

INTERMARKET FORECASTING

TOP DOWN INSIGHTS...BOTTOM LINE RESULTS

TRACK RECORD 2004

IFI delivered an excellent forecasting record last year, as we correctly anticipated directional changes in 78% of the 136 variables forecasted when the year began, down slightly from 84% in 2003. We again provided *practical* benefits to investors; roughly 95% of the variables we forecasted were *investable assets*. The total (and composition) of the 136 variables predicted in 2004 was similar to the 140 covered in 2003 (and up from 100 in 2002 and 68 in 2001). Below are highlights (and “low-lights”) from our track record in 2004:

- IFI's asset allocation advice generated solid absolute gains plus out-performance against benchmarks. Our Global equity portfolio gained 15% gain and surpassed the S&P 500's gain (11%) by 4% points. We recommended over-weightings in Asia-Pacific/Japan, Canada and Latin America, which beat the S&P 500, by 5% points, 10% points and 25% points, respectively. Among 30 foreign equity markets, we thought 19 would beat the S&P 500; 90% of them did so and the entire group outperformed by 19% points (average).
- Our U.S.-Specific portfolio delivered an absolute total return of 18.6%, surpassing the benchmark return by 9% points. We correctly advised that the largest portfolio share (80%) be held in equities, the best-performing asset class (21%). We also recommended a 10% portfolio share in commodities; they provided the second-best returns (12%). Finally, we were right to advise against T-Bills, which returned a mere 1.3%.
- The total return on our model portfolio of U.S. Equity Styles was 21%, or 5% points above the benchmark return. The biggest share (50%), we said, should go to small-cap value stocks, they performed best of all (22%). The second-largest share (35%) we advised in small-cap growth stocks; they returned 21% (second-best). Finally, we warned against holdings in large-cap growth stocks, which returned just 6.3%
- The sectors which IFI expected to *beat* the S&P 500 in 2004 did so by 0.8% points. *Consumer Discretionary* and *Industrials* topped our list; each materially outperformed. We also advised severe under-weightings in *Health Care* and *Consumer Staples*; each sector significantly trailed the S&P 500 in 2004. Although we failed to anticipate the huge gains made in *Energy* stocks (up 34%, or 23% points above the S&P 500), our mistake wasn't serious enough to prevent overall out-performance by our sector-specific model portfolio.
- IFI's model portfolio for U.S.-Specific Fixed Income returned 9% last year, or nearly 5% points in excess of the benchmark. We advised a material portfolio share (40%) in high-yield bonds, the best-performer (11%). We also recommended a large portfolio share (60%) for convertibles; they returned 8.1%.
- We correctly anticipated the depreciation of the U.S. dollar in foreign exchange last year and how this would contribute to 1) commodity-price increases and 2) the under-performance of U.S. stocks relative to stocks abroad. We predicted that the dollar would decline 7% against the euro; it declined by 8%. We were mistaken, however, in expecting a 9% decline in the oil price in 2004; instead it sky-rocketed by 34%.
- In 2004 IFI correctly predicted accelerations in the growth rates of U.S. output and capital spending, robust profit gains, higher rates of price inflation, a widening trade deficit and a falling jobless rate. Using market-based betting odds, we also correctly forecasted the re-election of President Bush in November.
- Relative to competitors in 2004 (Wall Street strategists) IFI performed moderately-well, outperforming roughly half our peers in some areas but not in others. Yet we provided a larger number (and wider scope) of forecasts of investable assets – with a great degree of overall forecasting success – than did our peers.

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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 or accounting data, which are backward-looking, perpetually revised and inherently incapable of capturing the incentives faced by market-makers with their own capital (or clients' capital) at risk.

IFI uncovers quantitative, predictive relationships consistent with classical economics,¹ market-clearing price theory, market efficiency and decades of history. The finance-investment literature upon which we most rely is Arbitrage Pricing Theory, which, in empirical form, shows that market prices reflect the combined, forward-looking wisdom of astute market-makers. As such, prices contain implicit forecasts. We “decode” the messages in prices by performing rigorous regression analyses on price data, scrupulously retaining only statistically significant explanatory factors. We employ no “gurus” and reject any resort to subjective “hunches” or pop psychology to predict markets.²

IFI's time horizon is *one-year*, primarily because here we find the most dependable forecasting success. In contrast, we find that very short-term (or indeed, very long-term) forecasts are notoriously unreliable. Optimal use of IFI's forecasting system is usually made by investors who deploy *tactical asset allocation* (with a year-ahead horizon), as opposed to those engaged in strategic asset allocation (multi-year horizons), security-picking or “market timing.”

The empirical record demonstrates that an investor's initial asset allocation explains more than 80% of the returns he ultimately achieves. Specific security selection and timing account for at most 10-15% of returns, while execution techniques determine the balance. Thus in forecasting asset-class

performance, IFI focuses precisely on that element of investment decision-making which most crucially influences investors' ultimate, bottom-line results.

Today many practical means exist to profit by IFI's forecasts and asset-allocation recommendations; for many years, in fact, it's been wholly unnecessary (if not dangerous) for an investor to play “stock picker” (or bond picker); it's far safer (and wiser) to profit from forecasts of broad asset classes and sub-classes.³ Roughly 95% of the forecasted variables in this report represent *investable assets*. At IFI we don't spend a lot of time forecasting GDP, CPI, non-farm payrolls or sundry other “measures” provided by Washington, since no one can actually invest in such statistics and since the numbers offer nothing but rear-view-mirror hindsight about the market-based activity investors really care about.

For easy reference we provide a numbered list of the forty-nine research reports we issued throughout 2004 (pages 15-16). Where necessary – and to avoid excessive footnoting – in citations below we refer to the relevant numbered reports. Of course, the primary report upon which “Track Record 2004” is based is our “Outlook 2004,” published a year ago [3]. As market conditions (and thus the price signals we rely upon) changed during the year we altered our year-ahead forecasts; but to be strictly objective, “for the record” in 2004 we focus primarily on our year-ahead outlook from a year ago. We also include *all* of the variables that we forecasted – the good, the bad and the ugly.⁴

IFI's forecasting record in 2004. As summarized in Table One – and presented in greater detail in subsequent tables – we forecasted 136 separate variables before the year began. The scope of our forecasting system remains wide: currencies, commodities, money market instruments, equity indices

¹ See “Saysian Economics,” *The Capitalist Advisor*, InterMarket Forecasting, Inc., December 31, 2003 (Part I) and January 5, 2004 (Part II).

² For more on our basic forecasting framework, see “Introducing the Policy Mix Index,” *The Capitalist Advisor*, InterMarket Forecasting, Inc., April 23, 2002 and “The Basics of Inter-Market Forecasting,” *The Capitalist Advisor*, InterMarket Forecasting, Inc., September 7, 2004. Also see the “Methodology” tab on our web site (www.intermarketforecasting.com).

