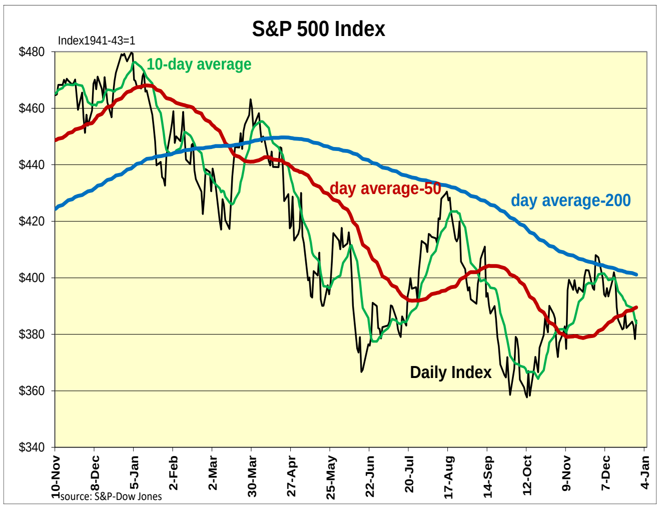
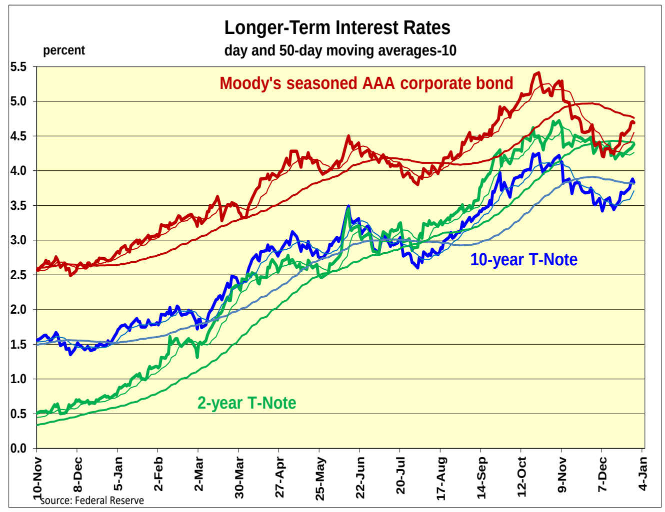
		Fundamental	Actual	Outlook
Fixed-income:	**10-yr Treasury rate**	**5.5**	**3.8**	**heading higher**
Equities:	**S&P 500**	**3,200**	**3849**	**heading lower**





Economic Update

Most data show the economy continued to expand between the third and fourth quarters. Consumer spending and income rose at a 6% annual rate while inflation slowed to a 3½% rate. Hence, real growth likely ended up close to a 3% rate. The Atlanta Fed model puts real growth at a 3.7% rate. We think it will come in lower.

A significant slowdown occurred in November, where current dollar spending and personal income rose at 1.3% and 4.4%, respectively, and inflation was up at a 2.0% annual rate.

As signs of a slowdown increase, the Fed continues to drain money from the economy. From June through the end of December, the Fed sold $322 billion in securities. Following six months of monetary restraint, the economy is now poised for the downturn we have been expecting.

The Fed will continue to drain money from the economy for at least the next three months to slay the inflation dragon. This will lead to a downturn in the economy from January through September. What happens beyond September, depends on how long the Fed continues to take money out of the economy.

Market Update

Over the past two weeks stock prices fell 1% to 6%. Despite the decline, stocks are 19% overvalued. Technical indicators remain negative. As business activity declines and the Fed continues to drain money from the economy, we expect further downward pressure on stocks.

Interest rates rebounded as the yield on 10-year T-Notes rose to 3.8% while the yield on 2-year T-Notes moved to 4.4%. These yields assume the Fed contains inflation with only relatively modest short-lived hikes in the fed funds rate. We hope they can, but doubt they will.

Forces Impacting the Near-term Outlook for Stock Prices

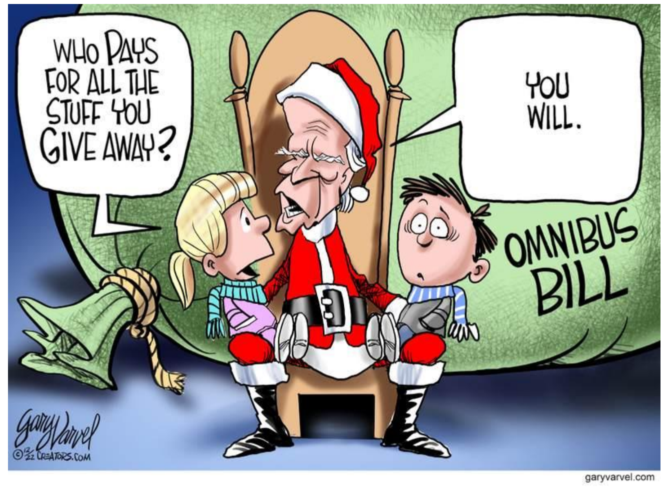
Economic Fundamentals:	**negative**	**Stock Valuation: over-valued**	**19%**
Monetary Policy:	**restrictive**	**Recommended Stock Exposure:**	**20%**

The Week Ahead

Next week various December business surveys are due. S&P surveys are due Tuesday and Thursday, while ISM surveys are due Wednesday and Friday. We expect these will include additional signs of weakness. Although the S&P surveys already pointed down, the ISM survey for service companies has remained positive.

On Friday, the December employment report is likely to continue to show employment gains in the vicinity of 150,000 to 200,000. Employment is a lagging indicator, but the recent rise in weekly unemployment payments could be an early sign of a shift in the job market.

The Lighter Side of Political Economy



A Very Happy New Year to you and Your Family. May the coming year bring Peace and Stability to the World

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