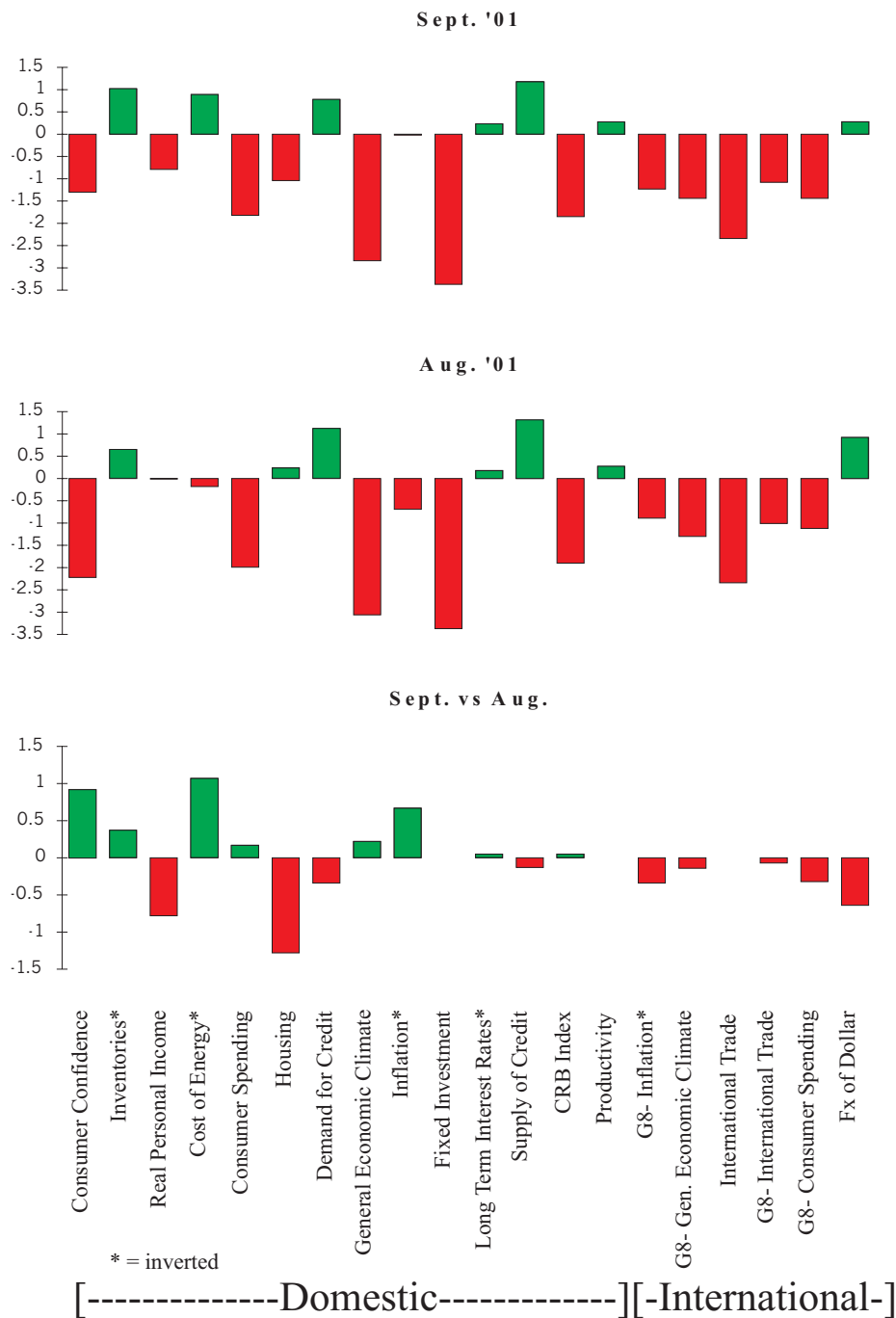


“A Ray of Sunshine Among Dark Clouds”

September 19, 2001

The following charts show fact based trends in ASC Economic factors as of September 2001 as compared to August 2001 and changes expressed in standard deviations around the norm, hereinafter referred to as “units”.



ASC Factor indicators of future activity show that the US economy was already weakening before the US was attacked on September 11. The attack may well bring on a more pronounced weakness near term. Following are significant changes in trends last month expressed in standard deviations around the norm or "units". Initial Unemployment Claims fell .92 units (this is based on the four week average which would appear to be on the way to being reversed by the latest jump). Inventories fell by .37 units. Real Income fell by .78 units. Cost of Energy fell by 1.07 units. Housing fell by 1.28 units. Inflation fell by .67 units. G8 Inflation rose by .34 units. G8 Consumption fell by .32 units. The foreign value of the US dollar fell by .64 units. What had been a gradually weakening economy is turning into an outright slump. Reductions in employment are beginning to adversely affect real income. Housing fell for the first time in recent history. The economy has not yet made a bottom but is on course to make one by the fourth quarter.

The economy had decelerated sharply before the terrorists attacked the US. August employment was down 113,000, with the unemployment rate climbing to 4.9%. Latest weekly claims rose to 431,000. August industrial production fell by .8%. The US economy was teetering before the attack. After the attack, there is likely to be substantial declines in air travel and discretionary spending, probably greater than was the case in the invasion of Kuwait by Iraq in 1990. At that time, air travel fell by about 25%. One should not be surprised by declines in travel and tourism of over 35%.