³ See “Exchange-Traded Funds: Asset Allocation Made Easy,” *Investment Focus*, InterMarket Forecasting, Inc., April 11, 2003. Today roughly 160 exchange-traded funds track all types of asset classes and indexes; not coincidentally, this is close to the number of variables we forecast.

⁴ Of course, there's nothing magical about measuring forecasting success solely in the year following every December; it is merely a convention in the field. The reports that we issued *during* the year (pages 15-16) can be consulted for our subsequent forecasting success. It is common for forecasters to “cherry-pick” their track records and to only emphasize successes; in contrast, IFI presents its *entire* record, not a *partial* one.

Table One
Forecasted Variables in 2004 & IFI's Success Rates

<u>Table</u>	<u>Page</u>	<u>Category</u>	<u># of Variables</u>	<u>Correctly-Forecasted</u>	
				<u>Number</u>	<u>Percent</u>
Five	8	U.S. Dollar (Foreign Exchange Value)	4	4	100%
Five	8	Commodities & Gold	4	3	75
Five	8	U.S. Interest Rates & Spreads	20	15	75
Six	9	U.S. Equities - Broad & Styles	16	15	94
Six	9	U.S. Equities - Sectors	20	15	75
Seven	10	U.S. Earnings	12	9	75
Eight	10	U.S. Economic Variables	7	7	100
Two	4	Non-U.S. Global Regions (Equities)	4	4	100
Nine	11	Major Foreign Markets (All Variables)	19	12	63
Ten	12	Foreign National Markets (Equities)	<u>30</u>	<u>22</u>	<u>73</u>
Total			136	106	78%
IFI vs 12 Other Strategists					
<u>Table</u>	<u>Page</u>	<u>Category</u>	<u># of Competitors</u>	<u>Number</u>	<u>Percent</u>
Eleven	13	S&P 500 Price Index	12	4	33%
Eleven	13	S&P 500 Operating Profits/Share	12	10	83
Twelve	14	S&P 500 Price-Earnings Multiple	12	3	25
Twelve	14	10-Year U.S. Treasury Bond Yield	12	<u>6</u>	<u>50</u>
Average				5.8	48%

and a broad range of fixed income indexes. As shown in Table One, we correctly forecasted the directional changes in 78% of the variables, down from a success rate of 84% in 2003 [2] but better than the 70% success rate achieved in 2002.⁵ Table One also demonstrates the reasonably good *distribution* of forecasting success – i.e., across all the major asset classes, globally – that IFI achieved in 2004.

The global investor. Table Two (page 4) illustrates how we take a global overview of equity opportunities (or dangers). In 2004 our global equity allocation advice generated solid gains (15.4%, in absolute terms, weighted by our portfolio-share recommendations when the year began) as well as out-performance (by 4.5% points) compared to the S&P 500. We were right, a year ago, to counsel portfolio over-weightings in the Asia-Pacific/Japan region as well as in Canada and Latin America; each

region beat the S&P 500 in 2004 – by 5% points, 10% points and 25% points, respectively.

Table Two (page 4) also reveals how we placed the U.S. at the *bottom* of our global rankings a year ago, saying it deserved an *underweighting* of 12% points. We were right to do so: the S&P 500 gained just 10.8% in 2004, worst among global regions. We also advised a slight under-weighting in the Europe/U.K. region (-2% points); although not as severe as our underweighting for the U.S., it was warranted, since local equity gains trailed those in Canada and Latin America, while exceeding the S&P 500's gain by nearly 10% points. An investor who allocated passively, based on the market-capitalization shares then in effect, would have under-performed our model portfolio; he would have had 58% of his portfolio in the U.S. (compared to our 46%) – where equity gains were weakest.⁶

⁵ See "Track Record 2002," InterMarket Forecasting, Inc., January 15, 2003.

⁶ Table Two (page 4) shows that in 2004 the absolute gain on global equity holdings (weighted by IFI's specific portfolio recommendations) was 15.4%. A "passive" investor who didn't bother to underweight or overweight regions but instead simply elected to be *equally-weighted* in each region would have earned a global return of 14.5% – or 1% point below the return he would have earned by adopting IFI's weightings.

Table Two
Equity-Price Performance in Global Regions vs. S&P 500 (in U.S.\$)

Organized by IFI's Advised Weightings at the Beginning of 2004 *

<u>Regions</u>	<u>Advised Weighting</u>	<u>Over/Under versus Global Market Cap</u>	<u>Absolute Performance</u>		<u>Performance vs S&P 500</u>	
			<u>Simple</u>	<u>Weighted</u>	<u>Simple</u>	<u>Weighted</u>
Asia-Pacific/Japan	23%	12% pts	15.6%	3.6%	4.8% pts	1.1% pts
Canada	4	2	21.1	0.8	10.3	0.4
Latin America	2	1	35.4	0.7	24.6	0.5
Europe/U.K.	26	-2	20.3	5.3	9.5	2.5
U.S. (S&P 500)	46	-12	<u>10.8</u>	<u>5.0</u>	<u>****</u>	<u>****</u>
			20.6%	15.4%	12.3% pts	4.5% pts

* "Outlook 2004," January 22, 2004, p. 2.

IFI correctly anticipated the under-performance of U.S. stocks relative to stocks abroad in 2004 (Table Ten, page 12), in part because we also correctly forecasted the U.S. dollar's depreciation in foreign exchange markets (Table Five, page 8); throughout the year we also explained why the dollar would continue to weaken [5, 15]. We predicted a dollar decline of 7% against the euro; it declined by 8%. We also foresaw the dollar's year-long decline against the yen, British pound and Canadian dollar.

For more detail on foreign stocks, see, in Table Ten (page 12) the thirty markets we forecasted in 2004. We predicted that nineteen of them would beat the S&P 500; in fact seventeen (or 90%) did so; overall, the entire group of expected winners beat the S&P 500 by an average of 19% points. In addition, we were neutral, when the year began, on a half-dozen or so foreign markets – “neutral” meaning that we expected these markets neither to beat nor trail the S&P 500 by more than 5% points. Four such countries (57% of those we picked) did precisely that; Switzerland, for example, only outperformed the S&P 500 by 4% points; and Peru trailed the S&P 500, but by only 4% points. Finally, we expected a handful of foreign markets to *under-perform* the U.S. last year; but only Russia did so (by 9% points).

The U.S.-Specific investor. As shown in Table Three (page 5), IFI's model portfolio for the U.S.-

Specific investor delivered an absolute total return of 18.6%, more than 9% points above the benchmark return.⁷ We correctly advised that the largest portfolio share (80%) be held in equities; it was the best-performing asset class in the U.S. in 2004. Although the S&P 500's total return was decent in 2004 (10.6%), IFI did *not* recommend that *all* U.S. equities be held in this large-cap index (see “The U.S.-Specific “Equity Style” investor,” pages 5-6).

