INTERMARKET FORECASTING

TOP DOWN INSIGHTS…BOTTOM LINE RESULTS

TRACK RECORD 2001

IFI delivered another favorable forecasting record last year, correctly anticipating directional change in 70% of the 68 variables that we predicted a year ago. In many cases we also came close to forecasting the actual *magnitude* of key price changes. IFI's forecasts were also of *practical* value to investors. Significantly, 60 of the variables that we forecasted (or 88%) represent *investable assets*, while only 8 (or 12%) represent economic variables.

•We correctly anticipated the robust appreciation of the dollar against other major currencies – especially against the yen (+14%). IFI also predicted lesser appreciations against the euro, pound and Canadian dollar.

•Our models accurately forecasted the sharp decline in the oil price (-34%) – to below $20 per barrel – as well as the declines in most other commodity price indices.

•We were right to expect substantial Fed rate cuts (albeit not their full magnitude) as well as the pronounced, downward shift in the U.S. Treasury yield curve. We also predicted the decline in corporate bond yields and the narrowing of corporate bond yield spreads relative to Treasury bond yields.

•We were wrong to expect U.S. equity indices to register gains in 2001 – especially technology-related ones – since most lost value (for the second straight year). But we correctly forecasted the only major equity index in the U.S. that *did* appreciate (the small-cap Russell 2000) as well as four S&P 500 sectors (*Capital Goods*, *Consumer Cyclicals*, *Energy* and *Transportation*).

•We successfully forecasted the decline in S&P 500 profits (but not the full magnitude) in the year through 3Q01. We also were right to expect the year-long rise in equity valuation (the S&P 500's P/E multiple). Our models anticipated the deceleration in U.S. economic growth rate and some of the quarters of negative growth (recession). They also correctly anticipated the sharp deceleration in official rates of inflation and the rise in the unemployment rate.

•We accurately signaled declining interest rates in major foreign markets (Canada, Britain, Europe and Japan), correctly predicting that foreign central banks would cut rates less aggressively than the Fed.

•We successfully predicted the under-performance of major foreign equity indices (Canada, Britain, Germany and Japan) relative to the U.S. (S&P 500).

•We were prescient in forecasting the major story of the year in emerging markets: the devaluation of Argentina's currency, the local plunge in debt and equity prices – and history's biggest sovereign default.

•In our forecasts of equities, profits and bond yields IFI outperformed a number of leading peers, including those at Goldman Sachs, Lehman Brothers, Bear Stearns, UBS Warburg, Morgan Stanley, Credit Suisse, Merrill Lynch and J.P. Morgan.

•Despite errors, in 2001 IFI provided a *greater number (and wider scope)* of forecasts of *investable* assets – with a *greater degree of overall forecasting success* – than did other leading forecasters.

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Our method. IFI uses signals from forward-looking market prices to forecast the risk-adjusted returns on currencies, commodities, stocks, bonds and bills globally. We eschew the use of economic data, which are backward-looking, perpetually revised and incapable of capturing the incentives faced by profit-seeking market-makers.

IFI seeks quantitative, predictive relationships that are consistent with classical economics, market-clearing price theory, market efficiency and history. Prices reflect the combined, forward-looking wisdom of the most astute market-makers, those with their own wealth (or their client's wealth) on the line. As such, prices contain implicit forecasts. IFI "decodes" the messages embedded in market prices. Finally, we perform rigorous regression analyses on the data, scrupulously omitting statistically insignificant explanatory factors. We employ no "gurus" and reject the use of subjective "hunches" or pop psychology to predict markets.

Our results in 2001. As shown in Appendix I (pages 10 and 11), IFI forecasted nearly 70 separate variables before the year began – most of them (nearly 90%) representing investable assets. The *scope* of our forecasting system is wide: currencies, commodities, money market instruments, equity indices and a broad range of fixed income securities. In 2001 we also forecasted key indices in major markets abroad.