The down draft in the economy is now likely to be sharper than was previously the case. Prior to the attack, the US economy was likely to experience a "Chinese water torture" type slowdown, with strength in consumption offsetting severe slumps in capital spending and manufacturing. After the attack and subsequent large layoffs in travel and tourism,

consumer confidence is likely to be adversely affected. The economy is likely to decelerate sharply owing to decided weakness in spending. After a sharp, although briefer, slow down, the US should be poised to begin a recovery phase. With aggressive easing by the US Fed and by the Bank of Japan, the recovery is also likely to be stronger than otherwise would have been the case. In addition to a response to increased liquidity and the tax cut, there will be an increased fiscal stimulus from spending on security, rebuilding the World Trade Center and the war against terrorism. As WWII helped the US out of the depression, the war against terrorism is likely to help the US and the rest of the world avoid what could have been a rather nasty worldwide slump.

Many economic services are still relatively optimistic about the fourth quarter of 2001, believing that the consumer's retreat from spending is likely to be short-lived and will only affect several weeks. We had thought the consumer was already retreating and the attack is likely to exacerbate that retrenchment in the short run. As previously stated, the buying on credit binge appeared to be subsiding before the attack. Recent releases on the state of the consumer seem to support that viewpoint. Personal bankruptcies in the second quarter were up 9% over the first quarter and up 25% from last year. Credit card charge-offs rose to 6.02%, the largest increase in five years. Credit card delinquencies rose to 5.06 in July, up from 4.41 in June of 2001. The weight of credit card debt is shown by the latest two releases on consumer installment credit, instead of the usual large increases, there were slight reductions. In addition, the latest loss of jobs of 113,000 is beginning to negatively affect growth in real income. There does not appear to be anything systemic to the economy resulting from the attack, however the retreat by the consumer that was already underway is likely to continue as is normal during a recession. We are unlikely to see economic

pluses before the first quarter of 2002.

After the recovery gets underway, we are likely to see a different economic landscape than was previously the case. For one, this recovery, which will occur under wartime conditions and stimulated by aggressive Fed policy, is unlikely to be as disinflationary as was the case in the post 1980 period. A weaker US dollar is also expected to add to normal wartime inflationary pressures. We have discussed the idea of the "other shoe" dropping over the past months, referring to the likelihood of a weakening US dollar. It now appears to be happening and is likely to continue albeit in somewhat of a saw-toothed progression. The Euro and the British pound appear to be heading higher.

There was little movement in ASC's industry ranks this month. Energy and pharmaceuticals are finally proving to be defensive. The office equipment group with Lexmark moved up significantly in rank from 30 to 7. In addition, the order rates for the chipmakers appear to be improving. Cell phone makers along with the regional phone companies appear to be washed out. The primary area of over capacity is in PC's. Even with the proposed merger of Hewlett and Compaq, the capacity of microprocessors provided by AMD and Intel is unaffected. Outside of PC's, technology now appears to have discounted its prospects. While we may be somewhat early, we have decided to go to an even weight on technology and telecom. As soon as the consumer's retreat ends, which should be over the next 3-4 months, the US economy should make a bottom. While there may be downside risk, buying these groups as they swoon should protect ones portfolio from under performance once the economy begins to recover in 2002 and the market begins to discount that recovery sometime this fall.

## Investment Strategy

### Equities:

Specific groups that should be defensive in the current slumping economic climate are energy, office equipment, retailers and pharmaceuticals. Based on the rise in office equipment we have moved to an even weight in electronics, technology and telecom. Over weights in S&P groups are advised in Basic Industries, Health Care and Energy. Under weights are advised in Consumer Staples, Consumer Cyclical, Financials and Utilities. A market weight in Capital Goods Technology and Telecom is now deemed appropriate. Worldwide, investments in European markets denominated in Euros and Pounds appear to be most attractive currently.

### Fixed Income:

With an economy that is decelerating, our posture on bonds remains positive. Regarding the issue of quality spreads, on a scale of 1 to 10, with 10 representing a maximum position in lower quality debt and 1 representing a maximum position in Treasuries, we would rate the current environment as a 5, the same as last month. Were it not for the likelihood of a weaker US dollar, we would be more positive on long bonds. Spreads between lower quality bonds and Treasuries are on the rise once again. When the economy makes a bottom sometime over the next six months, one should be ready to participate in a narrowing. For now, it is time to watch them go higher.

Editor's Notes: Accelerating Rates of Change -- The attack on the US in September is likely to have a significant effect on investment time horizons. We are likely to see acceleration in the discounting of future events and acceleration in the responses to past stimuli. Whereas the US was politically divided, it is now united. Where we had a dramatic lowering of rates, we now have huge liquidity infusions as well. What was formerly monetary stimulus in the near term, has become increased fiscal and monetary stimuli. Government spending is likely to be approved

quickly by a united Congress. Investment time horizons need to adjust for the increased speed with which government actions are taken and the decreased time for a response by the US economy. Decreased response time is likely because fiscal stimulus is occurring along with prior monetary stimulus. The stimulus engine is firing on all eight cylinders. In the era of accelerating rates of changes one may need to go directly from the brake to the throttle. As in the Gulf war, a lot of the rally in January 1991 took place in one week. One could conceivably go from a bear market to a bull market in a matter of weeks and miss out if one took a two-week vacation. The spark could be a military victory or a successful commando raid in some obscure part of the world. One thing we can be sure of, if there is a successful raid the media will have coverage similar to that in Iraq. When we see the power of the US arsenal unleashed, it is going to be hard to be bearish on America.

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