In 2004 we also counseled a 10% portfolio share in commodities and gold; together, they provided the second-best returns (12%). Most investment advisers and strategists refuse to recommend any portfolio allocation to commodities, even though it's easy to buy the Goldman Sachs Commodity Index and also easy to access gains from gold, by buying an exchange-traded fund tied directly to its price [45].⁸

We advised a healthy weighting (10%) in commodities in 2004 because we predicted higher rates of inflation in the wake of (and amid) the U.S. weak-dollar policy.[5, 15, 16] We'd also been bullish on commodities at the beginning of 2003 (indeed, even more so, than last year), when we advised an even greater share (25%). Whereas the commodity portion of our model portfolio returned 21% in 2003, it returned less (12%) in 2004. Although we've been right in recent years to urge a large portfolio share in commodities, we've also been careful to urge a

⁷ The typical U.S.-market benchmark is an allocation of 65% to U.S. equities (the S&P 500), 25% to U.S. T-Bonds and 10% to U.S. T-Bills. In 2004 this “passive” portfolio would have returned 9.4%, or 9.2% points *below* the return achieved on IFI's recommended portfolio.

⁸ For evidence on the rather surprising frequency with which commodities *outperform* stocks, bonds and bills in any particular year, see “Inflation, Deflation and Investment Returns,” *Investment Focus*, InterMarket Forecasting, Inc., December 6, 2002.

successively lower portfolio share prior to the onset of lower commodity gains.

One commodity that we *did not correctly forecast* in 2004 was oil; we expected its price to decline 8-9%, to \$30/barrel. Instead, oil sky-rocketed by 34% and averaged \$43/barrel in December (Table Five, page 8). In a *closely-related mistake*, we also underestimated how well stocks in the *Energy* sector would perform in 2004 (Table Four, page 6); but during the year we were careful to assure U.S. equity investors that oil's rise would *not prove bearish* for U.S. stocks [30], nor bearish even for stocks in Japan, a country which is usually far *more* burdened by higher oil costs than is the U.S. [31]⁹

Finally, the ability of our model U.S. portfolio in 2004 to generate gains surpassing those on benchmark portfolios was helped by the fact that from the beginning (and throughout the year) we argued strongly against holding T-Bills; in 2004 they returned a measly 1.3%.

The U.S.-Specific "Equity Style" investor. As we did in 2003 [3], in 2004 we accurately predicted which equity "style bets" in the U.S. would do best, which would deliver lesser returns and which would likely under-perform. Our model portfolio reflected

Table Three
Relative Total Returns on Asset Classes in the U.S.

*Organized by IFI's Advised Weightings at the Beginning of 2004 **

U.S.-Specific Investor	Advised	Total Returns per Asset Class	
	Weighting	Absolute	Weighted Avg.
Equities (1)	80%	20.5%	16.4%
Commodities/Gold (2)	10	12.0	1.2
Bonds (Treas. & Corp.) (3)	10	10.0	1.0
3-Month Treasury Bills	0	1.3	0.0
Sum of Weighted-Average Returns:			18.6%

1. See weighted-average calculation from "U.S.-Specific Equity Investor"
2. Half from the Goldman Sachs Commodity Index and half from gold
3. See weighted-average calculation from "U.S.-Specific Bond Investor"

U.S.-Specific Bond Investor	Advised	Total Returns per Asset Class	
	Weighting	Absolute	Weighted Avg.
Convertible Corp. Bonds	60%	8.1%	4.8%
High-Yield Corp. Bonds	40	10.7	4.3
Inv.-Grade Corp. Bonds	0	8.7	0.0
Long-Term Treasury Bonds	0	9.4	0.0
Sum of Weighted-Average Returns:			9.1%

U.S.-Specific Equity Investor	Advised	Total Returns per Asset Class	
	Weighting	Absolute	Weighted Avg.
Small-Cap Value (in S&P 600)	50%	21.8%	10.9%
Small-Cap Growth (in S&P 600)	35	20.9	7.3
Large-Cap Value (in S&P 500)	15	14.9	2.2
Large-Cap Growth (in S&P 500)	0	6.3	0.0
Sum of Weighted-Average Returns:			20.5%

* "Outlook 2004," January 22, 2004, p. 2.

these forecasts; its total return last year was 20.5% (Table Three), or nearly 5% points in excess of the relevant benchmark.¹⁰ IFI advised investors to devote the largest portfolio share of their U.S. equity portfolio (50%) to *small-cap value stocks*; they returned more than any other equity style in 2004 (22%). We also advised that the second-largest

⁹ Not only did the S&P 500 register an above-average gain this year, but as we also expected, more oil-dependent Japan saw its equity index outperform the S&P 500 (by 3.3% points). The oil-price rise of 2004 did not deter such gains—in either major market. Although the oil price increased by 34% during the year (from an average of \$32.3/share in December 2003 to an average of \$43.2/share in December 2004), it is worth recording that it has declined by 12% from its peak last October.

¹⁰ By a passive, traditional allocation we reasonably assume a U.S.-Specific Equity Investor who devotes equal shares of his portfolio (one-third each) to large-cap stocks (S&P 500), mid-cap stocks (S&P 400) and small-cap stocks (S&P 600); each of these indexes has value-stock and growth-stock components. In 2004 the weighted-average total return on this broad-based, equal-weighted portfolio was 15.9% – or 4.5% points *below* the weighted-average return achieved from IFI's recommended allocation in U.S. equities.

Table Four
Relative Price Performance on S&P 500 Sectors in the U.S.

Organized by IFI's Advised Weightings at the Beginning of 2004 *
 Changes in averages: Dec. 2003 to Dec. 2004

<u>Sectors Over-Weighted</u>	<u>Advised Weighting</u>	<u>Over/Under</u>	<u>Absolute Price Change</u>	<u>Versus S&P 500:</u>	
				<u>Simple Average</u>	<u>Weighted Average</u>
Consumer Discretionary	20%	9% pts	13.3%	2.5% pts	0.5% pts
Industrials	18	6	18.3	7.5	1.4
Information Technology	24	7	4.3	-6.5	-1.6
Financials	25	4	9.7	-1.1	-0.3
Telecommunications Services	7	4	<u>21.7</u>	<u>10.9</u>	<u>0.8</u>
Average:			13.5%	2.7% pts	0.8% pts
S&P 500			10.8%		
<u>Sectors Under-Weighted</u>					
Materials	1%	-2% pts	12.9%	2.1% pts	0.0% pts
Utilities	1%	-2%	21.3	10.5	0.1
Energy	1%	-5%	34.0	23.2	0.2
Consumer Staples	1%	-10%	6.8	-4.0	0.0
Health Care	2%	-11%	<u>0.8</u>	<u>-10.0</u>	<u>-0.2</u>
Average:			15.2%	4.4% pts	0.1% pts
Spread: Outperforming versus Underperforming Sectors:				-1.7% pts	0.7% pts

* "Outlook 2004," January 22, 2004.

portfolio share (35%) be devoted to small-cap growth stocks; they brought the second-best return in 2004 (21%) Finally, we warned investors against holding large-cap growth stocks; they delivered the lowest returns of all equity styles in 2004 (6.3%).

