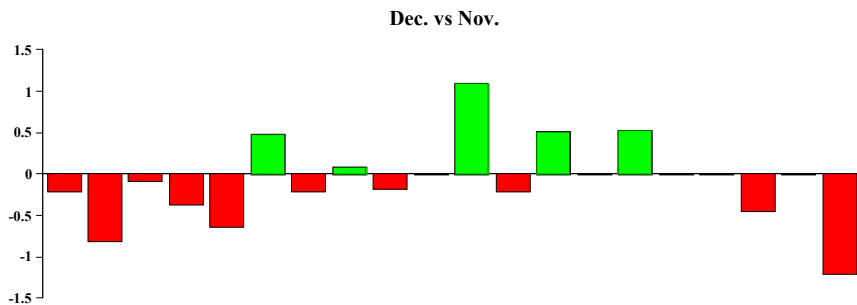
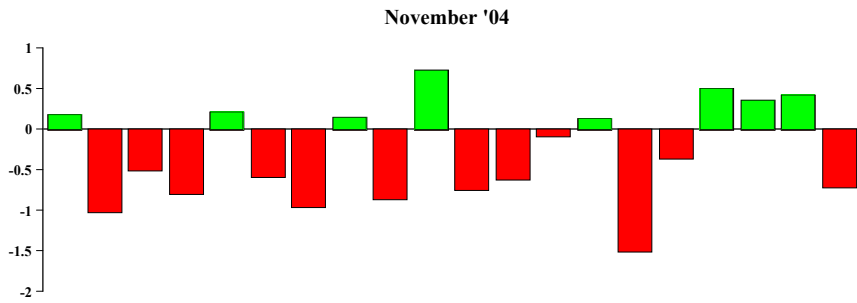
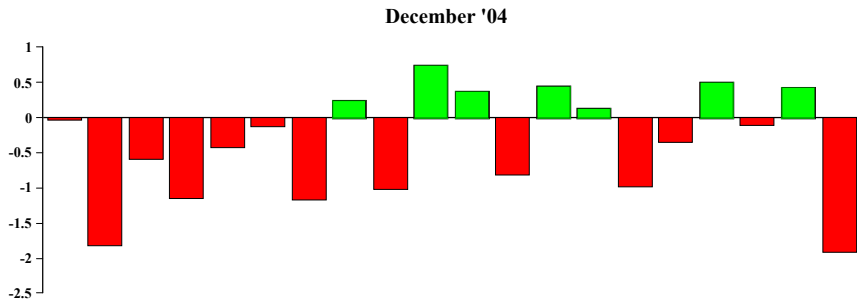


Time to Start Taking a Little off the Table

December 17, 2004

The following charts show fact based trends in ASC Economic factors as of December 2004 as compared to November 2004 and changes expressed in standard deviations around the norm, hereinafter referred to as “units.”



* = inverted

[-----Domestic-----][-----International-----]

ASC Factor indicators of future activity show that real growth in the US economy decelerated last month. Following are significant changes in trends last month expressed in standard deviations around the average rate of change or "units." Inventories rose by .8 units. Consumption fell by .63 units. Housing rose by .48 units. The CRB Index rose by .52 units. G8 Inflation fell by .53 units. G8 exports fell by .44 units. The Foreign Value of the US Dollar fell by 1.19 units. The US economy is showing renewed signs of slowing. At the same time, GM's inventory levels at over 100 days of sales has historically been a warning signal. Summation of the factors last month was 92.6 as compared to 94.2 in November. The ASC factor model is suggesting further weakness lies ahead.

The pick up in job creation was not sustained. Unless significantly more jobs are created, the sustainability of healthy growth is increasingly in doubt. The US consumer, without much help from real income, has been borrowing and spending, to keep this recovery going, so far. Most economists are quite optimistic about 2005 with estimates north of 3%. While it may indeed happen, the uncertainty of 2005 will likely be greater than the uncertainty of 2004 which, in retrospect, seems to have been misplaced. There was a gap between perception and performance regarding the US economy in 2004 with a bias toward pessimism. Only recently has the equity market begun to get back in synch with the economy. As for 2005 negative perceptions are likely to be reinforced by weakness in the economy. Since 2000 there seems to be a chronic negative bias in perceptions. This may be in reaction to the mania of the boom of 2000.

While we share others' concern about the strength of the US dollar, there is one

question that needs to be asked. If the US dollar were to weaken considerably, then which other major countries currencies would have to strengthen? Although the lagged effects of the strong Euro are not yet showing up full force, it is already hurting Europe's recovery. The outlook for economic growth in Germany in 2005 is, at best, 1%. Not quite the stuff to lead to a strengthening Euro currency. Japan's economy has decelerated almost to a stand still. Not much a reason to lead to a stronger Yen. So almost by default, against major currencies, the US dollar is likely to decelerate gradually except against the stronger currencies of Australia, Canada and other smaller countries.

Needless to say, with the further weakening of the US dollar the improvement we had expected in the trade deficit did not occur. The US dollar needs to level out along with stronger consumer demand in Asia and Europe to boost exports before sustained progress is likely. With signs of slowing in Japan and Germany, export growth may be delayed.

Any time auto inventories get over 100 days, there is likely to be increased uncertainty about the sustainability of economic strength. So far, only GM seems to have the real excesses. However its efforts to clear out the excesses could dampen demand for some of the other automakers.

Energy is ranked 8, down from 4 last month. Electronics fell, ranked at 10 down from 3 last month. Pharmaceuticals were at 9 down from 2 last month. Technology slipped to 24 down from 9 last month. Insurance rose to 6 up from 13 last month. The changes in industry ranking appear to be in response to the deceleration in the economy. The US economy no longer appears to be strong enough to justify an ag-

gressive economic sensitive portfolio. In fact, a traditionally defensive group, insurance, rose significantly last month.

Investment Strategy

Equities:

Groups that are well positioned are insurance, pharmaceuticals and energy. Overweights in S&P groups are advised in Health Care, Materials, and Energy. Market weights are advised in Information Technology, Industrials, Utilities and Telecom Services. Underweighted are Financials, Consumer Discretionary and Consumer Staples. The funds raised from the change in Information Technology and Industrials from an overweight to a market weight were used to overweight the insurance subset of the financials group.

Fixed Income:

Even with the “soft patch”, a weak US dollar, and higher inflation, a cautious stance on long bonds appears warranted. Over the intermediate to longer term, the yield on the long bond is likely to continue heading higher. Regarding the issue of duration, on a scale of 1 to 10, with 10 representing a maximum position in shorter term debt and 1 representing a maximum position in Long Treasuries, we would rate the current environment as a 10, the same as last month, suggesting an average maturity of 2-3 years.

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