IFI correctly forecasted the directional change in 46 of the 68 dependent variables listed in Appendix I – or 68%. These include all of the variables we forecasted before 2001 began. Although we adjusted our year-ahead forecasts as the year progressed – taking into account subsequent shifts in market price signals – in Appendix I we recount only the forecasts that IFI made at the beginning of the year. Our prescient forecast of the disaster in Argentina – not only its debt default and currency devaluation but the plunge in its stock and bond prices – warrant our overall conclusion that our forecasts in 2001 were 70% right.

IFI also performed well in 2001 relative to peers – Wall Street strategists. That's summarized in Appendix II (page 12). IFI doesn't bother to compare itself rigorously to leading *economists* because they tend to forecast only non-investable economic variables (such as GDP and CPI) and/or to forecast financial variables with a very short lead time[1] - at least one that's much shorter than IFI's typical time horizon (one year).

Below we offer a brief assessment of our forecasts for 2001 and how they panned out. For ease of reference we provide – in Appendix III (pages 10-11) – a numbered list of the 48 reports we issued throughout the year. To avoid excessive footnoting, we refer to the relevant numbered report within this text. The primary report upon which "Track Record 2001" is based is our "Outlook 2001," published a year ago [3]. We conclude our assessment by discussing two new variables that we've identified recently – the DJIA-NASDAQ ratio and the shape of the yield curve – and which should improve our equity and sector models. We prefer to *learn* something new from our forecast errors rather than bemoaning (or obscuring) them.

U.S. dollar and commodities. We correctly predicted that the dollar would appreciate in foreign exchange and that commodity prices would decline in 2001. The dollar increased by 14% in terms of the yen; we said it would rise by 19%. We also came close in forecasting the actual magnitudes of the dollar's lesser appreciations in terms of the euro, pound and Canadian dollar. We rejected the common view that deep Fed rate cuts would undermine the dollar in 2001. And in an exhaustive study of modern U.S. financial history we showed that the dollar is the most crucial factor in determining the future performance of stocks, bills and bonds [27].

The CRB spot index of commodities fell 5%, as we expected. Precious metals declined by 11%, about twice the decline we predicted. We expected the gold price to decline by 10% but it actually rose by 1%, due primarily to the uncertainty surrounding

[1] For example, *The Wall Street Journal's* semi-annual (January and July) survey of 50 or so economists gathers forecasts of GDP, CPI and the unemployment rate. *The Journal* also collects estimates of the 3-month T-Bill rate, the 30-year T-Bond yield and the dollar-yen exchange rate; but these forecasts only extend six months. Nevertheless, IFI outperformed this group in 2001. See footnote 13, p. 5.

the September 11th terrorist attacks.[2] These successful commodity price forecasts – as well as our relatively successful forecasts of Fed rate cuts (see below) contributed to our successful forecast of decelerating inflation rates in the U.S. (see below).

Our most dramatic forecast in commodities in 2001 was an expected 24% decline in the oil price. Earlier in 2000 we had anticipated a peak in this price and an eventual decline to below $20/barrel.[3] In November of 2000 oil averaged $34.4/barrel. Many analysts expected the price to remain high, or at least not to decline by much, as OPEC shifted toward a policy of production cuts. We argued that OPEC was virtually irrelevant to the pricing of oil and – using our gold-oil price ratio as a key indicator – anticipated a sharp price decline *regardless* of OPEC's cutbacks. The oil price fell 34% in 2001, to an average of $19/barrel in December.

U.S. money market and fixed income. We had a success rate of nearly 90% in forecasting U.S. money market rates and bond yields in 2001 (see Appendix I). Although we didn't anticipate the full magnitude of the record cuts (4.75% points) in the Fed funds rate made by the Fed, we did expect cuts of 2% points, to 4.5%. By the end of April we were forecasting a Fed funds rate of at least 3.25% by April 2002.[4]

We probably would have been more right about Fed policy in 2001 in the absence of September 11th. Prior to that the Fed was in the process of winding down its rate-cut program. After cuts of 50 basis points each in five meetings through May, the Fed cut rates by just 25 basis points each in the meetings held in June and August. But it has cut rates by 1.75% points in four meetings since September 11.

