A.R.Schmeidler & Co., Inc.

The Outlook

November 2003

As of November 26, 2003		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	**17.2%**	**9,779.57**
S&P 500	**20.3%**	**1,058.45**
Nasdaq Composite	**46.3%**	**1,953.31**

Portfolio management depends upon security selection and determining what securities are suitable for which clients. The economic and investment outlook is important in so far as capital flows to the highest rate of return. By defining the outlook in terms of who benefits, conclusions can be drawn as to the likely investment beneficiaries.

Today's economy has benefited from the enormous stimulus that has been put into the system. While classic third and fourth year economic stimulus programs in advance of presidential elections keeps everyone's focus on near-term improvements, the amount of debt that is being put on the system on all levels appears to be unsustainably large. Recently, Fed Chairman Greenspan observed that Congress keeps increasing spending out of proportion to tax revenues thereby abandoning fiscal prudence. It is under these conditions that portfolio management will face the challenge of compounding rates of return in a low interest rate environment to both meet clients' objectives and compensate for a declining U.S. dollar that continues to lose value over time.

Indicators Suggest The Start Of 2004 Is Looking Strong

The final release of third quarter GDP growth of 8.2%, far better than most observers had expected and the fastest pace in nearly two decades, suggests that an economic rebound is taking hold. The leading economic indicators, industry surveys, recent corporate earning reports, and commodity prices all point to a pickup in global economic activity. Since the equity market has made a significant advance, the question that investors must now face is how strong and sustainable the recovery is likely to be in 2004.

The start of 2004 looks solid, mostly because of low interest rates, tax refunds, and mortgage refinancing activity. In a presidential election year it is typical to expect the Congress, the Treasury Department, and the Federal Reserve to keep the economy moving in a positive direction. Against this backdrop, the Federal Reserve is expected to hold the key short-term interest rate steady at a forty-five year low of 1% at their next meeting on December 9th.

Meaningful Employment Growth Is Critical For A Sustainable Economic Recovery

The Federal Reserve continues to send a low interest rate and an easy monetary stimulus message to investors. We expect the Central Bank to maintain enough economic stimulus to counter the deflationary forces in the global economy. The stronger than expected increase in GDP reflected an increase in investment by business on new equipment and computer software, less severe cuts in inventories and brisk spending on residential construction. In past economic recoveries, inflation concerns forced the Federal Reserve to raise rates when GDP growth recovered. The Federal Reserve feared losing control over stable prices as the economy gathered strength. Investors were also quick to demand higher long-term interest rates at the first sign of strong economic growth. At the moment while employment levels have begun to show some improvement, it has not been significant enough to more than stabilize the labor market. Federal Reserve Chairman Alan Greenspan is more patient about reacting to improving economic growth because, while recent good news on the employment front suggests the job market has turned the corner, payrolls are growing at a rate below that which is needed to match growth in the labor force. In our opinion the Federal Reserve will only consider raising interest rates against a backdrop of strong employment growth. It is unlikely that those conditions would materialize before the latter part of 2004.

The Consumer Confidence Index rose again to 91.7 in November, up from a revised 81.7 in October. The index, the highest since September 2002, was well ahead of the 85.0 projected by analysts. Consumer confidence is now at about its highest level since the recession officially began. Unfortunately global terrorism fears have not gone away and are once again in the headlines after terror attacks in Turkey. We believe that as long as these kinds of attacks are scattered and on foreign soil they probably will have little affect on consumer activity. However, improvements in job creation are a crucial ingredient for a sustained high level of consumer confidence. The vigorous economic growth continues to be accompanied by strong increases in productivity, as corporations under global competitive pressures find ways to reduce costs and expand output without hiring new workers.