Recall how some strategists were concerned last year that Federal Reserve rate hikes might alter the cyclical dynamics of equity-style investing, curbing (or perhaps even reversing) the out-performance of small-cap and value-oriented stocks; but we documented how equity styles performed amid ten other rate-hiking episodes in the U.S. (since 1970) and concluded otherwise.[19] Thus throughout 2004, despite the shift in Fed policy, we were right to expect small-cap and value-oriented stocks would *continue to out-perform* their equity-style counterparts.

The U.S.-Specific Sector investor. The S&P 500 sectors which IFI expected to outperform the broader index in 2004 did so, but by only 0.8% points (Table Four). The best successes in sector forecasting last year came from our recommending

a material (20%) share in *Consumer Discretionary* (an overweighting of 9% points); the sector gained 13.3% in absolute terms and beat the S&P 500 by 2.5% points. We also advised a significant share (18%) in a rare out-performer, historically: the *Industrials* sector (we advised an overweighting of 6% points); the sector gained 18.3% and beat the S&P by 7.5% points. In addition, we correctly advised a severe underweighting in *Health Care*, predicting it would be the worst under-performer in 2004; it was, as it trailed the S&P 500 by 10% points. *Consumer Staples* also underperformed the S&P 500 in 2004 (by 4% points); we were right to have advised only a 1% portfolio share (a substantial underweighting of 10% points) when the year began.

Our biggest error in sector forecasting last year – one we've already alluded to (see our discussion of the oil price, page 5) – was our failure to anticipate the huge gains made by *Energy* stocks. The sector index advanced 34% in 2004 (nearly-identical to the rise in the oil price) and was the best-performer among all S&P 500 sectors (Table Four), surpassing

gains on the broader index by 23% points. Still, this “lost opportunity” wasn’t enough to prevent overall out-performance by our sector-specific portfolio.

The U.S.-Specific Fixed Income investor. For U.S. fixed-income markets in 2004 we expected 1) an accelerating rate of price inflation, 2) the beginnings of Federal Reserve rate hikes (for the first time in five years), 3) a rise in T-Bill rates (as well as in 2-year and 5-year T-Note yields), 4) a narrowing of the Treasury yield-curve spread, 5) a narrowing of corporate credit spreads and 6) out-performance by lower-grade, high-yield bonds relative to investment-grade corporate bonds and T-Bonds.

Each of these fixed income forecasts panned out. As a result, the 9% weighted-average return on our model portfolio for the U.S.-Specific Fixed Income investor (Table Three, page 5) surpassed the benchmark fixed income return (the Lehman Brothers Aggregate Bond Index) by 5% points.

Our main *mistake* in U.S. fixed income in 2004 was to expect a rise in the 10-year and 30-year T-Bond yields; we predicted they’d rise by 83 basis points and 81 basis points, respectively. Instead these yields fell by 4 basis points and 10 basis points.

T-Bond yields certainly *did* increase materially in the *first half* of 2004: the 10-year T-Bond yield jumped from 4.3% at the beginning of the year to 4.9% in mid-June, while the 30-year T-Bond yield increased

from 5.1% to 5.5% over the same period. But thereafter, during the second half of the forecast period, each of these yields declined to the point that by December they closed *slightly below* their year-earlier levels. Fortunately for IFI clients, our mistake on long-term yields wasn’t serious enough to stand in the way of overall out-performance by our model U.S. fixed-income portfolio in 2004.

IFI’s performance versus competitors. In 2004 IFI performed roughly in line with investment strategists on Wall Street, outperforming them in some areas but not in others (see Tables Eleven and Twelve, pages 13-14).¹¹

Although we forecast more than one-hundred-and-twenty-five variables – in all asset classes, worldwide – at present we can compare ourselves to competitors only on the handful of market variables they make public in a uniform way at the beginning of each year.¹² We know this much: *all of IFI’s model portfolios delivered positive returns and (more important) excess returns relative to benchmarks in 2004.* But we can’t say (because we don’t know) whether competitors were able to achieve similar successes. IFI has likely provided investors with a larger number (and wider scope) of forecasts of investable assets, with a greater degree of overall forecasting success than did the leading Wall Street strategists.

¹¹ The performance of IFI versus the strategists is measured by *how close* each of us came to forecasting the actual result. We were all above or below actual results to some degree; relative performance simply reflects the *degrees* of closeness.

¹² IFI only has access to strategists’ forecasts of the S&P 500 price index, the S&P 500’s operating profits per share and the 10-year T-Bond yield; a fourth variable – the S&P 500’s price-earnings multiple – is simply inferred from forecasts of the S&P 500’s price and profits. Original forecasts from the twelve competitor-strategists appeared in “Outlook 2004,” *Barron’s*, December 29, 2003, p. 17. In contrast to most brokerage-firm strategists on Wall Street, who at least focus on *markets*, most leading *economists* tend to forecast only a few *non-investable* economic variables (such as GDP and CPI) or to forecast financial variables with short lead times. See, for example, the forecasts of 50 or so top economists published semi-annually (in early January and July) by *The Wall Street Journal*. Thus IFI doesn’t bother to compare its record to those of economists; that would be too easy. For the most part “forecasts” by today’s economists are useless to investors, when not actually harmful.

