



By Andre Weisbrod

Bull Market Pause Sets Stage for More Gains

The S&P500 peaked at a 52 week high of 1663 on Mar. 4, 2004. From that point it corrected 6.5% to a short-term low of 1087. The Dow peaked at 10,795 on February 19 and then dropped 7.6% to 9,976. This downturn reflected a normal bull market correction, and if there are no major set-backs, stocks should be on their way to new 52 week highs.

The charts to the right show the pattern. If the bull advance continues, I would expect the S&P 500 to reach about 1175 to 1200 on the next leg up. The DOW would reach the 10,900 to 11,000 range.

Overall the economy and businesses are doing well. The current earnings reports are showing over 80% of companies are beating earnings estimates.

Short-term interest rates need to go up 1.5%-2% just to get back to a more reasonable relationship to inflation. Such a rise should not hurt the ability of stocks to perform unless there is a strong rise in the inflation rate, which would put greater upward pressure on interest rates. Bonds, however, will not perform well in such an environment.

While Optimism Is Appropriate for Stocks, Risks Are Still There

Major Risks Include:

Terrorism

That we have had no major terrorist attacks on our soil since 9/11 is remarkable and indicative of the fact that overall our agencies and military are doing a good job. Realism, however, must be embraced. It is unlikely that we will escape attacks forever.

Depending on the severity and extent of the attack(s) the markets will have initial sell offs and then a period of evaluation. If the damage is not too severe, the economy and markets will return to normal.

Failure to Bring a Peaceful Transition to Iraq

This is tricky. Stability in the Middle East would be good for everyone. A major failure and fall-out with oil-producing nations could create a negative dynamic similar to that of the 1970's oil embargo. I don't care what side of the political aisle you are on, we better all hope and pray that the Bush Administration strategy succeeds.

Isolationist Politics

As countries' politics get polarized, there is always a danger that isolationist mentalities will cause governments to increase restrictions on trade. Rarely will such attitudes and actions end up with positive results. Freer trade and level playing fields are in the best interests of world peace and prosperity.

"Normal" Risks Include:

"Irrational Exuberance"

Overconfidence by investors does not seem to be a problem as it was in the late 1990s, but greed is still around.

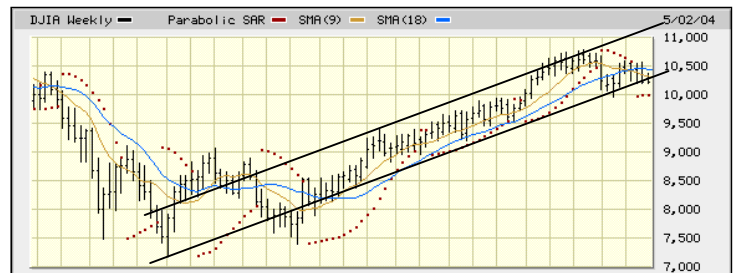
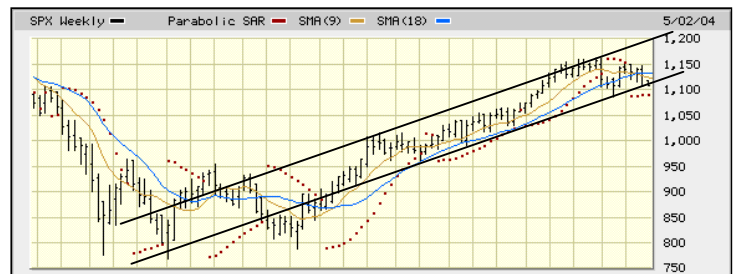
Major Economic Policy Blunders

Governments need to continue to be business-friendly, keep taxes and regulatory burdens at a minimum and reign in their own spending.

An Unexpected Rapid rise in Inflation

High energy prices seem to be the biggest factor in potential inflation. However, most other pressures are low.

If these do not occur, the stage is set for continued economic growth worldwide. Stock markets will take three steps forward and then one or two backward in a general up trend.



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May 3, 2004

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