We correctly predicted *greater* declines in short and medium term interest rates relative to long-term rates in 2001 – and the resulting, downward tilt in the Treasury yield curve. The curve had been *inverted* in the latter half of 2000. We predicted that the 3-month T-Bill rate would decline by 143 basis points and the 10-year bond yield would decline by just 24 basis points; in fact, the former variable declined by 422 basis points, while the latter declined by only 17 basis points.

IFI's corporate bond models also performed well in 2001. Not only did we anticipate the *decline* in corporate bond yields; we also were right to forecast a general *narrowing* of corporate credit spreads relative to Treasuries. Junk bonds (rated BB/Ba-C) did particularly well, with spreads narrowing by 140 basis points (although by less than the 226 basis points narrowing we predicted).

U.S. equities and sector rotation. Our major errors in 2001 related to equities, although we correctly forecast seven variables in this section, including the only positive advance made by any major U.S. equity index: the small-cap Russell 2000. We also correctly forecasted the advances seen in such S&P 500 sectors as *Consumer Cyclicals* (up 13%, versus our forecast of +12%), *Transportation* (up 1%, versus our forecast of +10%).[5] On the other hand, IFI wasn't *uniformly* bullish; we correctly anticipated declines in such S&P 500 sectors as *Energy* (down 12%, versus our forecast of -5%) and *Capital Goods* (down 16%, versus our forecast of -2%).

Still, most major equity indices in the U.S. declined for a second consecutive year – the first time that had happened since the early 1970s. The benchmark S&P 500 declined by 14%; we expected it to rise by 21%. The NASDAQ declined by 26%, on the heels of a 45% decline in 2000. We thought the NASDAQ would *outperform* the S&P 500. Such a losing streak hadn't been seen since 1973-74. We didn't anticipate it, especially in the face of steep Fed rate cuts, declining bond yields and a decelerating inflation rate – a generally bullish scenario and the direct *opposite* of the one in 1973-74.[6] We had

[2] On September 10th the gold price was $271.6/ounce, about 1% below its average of December 2000.
[3] See "Oil Headed for $20/bbl *Regardless* of OPEC," *Investor Alert*, InterMarket Forecasting, Inc., March 29, 2000.
[4] See *The InterMarket Forecaster*, InterMarket Forecasting, Inc., April 30, 2001, p. 10
[5] We have no doubt this particular sector forecast would have worked out even better in the absence of September 11th. The S&P 500 *Transportation* index was up by 2% in the eight months through August before plunging by 25% in three weeks.

good reason, historically, to expect a NASDAQ-technology rebound in 2001.[7] But there's no denying the error. And it unavoidably showed up in our equally misguided forecast of the S&P 500 *Technology* sector in 2001 (Appendix I).

We still don't believe the NASDAQ's decline in recent years was due to any alleged prior "bubble" in equity valuation.[8] Technically speaking, the "bubblists" have no theory at all about equity pricing. Their view is based primarily on subjective pop-psychologizing. It's a fact that the *fundamentals* in the technology and telecommunications sectors (profits) deteriorated dramatically in the aftermath of plunges in their price indices; so the market correctly foresaw what was eventually to show up in financial statements.[9] There was no "bubble" and hence no "pop." Declines reflected fundamentals.

IFI may have underestimated the extent to which *non*-monetary factors sabotaged these particular industries in 2000-2001 – factors such as trust-busting and the return of the Senate to Democrats – although we *did* alert investors to these destructive elements of the policy mix in ways that few other forecasters did [19, 20, 23, 31].[10]

We have also warned about the near-term negative results that flow from better policy (like interest rate cuts and tax cuts) that is unduly *delayed* [5, 8, 29]. Such delays only invite market-makers and capital-spenders to *defer activity* to a time when the cost of capital is likely to be lower and after-tax returns higher. And of course, as we've argued, there is no worse *non*-monetary factor that can sabotage equity prices markets than a foreign policy *which invites terrorism by appeasing it* [32, 34].