Table Five
IFI's Forecasts of the U.S. Dollar, U.S. Fixed Income & Spreads in 2004 versus Actual Results
U.S. Equities, Style Bets and Sectors

	Actual	Forecasts for		Forecasted	Actual	Actual	Actual	Directionally Correct?
	Dec 2003	Jun 2004	Dec 2004	Change, Dec '03-Dec '04	Jun 2004	Dec 2004	Change, Dec '03-Dec '04	
<u>U.S. Dollar & Commodity Prices</u>								
Value of U.S. \$ in Yen	107.8	102.3	96.7	-10.3%	109.4	103.8	-3.7%	yes
Value of U.S. \$ in Euro	0.814	0.785	0.755	-7.2%	0.823	0.746	-8.4%	yes
Value of U.S. \$ in Pound	0.571	0.553	0.535	-6.3%	0.547	0.519	-9.2%	yes
Value of U.S. \$ in Canadian Dollar	1.314	1.300	1.285	-2.2%	1.358	1.219	-7.2%	yes
CRB Index (Spot)	285	296	306	7.4%	295	295	3.5%	yes
CRB Index (Precious Metals)	358	368	378	5.6%	355	402	12.2%	yes
Gold (US\$/ounce)	409	416	423	3.4%	393	443	8.2%	yes
Oil (US\$/barrel)	32.3	33.0	29.5	-8.7%	38.0	43.2	33.8%	no
<u>U.S. Money Market & Fixed Income</u>								
Fed Funds Rate	1.00	1.00	1.75	75 bps	1.03	2.16	116 bps	yes
3-Month T-Bill Rate (b.e.y.)(%)	0.91	1.13	2.02	111 bps	1.29	2.22	131 bps	yes
90-Day Commercial Paper Rate (AA)	1.05	1.29	2.24	119 bps	1.34	2.34	129 bps	yes
6-Month T-Bill Rate (b.e.y.)(%)	1.01	1.26	2.10	109 bps	1.64	2.50	149 bps	yes
2-Year T-Note Yield	1.91	2.17	2.83	92 bps	2.76	3.01	110 bps	yes
5-Year T-Note Yield	3.27	3.56	4.11	84 bps	3.93	3.60	33 bps	yes
10-Year T-Bond Yield	4.27	4.59	5.10	83 bps	4.73	4.23	-4 bps	no
30-Year T-Bond Yield	5.07	5.41	5.88	81 bps	5.41	4.86	-21 bps	no
10-Year Municipal Bond Yield (AAA)	3.76	4.10	4.63	87 bps	4.24	3.80	4 bps	yes
10-Year Corporate Bond Yield (Aaa)	5.62	5.97	6.31	69 bps	6.01	5.47	-15 bps	no
10-Year Corporate Bond Yield (Baa)	6.60	6.91	7.22	62 bps	6.78	6.15	-45 bps	no
10-Year Corporate Bond Yield (BB/Ba-C)	7.56	7.78	7.99	43 bps	8.24	6.83	-73 bps	no
Value Line Convertible Bond Yield	3.45	3.34	3.23	-22 bps	3.15	2.99	-46 bps	yes
Value Line Convertible Bond Price	186.6	199.3	212.0	13.6%	190.94	199.61	7.0% bps	yes
<u>Treasury Yield Spreads (basis points):</u>								
10-Yr. T-Bond Yield vs. 3-Mo. T-Bill Rate	336	346	308	-28 bps	344	201	-135 bps	yes
10-Yr. T-Bond Yield vs. 2-Yr. T-Note Yield	236	242	227	-9 bps	197	122	-114 bps	yes
10-Yr. T-Bond Yield vs. 5-Yr. T-Note Yield	100	103	99	-1 bps	80	63	-37 bps	yes
<u>Corporate Yield Spreads (basis points):</u>								
Aaa Bond Yield vs. 10-Yr. T-Bond Yield	135	138	121	-14 bps	128	124	-11 bps	yes
Baa Bond Yield vs. 10-Yr. T-Bond Yield	233	232	212	-21 bps	205	192	-41 bps	yes
BB/Ba-C Bond Yield vs. 10-Yr. T-Bond Yld.	329	319	289	-40 bps	351	260	-69 bps	yes

Table Six
IFI's Forecasts of U.S. Equity Indexes, Style Bets & Sectors in 2004 versus Actual Results

	Actual		Forecasted		Actual		Directionally Correct?	
	Dec 2003	Forecasts for Jun 2004 Dec 2004	Change, Dec '03-Dec '04	Actual Jun 2004 Dec 2004	Actual Dec '03-Dec '04			
U.S. Equities & "Style Bets"								
DJIA 30	10,125	10,740 11,355	12.1%	10,350 10,673	5.4%	yes		
NASDAQ 100 (Large-Cap)	1,427	1,539 1,650	15.6%	1,478 1,612	13.0%	yes		
NASDAQ Composite	1,955	2,123 2,290	17.1%	2,002 2,150	10.0%	yes		
Large-Cap (S&P 500)	1,082	1,210 1,290	19.2%	1,131 1,199	10.8%	yes		
Large-Cap Value (S&P 500/BARRA)	539	597 655	21.5%	565 617	14.4%	yes		
Large-Cap Growth (S&P 500/BARRA)	543	588 633	16.6%	564 578	6.4%	yes		
Large-Cap Value vs Growth (S&P 500/BARRA)			4.9%		8.0%	yes		
S&P 500 P/E Multiple (trailing 12-mo. a/t EPS)	24.6	25.2 25.8	4.9%	20.2 20.7	-15.9%	no		
Super-Cap (S&P 100)	535	565 595	11.2%	552 571	6.6%	yes		
Mid-Cap (S&P 400)	567	624 680	19.9%	597 651	14.8%	yes		
Small-Cap (S&P 600)	266	298 330	24.1%	286 324	21.8%	yes		
Small-Cap (S&P 600) vs. Large-Cap (S&P 500)			4.8%		11.0%	yes		
Small-Cap (Russell 2000)	547	619 690	26.1%	574 643	17.5%	yes		
Small-Cap Value Stocks (Russell 2000)	785	893 1,000	27.4%	830 951	21.2%	yes		
Small-Cap Growth Stocks (Russell 2000)	292	329 365	25.0%	305 333	14.1%	yes		
Small-Cap Value vs. Growth (Russell 2000)			2.4%		7.1%	yes		
U.S. Sectors (S&P 500)								
<u>Absolute Performance</u>								
Consumer Discretionary	241	275 308	28.0%	251 273	13.7%	yes		
Consumer Staples	220	233 245	11.4%	236 235	6.8%	yes		
Energy	214	227 240	12.1%	246 286	33.7%	yes		
Financials	370	413 455	23.0%	384 406	9.6%	yes		
Health Care	341	351 361	6.0%	358 344	1.0%	yes		
Industrials	244	275 305	25.0%	259 289	18.3%	yes		
Information Technology	315	333 391	24.2%	317 328	4.3%	yes		
Materials	160	170 180	12.5%	159 181	13.3%	yes		
Telecommunications Services	106	118 130	22.2%	113 129	21.5%	yes		
Utilities	115	123 130	13.0%	119 139	21.2%	yes		
<u>Relative Performance (vs. S&P 500)</u>								
Consumer Discretionary			8.8%		2.9%	yes		
Consumer Staples			-7.9%		-4.0%	yes		
Energy			-7.1%		22.9%	no		
Financials			3.7%		-1.2%	no		
Health Care			-13.2%		-9.9%	yes		
Industrials			5.8%		7.4%	yes		
Information Technology			5.0%		-6.6%	no		
Materials			-6.7%		2.4%	no		
Telecommunications Services			3.0%		10.7%	yes		
Utilities			-6.2%		10.3%	no		

