Marathon Strategic News

201 East 86th Street, Suite 14C, New York, NY 10028 · (212) 996-9328 · www.mstrategic.com

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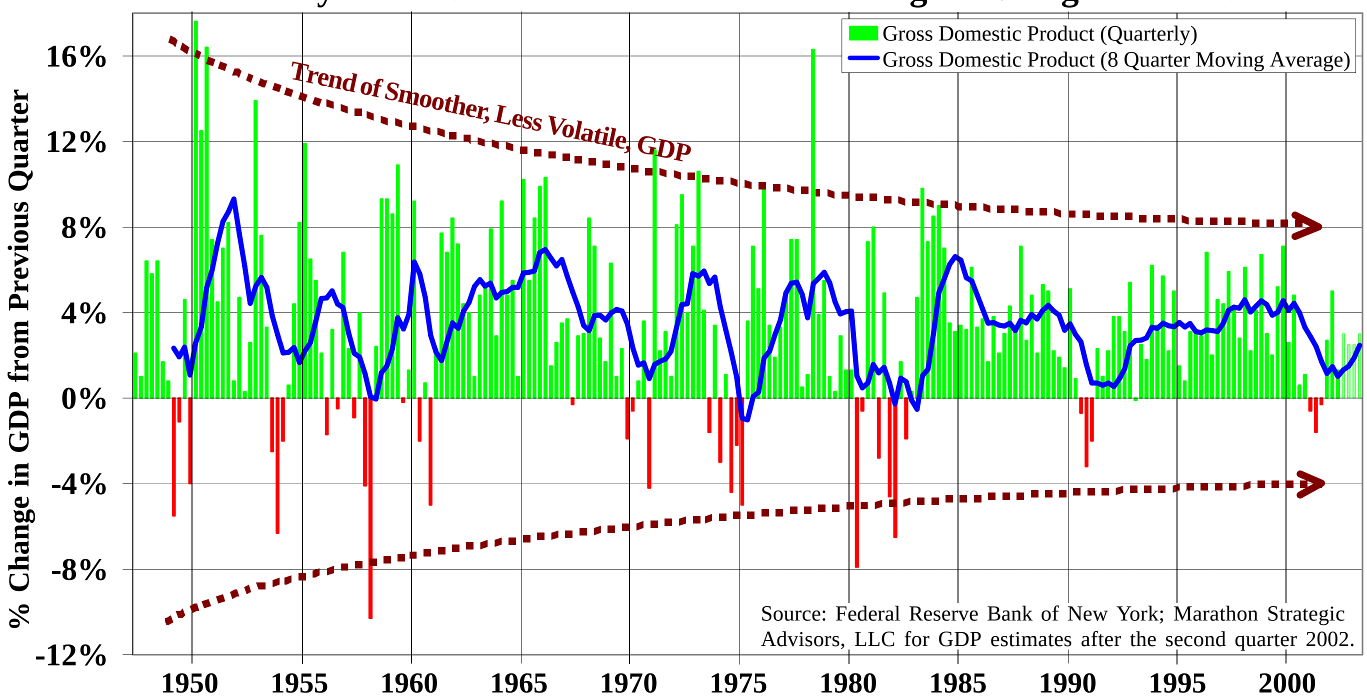
Commentary by Nicholas Terezis, CFA

Economic Outlook

Patience, the cycle is smoother! Investors and stock market commentators do not appear to understand that economic cycles have changed in their amplitude and duration over the past fifty years. In the past, Gross Domestic Product (GDP) would often crest at growth rates of 10% to 15% during times of economic expansion, and trough at rates of -4% to -8% during times of economic contraction. Today, GDP is less volatile. It crests at growth rates of 6% to 7% and then reaches it's trough at rates -1% to -3%. Additionally, the duration of the economic cycle has become longer. In the past we would typically have 3-5 years of growth followed by a recession. Today we typically see 5-10 years of growth in between recessions or slower growth periods.

Economic Cycles Have Become Smoother and Longer During the Past 50 Years



Having smoother economic cycles is a wonderful improvement to our economy. It means that we should not see as much waste resulting from the types of feast-or-famine business cycles we observed in past decades. For example, companies will not need to fire as many employees during a smoother economic down-turn; only to rehire and retrain new people a few quarters later.

Market commentators looking for large spikes in GDP during the conclusion of this past recession did not see them. They have wrongly concluded that the economy is faltering, and have thereby contributed to the irrational pessimism in the stock market. It should not be a surprise if: companies cautiously wait to spend money on new projects; consumers slow their spending somewhat; or if the economy doesn't "bounce back." These are all characteristics of smoother, more efficient economic cycles.

Clearly, the stock market is deeply oversold, and oversold conditions at this extreme rarely last long. The levels of fear and uncertainty among investors are unprecedented in recent history. However, the good news is that our economy is fundamentally behaving exactly as it should (refer to the "Typical Economic Recovery Checklist"). Sure as the sun will rise tomorrow, human greed will eventually overcome fear and the valuations of good investments will once again increase.

Stick with your long-term investment strategy. Fight against the impulse to follow the herd out of the stock market, because that is usually the sure path to permanent wealth loss. This is the time when smart investors should be purchasing stocks, not selling them.

Typical Economic Recovery Checklist

- [x] Federal Reserve eases rates (started January 2001 and ended December 2001).
- [x] Wait 9-12 months for lower rates to boost GDP.
- [x] GDP Rebounds (Dec 2001).
- [x] Wait 4-8 months for corporate earnings to rebound (expected between April and August of 2002).
- [x] Corporate Profits Rebound.
- [ ] Wait 4-12 months for Capital Spending to rebound (expected between October 2002 and June of 2003).