Unlike most other forecasters, IFI *did* correctly predict a *decline* in S&P 500 profits last year (-2% in the year ending the third quarter of 2001). But the magnitude of the decline was greater (-47%) than anticipated. We weren't bearish on the S&P 500 in 2001 because we expected only a mild decline in profits and a rebound starting by year end – and because we relied on well-established history which shows that stock prices usually *anticipate* earnings by a year or so and that fast and deep Fed rate cuts are (with a lag) bullish.

In early April of last year we *did* pinpoint a key turning point which – but for September 11th – would have represented the bottom for most equity indices in the U.S. [11] We found "reasons to be bullish" – especially about technology stocks – that were "a near mirror-image" of factors in place a year earlier (April 2000). Indeed, *despite* the post-September 11th plunge, the NASDAQ *increased* by 13.3% from early April to the end of the year. The same nine-month period saw increases of 12.7% in the S&P 500 *Consumer Cyclicals* index, 12.4% in the S&P 500 *Technology* index, 5.8% in the S&P 500 *Health Care* index and 5.1% in the S&P 500 *Financials* index. In April IFI recommended over-weightings in each of these sectors [14].

International markets. IFI delivered a 76% success rate in the seventeen market-based variables forecasted in this area – and that does *not* include our success in forecasting the market collapse in Argentina (first specifically identified in April 2001).

We correctly predicted the decline in money market rates and bond yields in Canada, Britain, Europe and Japan. In addition, IFI was right to predict that the *magnitude* of central bank rate cuts in these mar-

[6] In the prior NASDAQ double bear market the Fed had raised the Fed funds rate throughout it, by 7.25% points from 5.75% in early 1973 to 13% in mid-1974. Meanwhile the 10-year T-Bond yield increased by 1.5% points, from 6.5% in early 1973 to 8% in mid-1974. And the CPI rate accelerated sharply from 3.4% in 1972 to 8.3% in 1973 and 12.2% in 1974.
[7] See "The NASDAQ Plunge in Historical Context," *Investor Alert*, InterMarket Forecasting, Inc., December 15, 2000.
[8] See "The Rational Basis of Price-Earnings Multiples," *The Capitalist Advisor*, InterMarket Forecasting, Inc., June 15, 2000.
[9] Not only have the "bubblists" ignored the fact of deteriorating fundamentals (both lower subsequent *profits* and previously rising oil prices and *interest rates*), they have yet to explain how a collapse of "mere air" also extended to stock price (and profit) declines in *non*-tech, *non*-telecom, "old economy" sectors in 2001 – such as *Capital Goods* (down 16%), *Health Care* (down 10%), *Consumer Staples* (down 9%) and *Financials* (down 8%). The fact is, the tech-telecom sectors – far from representing mere "air" – play a crucial role in the success (or failure) of many other dependent industries. Tech and telecom led the productivity revolution of the 1990's.
[10] For warnings on trust-busting in 2000, see Richard Salsman, "Microsoft's Anti-Trust Lynching Undermines the Market," *Financial Post (Canada),* April 5, 2000 and "Antitrust: Landmarks and Landmines," *Investor Alert*, InterMarket Forecasting, Inc., April 4, 2000.

kets would be far less than those seen in the U.S. We were also helpful to investors by anticipating that that the major equity indices in each of these major markets would under perform the U.S. For example, we expected German equities (DAX) to under perform the S&P 500 by 9% points; they under performed by 8% points.