Table Seven
IFI's Profit Forecasts for 2004 (S&P 500 & Sectors) vs Actual Result

	% Change, Trailing Four Quarters, Through:					Directionally <u>Correct?</u>
	Actual <u>4Q03</u>	Forecasted <u>2Q04</u>	Forecasted <u>4Q04</u>	Actual <u>2Q04</u>	Actual <u>4Q04</u>	
U.S. Earnings						
S&P 500 (net income/share)	64%	36%	11%	63%	21%	yes
S&P 500 (operating profit /share)	18	19	15	27	23	yes
S&P 500 Sectors (1)						
Consumer Discretionary	9	17	22	29	28	yes
Consumer Staples	-3	-4	4	3	7	yes
Energy	61	2	-18	37	44	no
Financials	26	22	16	33	15	yes
Health Care	3	9	8	10	23	yes
Industrials	2	21	22	23	20	yes
Information Technology	137	104	58	110	57	yes
Materials	14	28	22	59	77	yes
Telecommunication Services	1	-5	9	-20	-1	no
Utilities	-12	6	2	12	-4	no

(1) Operating profits per share.

Table Eight
IFI's Economic Forecasts for 2004 vs Actual Results

	% Change, Trailing Four Quarters, Through:					Directionally <u>Correct?</u>
	Actual <u>4Q03</u>	Forecasted <u>2Q04</u>	Forecasted <u>4Q04</u>	Actual <u>2Q04</u>	Actual <u>4Q04</u>	
U.S. Economic Variables						
GDP (Real) (1)	3.9%	4.4%	4.6%	4.8%	4.0%	yes
Industrial Production Index	2.3	4.1	4.3	4.7	4.4	yes
Capital Expenditures (1)	4.7	8.2	11.9	19.7	16.0	yes
Consumer Price Index	1.9	2.2	2.6	3.2	3.4	yes
Producer Price Index	4.0	3.6	4.1	3.9	3.9	yes
Unemployment Rate (end of qtr.)	5.7	5.4	4.9	5.6	5.4	yes
U.S. Trade Deficit (in \$ Billions)	\$544	\$570	\$605	\$588	\$673	yes

(1) Preliminary estimates based on data through 3Q2004 and Industrial Production in 4Q2004.

Table Nine
IFI Forecasts of Major Foreign Markets in 2004 vs. Actual Results
 Forecasts and Results in Japan, Europe-Germany, Britain and Canada

	Actual	Forecasts for		Forecasted	Actual	Actual	Actual	Directionally
	Dec 2003	Jun 2004	Dec 2004	Change, Dec '03-Dec '04	Jun 2004	Dec 2004	Change, Dec '03-Dec '04	
Japan								Correct?
Japan Yen in U.S.\$	0.0093	0.0098	0.0103	11.4%	0.0091	0.0096	3.8%	yes *
3-Month T-Bill Rate (b.e.y.)	0.151	0.176	0.200	5 bps	0.200	0.200	5 bps	yes
10-Year T-Bond Yield	1.33	1.53	1.85	52 bps	1.65	1.41	8 bps	yes
Treasury Yield-Curve Spread (bps)	118	135	165	47 bps	145	121	3 bps	yes
Small-Cap Equities (JASDAQ) in Yen	65	74	87	33.8%	97	84	29.8%	yes
Large-Cap Equities (TOPIX) in Yen	1,010	1,100	1,225	21.3%	1,148	1,114	10.3%	yes
Small-Cap vs Large-Cap Equities				12.6% pts			19.5% pts	yes
TOPIX (in U.S.\$) vs. U.S. S&P 500				13.5% pts			3.3% pts	yes **
Europe/Germany								
Euro in U.S.\$	1.228	1.275	1.325	7.9%	1.215	1.341	9.2%	yes *
ECB Overnight Refinance Rate	2.00	1.75	1.75	-25 bps	2.00	2.00	0 bps	no
Euro Area 3-Month T-Bill Rate (b.e.y.)	2.21	1.99	2.01	-20 bps	2.11	2.17	-4 bps	yes
Euro Area 10-Year T-Bond Yield	4.28	4.54	4.75	47 bps	4.44	3.64	-64 bps	no
Treasury Yield-Curve Spread (bps)	207	255	274	67 bps	233	147	-60 bps	no
Germany Equities (DAX) in Euro	3,867	4,100	4,500	16.4%	4,002	4,218	9.1%	yes
DAX (in U.S.\$) vs. U.S. S&P 500				5.0% pts			7.4% pts	yes **
Britain								
British Pound in U.S.\$	1.750	1.808	1.869	6.8%	1.828	1.929	10.2%	yes *
3-Month T-Bill Rate (b.e.y.)	4.07	4.40	4.55	48 bps	4.73	4.81	74 bps	yes
10-Year T-Bond Yield	4.66	4.98	5.30	64 bps	5.19	4.50	-16 bps	no
Treasury Yield-Curve Spread (bps)	59	58	75	16 bps	46	-31	-90 bps	no
British Equities (FTSE) in Pound	4,392	4,555	4,800	9.3%	4,481	4,746	8.1%	yes
FTSE (in U.S.\$) vs. U.S. S&P 500				-3.1% pts			7.4% pts	no **
Canada								
Canadian Dollar in U.S.\$	0.761	0.770	0.778	2.3%	0.737	0.820	7.8%	yes *
3-Month T-Bill Rate (b.e.y.)	2.64	2.24	2.00	-64 bps	2.10	2.58	-6 bps	yes
10-Year T-Bond Yield	4.74	4.85	5.00	26 bps	4.91	4.33	-41 bps	no
Treasury Yield-Curve Spread (bps)	210	261	300	90 bps	281	175	-35 bps	no
Canada Equities (TSE) in Can. \$	8,045	8,825	9,760	21.3%	8,436	9,139	13.6%	yes
TSE (in U.S.\$) vs. U.S. S&P 500				4.4% pts			10.6% pts	yes **

* Not counted toward IFI's overall success rate, because these outcomes are counted in Table Five, page 8.