Job growth could remain disappointing and consequently monetary policy is likely to remain quite loose throughout 2004 in advance of the presidential election. The corporate profit story, while much improved, is not quite what it appears to be. We note that corporate after-tax profits estimates for the third quarter annual rate of $515.4 billion on a GDP of approximately $11 trillion is virtually unchanged from the $514 billion in 1999 when the GDP was $9.3 trillion. So while the economy looks stronger, profit growth has not kept pace and therefore job creation is likely to remain a challenge unless moves to protectionism accelerate.

Unbalanced Growth Is Contributing To Hard Asset Inflation

The global economy is benefiting mostly from the growth of the Asian economies specifically the growth of China. On balance China's strength is a plus for world economic activity, although China is being made the scapegoat for U.S. job losses. It should not be forgotten that the stimulus created by the federal budget deficit and the Federal Reserve's loose monetary policy has resulted in a significant increase in consumer and federal debt. Moreover, the continuing U.S. trade deficit, which puts more and more dollars overseas, has lead to some questioning of the ability to finance the U.S. trade deficit as time passes. Without doubt, it is in everyone's interest for the dollar to gradually decline rather than suddenly experience a sharp downward readjustment to bring our trade deficit into better balance. However it is easy to make the argument that foreigners will continue to finance our deficit by purchasing treasury paper. But the continuing issuance of paper currency to finance both the federal and trade deficits should continue to put upward pressure on the prices of hard assets such as real estate, precious metals and collectibles.

Failure Of The Euro Stabilization Pact Points To An Increased Probability Of Euro Currency Devaluation Vs. Hard Assets

The particular aspect of the *stability and growth pact* that has been at issue is the requirement that fiscal deficits not exceed 3% of a nation's GDP. The suspension of the sanctions mechanism of the *stability and growth pact* among the European Union member states, which is designed to protect France and Germany from having to take contractionary steps to reduce their federal budget deficits, signals a partial collapse of the *stability and growth pact* underpinning the euro, Europe's single currency. There are implications for the ten member states that will come into the euro zone over the next year as well as for the present members who are not nearly as powerful as France and Germany. One of the effects will likely be a devaluation of the Euro versus hard assets over time. As we have pointed out before, currency manipulation designed to prevent a country's currency from appreciating and thereby injuring that country's export ability has been a continuing feature of the economic scene, a good example of which is Japan. Now with the euro change, France and Germany will be able to finance its deficits by borrowing money. However if these borrowings drive up interest rates, they will have to monetize some portion of their deficits by just printing additional currency to maintain their present interest rate level. It is important for European interest rates not to rise because they still have very high unemployment and very slow growth.

Mutual Fund Scandals Have Not Impacted Funds Flows

Approximately 90 million people are invested in U.S. stock mutual funds, about one-half of all American households. With the rise of 401(K) retirement plans, they are the principal vehicle for retirement and college savings. While it is unclear how much mutual fund investors actually lost in the recent scandals, investor confidence clearly has been shaken in what was thought to be a trusted investment vehicle. We have often been critical of the mutual fund industry for charging excessive fees and commissions and for failing to disclose vital investor information. Government regulators without a doubt failed to detect extensive abuses by mutual funds and their managers. To curb abuses government regulators must consider requiring mutual funds to provide explicit disclosure to investors on fees, commission and management practices. We have been asked repeatedly if the mutual fund scandals are likely to cause investors to lose interest in investing in mutual funds. The best answer is that during the month of October more than $25 billion flowed into mutual funds despite the negative publicity.

The Outlook Continues To Support Our Investment Positions

On balance we believe economic reports for the remainder of the year will show continued solid U.S. economic improvement. All of this could signal a stronger equity and corporate bond market for the time being. However, the government treasury market may see some weakness in the longer-term maturities due to the projected record budget deficits. Furthermore, our investment themes will continue to take into consideration the continued weakness of the U.S. dollar. Investments in quality companies that have strong balance sheets, top line revenue growth, and improving profit margins that can also increase their dividend payouts should do quite well in the coming new year. The recent reduction in taxes on dividend income encourages these types of companies to increase dividends. We believe the contribution of dividend return to total return will continue to be very important to investors.