Argentina's sovereign debt default at the end of 2001 was the biggest in history ($132 billion). IFI predicted this disaster as early as April and issued three major reports throughout the year, identifying opportunities for short-sellers [13, 21, 46].[11] In the eight months after April Argentina's bond prices declined by 63%; its equity index declined by 60%; and in the past month its currency has declined by 40%. IFI stood virtually alone last spring in predicting this disaster - and in suggesting short positions.

Economic variables. IFI correctly forecasted the direction of *all* such variables in 2001 (Appendix I). Economic growth, corporate profit growth and official inflation rates all decelerated sharply. More than a year ago we also predicted an *economic contraction* in the U.S. (-0.4%), to occur in the second quarter of 2001 [3, p. 5].[12] In contrast, leading economists expected *economic growth* of 2.4% in the second quarter – and *no contraction* in *any* quarter of 2001. [13]

In November 2001, more than *eleven months after IFI's forecast of economic contraction,* the National Bureau of Economic Research designated that a U.S. recession had started – in March 2001.[14] Meanwhile the unemployment rate increased in 2001 – a result we expected and which we identified as an express policy goal of Mr. Greenspan as far back February 2000 and again in May 2001 [15].[15]

IFI's performance versus peers. As shown in Appendix II, IFI's forecasts of equities, profits and bond yields *outperformed a number of leading peers*, including those at Goldman Sachs, Lehman Brothers, Bear Stearns, UBS Warburg, Morgan Stanley, Credit Suisse, Merrill Lynch and J.P. Morgan. Of course, no top strategist (among thirteen) predicted a decline in the S&P 500 price index in 2001. Although seven were properly *less* bullish than IFI, five of them – including Abby Joseph Cohen – were *more* bullish.

Nor did any top Wall Street strategist forecast a decline in S&P 500 profits in 2001. Profits, in fact, plunged by 50% in 2001 compared to 2000. That was one of the worst year-over-year declines in the U.S. in *seventy* years (since the early 1930s). Nevertheless, IFI tied for *fifth best* forecaster (with two others) in this category: we expected a profit rise of merely 6%, below the long-term average annual increase (7.5% for the period from 1950 to 2000 and 8.3% from 1900 to 2000). Seven strategists underperformed IFI in this category.

IFI tied for *first* (with two others) among top strategists in correctly forecasting the mild decline in the 10-year U.S. T-Bond yield in 2001. A few others correctly forecasted the yield decline, but in too-great a magnitude. In contrast, eight of the thirteen strategists (62%) mistakenly forecast a *rise* in the T-bond yield.

[11] In 2001 we also provided monthly updates of our forecasts for Argentina (and other emerging markets) in *The InterMarket Forecaster*. Our first mention of pending trouble in Argentina appeared in the November 2000 issue of *The InterMarket Forecaster* (p. 20).

[12] There had not been a quarterly contraction in U.S. GDP since the first quarter of 1993.

[13] See "Euphoria Dominating Last Year Turns to Prudence in 2001," *The Wall Street Journal*, January 2, 2001. This is the *Journal's* semi-annual survey of 50 or so leading economists. On average, at the outset of 2001, these economists expected GDP to *accelerate* in 2001 (up 2.0% in the first quarter, 2.1% in the second quarter, 2.8% in the third quarter and 2.9% in the fourth quarter). A year later (January 4, 2002) the *Journal* designated, as the "best" forecaster in 2001 (Brian Wesbury), an economist who had *also* forecasted *an acceleration* in quarter-by-quarter GDP growth (-0.1%, 0.5%, 0.8% and 1.8%) and whose forecast of a one-quarter contraction (-0.1%) was only 25% of the magnitude forecasted by IFI (-0.4%).

[14] Although IFI didn't predict that *two successive quarters* of *declining* real GDP would occur in 2001 – the technical definition of recession – we *did* properly expect economic trouble (forecasting, in our "Outlook 2001," a mere 0.3% annualized growth rate in the first quarter of 2001 and a contraction of 0.4% in the second quarter of 2001). So far, not even the U.S. government has yet designated two successive quarters of negative GDP in 2001; it says GDP grew 0.3% in the second quarter of 2001 and -1.3% in the third quarter of 2001. In time we expect that these numbers will be revised to the point where they will more closely reflect IFI's initial forecasts.