** Not counted toward IFI's overall success rate, because these outcomes are counted in Table Ten, page 12.

Table Ten
**IFI's Forecasts of Foreign Equity Performance Relative to
 the U.S. (S&P 500) in 2004 versus Actual Results**

*Thirty National Foreign Equity Markets vs. S&P 500 (in U.S.)
 % Change from Dec. 2003 (average) to Dec. 2004 (average)*

<u>Expected Out-Performers (1)</u>	Equity Performance vs.	
	<u>S&P 500 (in U.S.\$)</u>	<u>Correct?</u>
Australia	11% pts	yes
Austria	59	yes
Brazil	22	yes
Canada	10	yes
Chile	13	yes
Czech Republic	69	yes
Denmark	19	yes
Germany	6	yes
Hong Kong	10	yes
Indonesia	39	yes
Italy	15	yes
Japan	3	yes
Mexico	32	yes
Singapore	9	yes
South Korea	6	yes
Spain	17	yes
Sweden	26	yes
Taiwan	-8	no
Thailand	<u>-1</u>	no
Average:	19% pts	
<u>Expected Under-Performers (2)</u>	Equity Performance vs.	
	<u>S&P 500 (in U.S.\$)</u>	<u>Correct?</u>
Britain	8% pts	no
Hungary	78	no
Poland	42	no
Russia	<u>-9</u>	yes
Average:	30% pts	
<u>Expected Neutral Performers (3)</u>	Equity Performance vs.	
	<u>S&P 500 (in U.S.\$)</u>	<u>Correct?</u>
Argentina	21% pts	no
France	4	yes
Malaysia	2	yes
Peru	-4	yes
Philippines	15	no
Switzerland	4	yes
Venezuela	<u>32</u>	no
Average:	11% pts	

(1) Out-performers: predicted to beat the S&P 500 by 5% points or more.

(2) Under-performers: predicted to trail the S&P 500 by 5% points or more.

(3) Neutral performers: predicted to perform no more than 5% better or worse than the S&P 500.

Table Eleven
IFI's Forecasting Performance vs. Wall Street Strategists in 2004

S&P 500 Price and Profit Performance
% Change from Dec. 2003 (average) to Dec. 2004 (average)

<u>Forecaster/Firm</u>	<u>S&P 500 Price Index</u>			<u>Actual % Change</u>
	<u>Actual Dec. 2003</u>	<u>Forecasted Dec. 2004</u>	<u>Forecasted Change</u>	
Edward Yardeni/Prudential Financial *		1,300	20.1%	
Richard Salsman/InterMarket Forecasting		1,290	19.2	
Abby Joseph Cohen/Goldman Sachs		1,250	15.5	
James Paulsen/Wells Capital Management		1,210	11.8	
Jason Trennert/ISI Group		1,200	10.9	
S&P 500 Price Index (actual)	1,082	1,199		10.8%
Thomas McManus/Bank of America Securities		1,160	7.2	
Chip Dickson/Lehman Brothers		1,150	6.3	
Gary Gordon/UBS Warburg		1,150	6.3	
Abhijit Chakrabortii/J.P. Morgan		1,120	3.5	
Steve Galbraith/Morgan Stanley *		1,112	2.8	
Francois Trahan/Bear Stearns		1,100	1.7	
Tobias Levkovich/Citigroup Smith Barney		1,025	-5.3	
Richard Bernstein/Merrill Lynch		890	-17.7	
<u>Forecaster/Firm</u>	<u>S&P 500 Operating Profits/Share</u> (Trailing Four Quarters)			
	<u>Actual Dec. 2003</u>	<u>Forecasted Dec. 2004</u>	<u>Forecasted Change</u>	<u>Actual % Change</u>
S&P 500 Operating profits/sh (actual)	54.3	67.3		23.9%
Jason Trennert/ISI Group		63.0	16.0%	
James Paulsen/Wells Capital Management		62.4	15.0	
Richard Salsman/InterMarket Forecasting		62.2	14.5	
Gary Gordon/UBS Warburg		61.9	14.0	
Edward Yardeni/Prudential Financial *		61.4	13.0	
Richard Bernstein/Merrill Lynch		60.8	12.0	
Tobias Levkovich/Citigroup Smith Barney		60.8	12.0	
Francois Trahan/Bear Stearns		60.3	11.0	
Chip Dickson/Lehman Brothers		59.8	10.0	
Abhijit Chakrabortii/J.P. Morgan		59.2	9.0	
Abby Joseph Cohen/Goldman Sachs		59.2	9.0	
Steve Galbraith/Morgan Stanley *		59.2	9.0	
Thomas McManus/Bank of America Securities		59.2	9.0	
* No longer with the firm				

Table Twelve
IFI's Forecasting Performance vs. Wall Street Strategists in 2004
S&P 500 Valuation (P/E) and the 10-Year T-Bond Yield

<u>Forecaster/Firm</u>	S&P 500 P/E Multiple (on Operating Profits/Share)			<u>Actual Change</u>
	<u>Actual</u>	<u>Forecasted</u>	<u>Forecasted</u>	
	<u>Dec. 2003</u>	<u>Dec. 2004</u>	<u>Change</u>	
Edward Yardeni/Prudential Financial *		21.2X	6.5%	
Abby Joseph Cohen/Goldman Sachs		21.1	6.0	
Richard Salsman/InterMarket Forecasting		20.7	4.0	
Thomas McManus/Bank of America Securities		19.6	-1.5	
James Paulsen/Wells Capital Management		19.4	-2.5	
Chip Dickson/Lehman Brothers		19.3	-3.0	
Jason Trennert/ISI Group		19.1	-4.0	
Abhijit Chakrabortii/J.P. Morgan		18.9	-5.0	
Steve Galbraith/Morgan Stanley *		18.8	-5.5	
Gary Gordon/UBS Warburg		18.6	-6.5	
Francois Trahan/Bear Stearns		18.3	-8.0	
S&P 500 P/E Multiple (actual)	19.9X	18.0		-10.6%
Tobias Levkovich/Citigroup Smith Barney		16.9	-15.1	
Richard Bernstein/Merrill Lynch		14.6	-26.6	
<u>Forecaster/Firm</u>	10-Year U.S. Treasury Bond Yield			<u>Actual Change</u>
	<u>Actual</u>	<u>Forecasted</u>	<u>Forecasted</u>	
	<u>Dec. 2003</u>	<u>Dec. 2004</u>	<u>Change</u>	
Richard Bernstein/Merrill Lynch		6.10%	183 bps	
James Paulsen/Wells Capital Management		5.75	148	
Thomas McManus/Bank of America Securities		5.75	148	
Abhijit Chakrabortii/J.P. Morgan		5.40	113	
Francois Trahan/Bear Stearns		5.30	103	
Steve Galbraith/Morgan Stanley *		5.30	103	
Richard Salsman/InterMarket Forecasting		5.10	83	
Gary Gordon/UBS Warburg		5.00	73	
Tobias Levkovich/Citigroup Smith Barney		5.00	73	
Edward Yardeni/Prudential Financial *		5.00	73	
Chip Dickson/Lehman Brothers		4.80	53	
Jason Trennert/ISI Group		4.60	33	
10-Year U.S. Treasury Bond Yield (actual)	4.27%	4.23		-4
Abby Joseph Cohen/Goldman Sachs		3.90	-37	

