<u>Brief Summary of "Bull's Eye Investing" by John Mauldin</u>

Overall Main Message(s)

1. Based on a study by Michael Alexander the only valid non random stock market cycle is a thirteen year cycle. Since 1800 there have been 15 alternating good and bad cycles of 13 years. ***Traditional analysis suggests there have been, since 1800, 7 secular (long term) bull and seven secular bear markets. The average return in a secular bear market is .3% and in a bull market 13.2%. Mauldin concludes from several studies and analysis that we will be in a secular bear market for the next seven to ten years.*** Mauldin believes the secular bear market started in the third quarter of 2000. The market goes both up and down during these periods but the long term trend is for P/E's to go significantly lower, maybe to single digits. ***All these studies point to a lengthy period when US stocks, on average, will under perform even money market funds paying only 2%.*** The focus must be to look for absolute returns, not relative performance. ***This is not the time to be in Index Funds and most equity mutual funds. It is not a buy and hold time period.*** These conclusions are backed by many studies that show significant time periods (10 T0 20 YEARS) with losses or sideways markets. i.e. From 1964 to end of 1981 the Dow Jones gained .1%. ***Prior to the recent bubble there was no 20 year period that delivered 10% annual returns. Every period above 9.6% percent market returns started with low P/E ratios.***

2. The recommended areas for good opportunities, for this secular bear market period, are to own bonds, not bond funds, REITS, timber, value stocks, especially international small cap value and growth stocks. emerging markets debt, and market neutral hedge funds. Also mentioned are dividends, income producing partnerships, covered call option selling and TIPS. Criteria for searching for value and why value rather than growth should be the strategy, is provided in specific chapters.

3. An inverted yield curve is the only consistent predictor of a recession. England currently has an inverted yield curve and there are many who believe this may be an early warning signal for the USA. In a recession the average loss is 43%. Within one year of an inverted yield curve occurring there is a recession.

4. There are extensive sections on the damage being caused by the economic engineering of the 90's and today that have mislead on what are the real earnings of companies. This leads into false expectations and clouds judgment. Biggest examples are the problems of pro-forma earnings and actual reported earnings. i.e. for the 4 qtrs. S&P 500 ending in June 2002 the pro-form earnings was $43.93 but the real earnings were $17.79. The huge

impacts of option expenses and pension liabilities are cited as major issues.

Bulls Eye Investing continued.

5. Several chapters are devoted to showing the interrelationship of the economy and stock markets. You can have a good economy with a poor market. The impact of human psychology is also covered. Also covered is monetary policy and impacts of a weak dollar. There is an excellent chapter on demographics and its impact on social benefits and prices as well as recognition of the aging developed world and growing third world and especially the Muslim world. The economic problem with an aging population is that not only are there fewer workers per retired person but that this age group requires more goods and services than all others. There will be a transfer of wealth and a decline in the value of assets as our population ages and the need for more workers is realized. It is estimated we will need about 4 million immigrants per year to meet demands.

6. There are excellent chapters on Hedge Funds and their role. Mauldin believes that before the end of the decade Hedge Funds or Trust like Hedge Funds will be made available to the everyday investor. At present you must be a certified, registered investor, >$1Million net worth.

7. There is a chapter on Bonds and how to use them and evaluate them. He recommends that you buy bonds directly and that reading any good book on bonds will enable you to do so.

8. ***I believe this book is a must read for our group as we continue to invest throughout this decade. It changes the rules/analysis we should use.*** This book is the best I have read on both economics and the stock markets. It is currently on the business best seller list and receives high praise from many experts in the field. Mauldin releases a free, weekly newsletter that continues to inform and educate on economic and markets issues. The book is full of references and websites that can assist us.