[15] We first explained Greenspan's destructive motives and their likely impact on markets in "Why Greenspan Trashes the Markets," *The Capitalist Advisor*, InterMarket Forecasting, Inc., February 22, 2000. See also Richard M. Salsman, "What Kills Expansions? Interest Rate Hikes" *Financial Post (Canada),* February 19, 2000.

IFI does not have access to the market-based forecasts of strategists beyond the three variables summarized above (S&P 500 price, S&P 500 profits and the 10-year T-Bond yield) – if indeed such forecasts exist. We doubt that any top strategist on Wall Street forecasts over 60 market variables, as IFI does. IFI believes it's important for investors to have access to a wide range of reliable and practical forecasts, especially of investable assets – whether stocks, bonds, bills, currencies or commodities.

Model revisions. Learning from our errors, we've recently identified two new explanatory variables – the DJIA-NASDAQ ratio and the shape of the yield curve – which should improve our future forecasts of equity and sector indices.[16] We won't repeat here the essence of our findings; suffice it to say we believe these variables will substantially improve our forecasting models.[17]

Conclusion. On the whole IFI delivered a favorable forecasting record in 2001. We correctly anticipated the directional change in 70% of the 68 variables we forecasted. Our forecasts were also of *practical* value to investors. Significantly, 88% of the variables we forecasted represent *investable assets*. We certainly made some mistakes in 2001; but we've continually assessed our models for upgrades, to improve future performance. Despite our errors in 2001, IFI provided a *greater number (and wider scope)* of forecasts of *investable* assets – with a *greater degree of overall forecasting success* – than did other leading economists and Wall Street strategists.

[16] See "The DJIA-NASDAQ Ratio as a Forecaster of Relative Performance," *Investor Alert*, InterMarket Forecasting, Inc., December 4, 2001 and "Fed Activism, the Yield Curve and the U.S. Business Cycle," *Investor Alert*, InterMarket Forecasting, Inc., January 8, 2002.

[17] IFI has already made use of the yield curve's shape in the forecasting of fixed income returns.