* No longer with the firm

Appendix

IFI Research Reports in 2004

1. "Saysian Economics – Part II," *The Capitalist Advisor*, January 5, 2004.
2. "Track Record 2003," January 15, 2004.
3. "Outlook 2004," January 22, 2004.
4. "Fed Rampage Revisited," *Investor Alert*, January 31, 2004.
5. "The Latest Voodoo from the Currency Cranks," *Investor Alert*, February 7, 2004.
6. "Pensions, Profits and Equities: From Vicious to Virtuous Circle," *Investment Focus*, February 13, 2004.
7. "Producers in Chains, Parasites in Charge," *The Capitalist Advisor*, February 20, 2004.
8. ***The InterMarket Forecaster, February 27, 2004.***
9. "Little Guys v. Martha Stewart," *The Capitalist Advisor*, March 8, 2004.
10. "Recent Trends Likely to Reverse," *Investor Alert*, March 12, 2004.
11. "Investing in Rogue Outsourcers," *Investment Focus*, March 19, 2004.
12. ***The InterMarket Forecaster, March 28, 2004.***
13. "One Rational Juror," *The Capitalist Advisor*, April 8, 2004.
14. "U.S. Treasury Bombs," *Investor Alert*, April 15, 2004.
15. "Whither the U.S. Dollar?" *Investor Alert*, April 23, 2004.
16. "Will the Fed (or China) Stop (or Reverse) the Commodity-Price Boom?" *Investor Alert*, April 28, 2004.
17. ***The InterMarket Forecaster, April 30, 2004.***
18. "Market Language versus Fedspeak," *The Capitalist Advisor*, May 8, 2004.
19. "U.S. Equity Performance Surrounding Fed Rate Hikes," *Investor Alert*, May 14, 2004.
20. ***The InterMarket Forecaster, May 27, 2004.***
21. "Bravo Grasso," *The Capitalist Advisor*, May 31, 2004.
22. "World Opinion Be Damned," *The Capitalist Advisor*, June 3, 2004.
23. "The Secrets of Reagan's Success (Part I): The Role of Government," *The Capitalist Advisor*, June 11, 2004
24. "The Secrets of Reagan's Success (Part II): Economic Policy," *The Capitalist Advisor*, June 21, 2004.
25. ***The InterMarket Forecaster, June 30, 2004.***

Appendix (continued)
IFI Research Reports in 2004

26. "Treasury Chickens Come Home to Roost – at the Fed," *Investor Alert*, July 7, 2004.
27. "Corporate Yield Spreads and U.S. Equity Performance," *Investment Focus*, July 14, 2004.
28. "When Will Stock Multiples Expand Again?" *Investor Alert*, July 21, 2004.
- 29. *The InterMarket Forecaster*, July 29, 2004.**
30. "Dispelling Some Crude Myths About Oil's Real Impact," *Investor Alert*, August 6, 2004.
31. "Oil's Impact on Japanese Equities," *Investor Alert*, August 13, 2004.
32. "The Secrets of Reagan's Success (Part III): Foreign Policy," *The Capitalist Advisor*, August 20, 2004.
- 33. *The InterMarket Forecaster*, August 30, 2004.**
34. "The Basics of Inter-Market Forecasting," *The Capitalist Advisor*, September 7, 2004.
35. "Three Years and Counting," *The Capitalist Advisor*, September 11, 2004.
36. "Money on the Line Favors Bush and a GOP Congress," *The Capitalist Advisor – Special Series: Elections 2004*, September 18, 2004.
- 37. *The InterMarket Forecaster*, September 30, 2004.**
38. "The Yield Curve, Credit Spreads and Corporate Bond Returns," *Investment Focus*, October 8, 2004.
39. "The Usual Aftermath of Dull Markets," *Investment Focus*, October 15, 2004.
- 40. *The InterMarket Forecaster*, October 22, 2004.**
41. "Bush Blows a Big Lead – and the Stock Market Takes Note," *The Capitalist Advisor – Special Series: Elections 2004*, October 29, 2004.
42. "More Than a Mere Relief Rally?" *Investor Alert*, November 5, 2004.
43. "So-Called Earnings Disappointments," *Investment Focus*, November 12, 2004.
- 44. *The InterMarket Forecaster*, November 19, 2004.**
45. "Home-Grown Financial Terrorism – and a Golden Antidote," *Investor Alert*, November 26, 2004.
46. "Microsoft's Dividends Punctuate the End of a Wonderful Era," *The Capitalist Advisor*, December 6, 2004.
47. "Note to U.S. Equity Investors: Deflation is Bullish, While Inflation is Bearish," *Investment Focus*, December 13, 2004.
48. "How Bond Managers Can Profit from Silver & Gold," *Investment Focus*, December 22, 2004.
- 49. *The InterMarket Forecaster*, December 29, 2004.**

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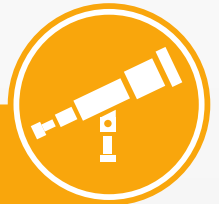


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- *The Capitalist Advisor* – analysis of political-policy factors that might materially influence investments

Methodologically, IFI's research emphasizes the incentives and disincentives faced by producers, savers and investors and how these effect investments – the essence of classical or “supply-side” economics, in contrast to the flawed themes and track records of Keynesian economics. IFI views markets as global, inter-connected, and often politicized, so it also provides a rational framework for understanding and predicting how policies (monetary, fiscal, regulatory) will influence investment performance. IFI has no vested interest in rising or falling markets or in any particular investment styles. It offers clients an independent, objective source of investment research, forecasts and advice, in contrast to the bias often exhibited in brokerage firm material and salesmanship. Since its founding in 2000 IFI has delivered an average, across the board forecasting success rate of 66% and has outperformed its peers (Wall Street strategists) 61% of the time.



Richard M. Salsman, Ph.D., CFA®

Richard Salsman is founder, president and chief market strategist. Prior to IFI he was senior economist at H.C. Wainwright Economics, Inc. (1993-1999) and from 1981 to 1992 a banker and capital markets specialist at the Bank of New York and Citibank. Mr. Salsman has authored numerous articles and is an expert in market history, economics, forecasting, and investment strategy. His work has appeared in the Wall Street Journal, Investor's Business Daily, Barron's, Forbes, National Post (Canada) and the Economist. In addition, he has authored three books—Gold and Liberty (1995), Breaking the Banks: Central Banking Problems and Free Banking Solutions (1990), The Political Economy of Public Debt: Three Centuries of Theory and Evidence (2017) —plus many chapters in edited books. Salsman speaks regularly at conferences, investment gatherings and universities. He earned his B.A. in Law and Economics from Bowdoin College (1981), his M.B.A. in Economics from the Stern School of Business at NYU (1988), and his Ph.D. from Duke University in Political Economy (2012). In 1993 he earned the designation of Chartered Financial Analyst (CFA) from the Association for Investment Management and Research.

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