APPENDIX I[18]
IFI Forecasts *versus* Actual in 2001

U.S. Dollar & Commodity Prices	**IFI Forecast**	**Actual**	**Directionally Correct?**
Value of U.S.$ in Yen	+19%	+14%	Yes
Value of U.S.$ in Euro	+2%	+1%	Yes
Value of U.S.$ in Pound	+4%	+2%	Yes
Value of U.S.$ in Canadian Dollar	+2%	+4%	Yes
CRB Index (Spot)	-5%	-5%	Yes
CRB Index (Precious Metals)	-6%	-11%	Yes
Gold ($/ounce)	-10%	+1%	No
Oil ($/barrel)	-24%	-34%	Yes
U.S. Money Market & Fixed Income			
Fed Funds Rate	-200 bps	-475 bps	Yes
3-Month T-Bill Rate (bond equivalent yield)	-143 bps	-422 bps	Yes
90-Day Commercial Paper Rate (AA)	-134 bps	-422 bps	Yes
2-Year T-Note Yield	-65 bps	-224 bps	Yes
5-Year T-Note Yield	-37 bps	-78 bps	Yes
10-Year T-Bond Yield	-24 bps	-17 bps	Yes
30-Year T-Bond Yield	-14 bps	-1 bp	Yes
Spread: 10-Year T-Bond Yield *minus* 3-Month T-Bill Rate	+119 bps	+405 bps	Yes
Spread: 10-Year T-Bond Yield *minus* 2-Year T-Note Yield	+41 bps	+207 bps	Yes
Spread: 10-Year T-Bond Yield *minus* 5-Year T-Note Yield	+13 bps	+75 bps	Yes
10-Year Municipal Bond Yield (AAA)	-31 bps	-9 bps	Yes
10-Year Corporate Bond Yield (Aaa)	-96 bps	-44 bps	Yes
10-Year Corporate Bond Yield (Baa)	-122 bps	+ 3 bps	No
10-Year Corporate Bond Yield (BB/Ba-C)	-250 bps	-157 bps	Yes
Spread: Corporate Bonds (Aaa) *minus* 10-Year T-Bond	-72 bps	-27 bps	Yes
Spread: Corporate Bonds (Baa) *minus* 10-Year T-Bond	-98 bps	+20 bps	No
Spread: Corporate Bonds (BB/Ba-C) *minus* 10-Year T-Bond	-226 bps	-140 bps	Yes
U.S. Equities & Sector Rotation			
Wilshire 5000	+15%	-13%	No
DJIA 30	+11%	-6%	No
S&P 500	+21%	-14%	No
S&P 500 Earnings (year to 3Q01 *versus* year to 3Q00)	-2%	-47%	Yes
S&P 500 P/E Ratio (trailing; Dec '00 = 26X)	31X	40X	Yes
NASDAQ	+48%	-26%	No
Russell 2000	+18%	+3%	Yes
Russell 1000 (Growth)	+20%	-24%	No
Russell 1000 (Value)	+18%	-6%	No
S&P 500: Basic Materials	-7%	+7%	No
S&P 500: Capital Goods	-2%	-16%	Yes
S&P 500: Communications Services	+25%	-19%	No
S&P 500: Consumer Cyclicals	+12%	+13%	Yes
S&P 500: Consumer Staples	+6%	-9%	No
S&P 500: Energy	-5%	-12%	Yes
S&P 500: Financials	+10%	-8%	No
S&P 500: Health Care	+14%	-10%	No
S&P 500: Technology	+45%	-30%	No
S&P 500: Transportation	+13%	+1%	Yes
S&P 500: Utilities	+10%	-31%	No

[18] Initial IFI forecasts – based on December 2000 averages – can be found in "Outlook 2001," InterMarket Forecasting, Inc., January 23, 2001. Actual results are based on averages for December 2001.

APPENDIX I (cont'd)
IFI Forecasts *versus* Actual in 2001

International Markets			
Canada Equities (TOPIX)	+11%	-17%	No
Canada 3-Month T-Bill Rate	-94 bps	-353 bps	Yes
Canada 10-Year T-Bond Yield	-43 bps	-3 bps	Yes
Canada Equities *versus* U.S. Equities (S&P 500)	-10% pts	-3% pts	Yes
Britain Equities (FTSE 100)	+9%	-17%	No
Britain 3-Month T-Bill Rate	-116 bps	-197 bps	Yes
Britain 10-Year T-Bond Yield	-37 bps	-1 bp	Yes
Britain Equities *versus* U.S. Equities (S&P 500)	-12% pts	-3% pts	Yes
ECB Overnight Refinance Rate	-125 bps	-150 bps	Yes
Euro Area 3-Month T-Bill Rate	-132 bps	-158 bps	Yes
Euro Area 10-Year T-Bond Yield	-74 bps	-14 bps	Yes
German Equities (DAX)	+12%	-22%	No
Germany Equities *versus* U.S. Equities (S&P 500)	-9% pts	-8% pts	Yes
Japan Equities (TOPIX)	+8%	-23%	No
Japan 3-Month T-Bill Rate	-10 bps	-48 bps	Yes
Japan 10-Year T-Bond Yield	-6 bps	-29 bps	Yes
Japan Equities *versus* U.S. Equities (S&P 500)	-13% pts	-9% pts	Yes
Economic Variables			
U.S. GDP (Real) (year ending 3Q01)	+2.1%	+0.5%	Yes
U.S. Industrial Production Index (4 quarters ending 3Q01)	-0.6%	-4.8%	Yes
Change in U.S. CPI Rate (rate=3.4% in year to 12/00)	-1.0% pts	-1.5% pts	Yes
Change in U.S. PPI Rate (rate=3.6% in year to 12/00)	-1.4% pts	-5.4% pts	Yes
Change in U.S. PCE Rate in year to 3Q01 (rate=2.7% to 3Q00)	-1.5% pts	-1.2% pts	Yes
U.S. Unemployment Rate (4.0% in December 2000)	4.5%	5.8%	Yes

APPENDIX II[19]

IFI Forecasts vs. Peer Forecasts in 2001

Ranked Best to Worst

Forecaster/Firm	S&P 500 Price	Change
S&P 500 Price Index, Actual (Dec. 2000=1331)	1145	-14%
Richard Bernstein/Merrill Lynch	1365	+3
Douglas Cliggott/J.P. Morgan	1400	+5
Greg Smith/Prudential Securities	1450	+9
Marshall Acuff/Salomon Smith Barney	1500	+13
Byron Wien/Morgan Stanley	1500	+13
Thomas McManus/Banc of America Securities	1525	+15
Thomas Galvin/Credit Suisse Asset Management	1600	+20
Richard Salsman/InterMarket Forecasting	**1610**	**+21**
Elizabeth Mckay/Bear Stearns	1650	+24
Abby Joseph Cohen/Goldman Sachs	1650	+24
Jeffrey Applegate/Lehman Brothers	1675	+26
Stuart Freeman/A.G. Edwards	1700	+28
Edward Kerschner/UBS Warburg	1715	+29

Forecaster/Firm	S&P 500 $ Profit/Share	Change
S&P 500 Profits, Actual (4 quarters through 4Q01=$50)	25.0	-50%
Douglas Cliggott/J.P. Morgan	50.0	0
Edward Kerschner/UBS Warburg	51.5	+3
Richard Bernstein/Merrill Lynch	51.5	+3
Thomas McManus/Banc of America Securities	52.5	+5
Marshall Acuff/Salomon Smith Barney	53.0	+6
Richard Salsman/InterMarket Forecasting	**53.0**	**+6**
Greg Smith/Prudential Securities	53.0	+6
Jeffrey Applegate/Lehman Brothers	53.5	+7
Elizabeth Mckay/Bear Stearns	53.5	+7
Abby Joseph Cohen/Goldman Sachs	54.0	+8
Stuart Freeman/A.G. Edwards	54.0	+8
Thomas Galvin/Credit Suisse Asset Management	54.5	+9
Byron Wien/Morgan Stanley	55.0	+10

Forecaster/Firm	10-Year U.S. T-Bond Yield	Change
10-Year U.S. T-Bond Yield, Actual (Dec. 2000=5.24%)	5.07%	-17 bps
Thomas Galvin/Credit Suisse Asset Management	5.00	-24
Edward Kerschner/UBS Warburg	5.00	-24
Richard Salsman/InterMarket Forecasting	**5.00**	**-24**
Richard Bernstein/Merrill Lynch	4.82	-42
Jeffrey Applegate/Lehman Brothers	4.75	-49
Stuart Freeman/A.G. Edwards	5.25	+1
Thomas McManus/Banc of America Securities	5.35	+9
Marshall Acuff/Salomon Smith Barney	5.50	+26
Douglas Cliggott/J.P. Morgan	5.50	+26
Abby Joseph Cohen/Goldman Sachs	5.50	+26
Greg Smith/Prudential Securities	5.50	+26
Byron Wien/Morgan Stanley	5.50	+26
Elizabeth Mckay/Bear Stearns	5.60	+36

[19] Original forecasts by peers are available in "Outlook 2001," *Barron's*, January 1, 2001, p. 24. Changes in the S&P 500 Price Index and in the 10-year bond yield are based on averages for December 2001 relative to those of December 2000. Changes in S&P 500 Profits are based on net earnings per share in the four quarters of 2001 compared to the four quarters of 2000.

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