

Bob Brinker's Markettimer

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"We pay the debts of the last
generation by issuing bonds
payable by the next generation."
...Lawrence J. Peter

STOCK MARKET TIMING UPDATE

DJIA: 10592.21

S & P 500: 1191.17

The economic toolbox that has the capacity to influence the course of the U.S. economy consists of three primary policy instruments. These are (1) Fiscal Policy; (2) Monetary Policy; and (3) Treasury Policy. In our view, all three remain positive for equity investors as we prepare to enter the new year.

Fiscal policy remains highly stimulative due to the free spending approach which has been evident in Washington D.C. in recent years. Congress has ignored Fed Chairman Alan Greenspan's suggestion to adopt "pay as you go" rules for new spending, and the White House has not vetoed a spending bill over the past four years. Although the current annual deficit, measuring 3.5% of gross domestic product, is not alarming, we would prefer to see a more fiscally responsible policy as we move into 2005.

Monetary policy remains accommodative, as the Federal Reserve continues its resolve to promote the growth of new jobs by supplying adequate liquidity to the financial system. The Fed has been assisted by a benign underlying inflation rate of only 2% year-over-year as measured by the core rate, which excludes the volatile energy and food components. The recent increase in headline inflation to 3.2% year-over-year is largely due to the increase in the energy component, which soared over 15% over the past year.

Treasury policy is accommodative for U.S. corporations as the implicit U.S. policy continues to feature statements favoring a firm dollar, while at the same time nothing is done to support the dollar. Treasury Secretary John Snow's comments in favor of a healthy dollar may make him popular at the White House, however few if any are fooled by such an obvious jawboning effort.

Meanwhile, as the dollar has weakened, U.S. companies have seen their exports become more price competitive in overseas markets, while at the same time the prices of U.S. imports continue to increase, thereby making them less appealing to U.S. consumers. We believe the U.S. favors this approach as a self-correcting mechanism aimed at reducing the burgeoning trade deficit, which has reached record levels.

Stock market investors should be careful when attempting to correlate the performance of the dollar to the performance of the stock market. We have seen no evidence to suggest that dollar weakness hurts U.S. stocks, or vice versa. In fact, from the mid-1980's to the mid-1990's, the dollar remained weak while stock prices increased dramatically. Conversely, the dollar rose most of the time during the 2000-2002 period, while the Standard and Poor's 500 Index suffered the second worst cyclical bear market of all time.

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STOCK MARKET TIMING UPDATE (continued from page 1)

As we look into 2005, we can make several observations regarding the investment outlook:

- (1) Investors are finally free of the divisive election campaign, and can focus on corporate profits and investment fundamentals within the context of an investor friendly administration in Washington D.C.;
- (2) Corporate balance sheets have been strengthened, and profitability remains excellent, aided by a healthy trend in productivity growth, which has the potential to average 2.5% going forward;
- (3) The U.S. economy continues to perform well when compared with major European nations such as Germany and France, however the overall recovery in new jobs during the recovery remains well below our past experience;
- (4) Investors will continue to watch the direction of oil prices, however the primary risk appears to be related to potential supply disruptions. Also, the possibility of drilling in the oil rich Arctic Wildlife Refuge is likely to surface in the new Congress, although an environmental battle is sure to ensue;
- (5) Iraq may fade from the front pages if elections are held, however the cost of the war will continue to add to the deficit.

We continue to estimate Standard and Poor's 500 operating earnings for next year at \$68.00. Based on the current level of the index, the price/earnings ratio on next year's estimate stands at 17.5. In times of low inflation, we view an appropriate valuation level for the index at 18 to 19 times earnings. This suggests the market can trade with an upside bias as we move into the new calendar year.

As we monitor the outlook for the U.S. economy, we note that the Leading Index of Economic Indicators has declined for five consecutive months. Over the past forty years this has occurred on just six occasions, and in four of those cases a recession was underway within fifteen months. Although it is too early to determine whether a similar outcome is in the cards, we will be watching our economic indicators closely during 2005 for indications of potential deterioration.

Subscribers should note that **Marketimer** has a history of issuing major stock market signals at times when they are least expected. Our major sell signal in January of 2000, which occurred close to the all-time record highs in the major indexes, was surprising to many at the time. However, by October of 2002 the Standard and Poor's 500 Index had lost 49% of its value. Also, our March 11, 2003 major buy signal near the 800 level on the Standard and Poor's 500 Index was questioned by many, however the index has gained 48% in the 21 months since it was issued.

In view of the large stock market gains that have developed since March of 2003, and also in view of the rally that has occurred since late-October, we prefer a dollar-cost-average approach for new stock market money at this time. We are pleased that our most recent recommendation to buy under the Standard and Poor's 500 Index level of 1100 resulted in 25 opportunities to purchase shares on closes below that level since June, however we do not recommend chasing current stock market strength with new money, with the exception of dollar-cost-averaging. We expect the cash-flows from year-end bonus payments and retirement accounts to create an ongoing demand for common shares in the near-term.

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STOCK MARKET TIMING UPDATE (continued from page 2)

All **Marketimer** model portfolios remain fully invested based on our March 11, 2003 major buy signal. Although 2004 has been largely a transition year for this cyclical bull market, we have seen nice profits develop during the fourth quarter. The prospects for achieving a good investment return for the year appear favorable as we enter the final weeks of 2004. All of our Marketimer model portfolios are showing excellent returns for the year-to-date through November. We will update our performance figures in next month's issue.

As we move forward into our twentieth year of publication, we will continue to do our best to project stock market trends in a difficult overall environment. We have always recognized that we work in the most challenging of all investment arenas in our effort to provide stock market timing input, and we thank our subscribers for the confidence they have placed in our efforts.

We believe we will enter 2005 with an upside stock market bias, however the longevity of this cyclical bull market will remain an area of intense focus at **Marketimer**. We wish every subscriber a joyous holiday season, and a healthy and prosperous New Year.

FEDERAL RESERVE UPDATE

The Federal Open Market Committee reconvenes on December 14 for the purpose of reviewing the latest economic data in order to determine whether any change in short-term interest rate policy is warranted. The latest Beige Book, released in early December, indicated the economy is gaining traction in 11 of the 12 regions covered in the survey. We believe there is a good chance the Committee will vote to increase the federal funds rate by 0.25% on December 14, which would bring the rate to 2.25%. If a rate increase is approved at the meeting, we would view this as one more step in the inevitable process of normalizing short-term rates in order to bring them to a level of equilibrium relative to the pace of economic growth.

We fully expect the Federal Reserve to adopt a neutral federal funds rate policy next year, with the rate moving into the 3% to 4% range over the next 12 months. Short-term rates remain in negative territory when adjusted for inflation, as the current year-over-year consumer price inflation rate of 3.2% exceeds the current 2% federal funds rate by 1.2%. This is unusual in an economy that has been expanding for a prolonged period, however the adjustment process has been arduous for the Fed given the fact that rates were lowered to an emergency level of 1% following 9-11.

The real year-over-year rate of growth of the monetary base remains healthy at 3.3%, unchanged from last month. The M-1 aggregate shows year-over-year real growth of 1.9%, versus 2.1% last month. The more broadly defined M-2 aggregate shows year-over-year real growth of 1.5%, versus 1.3% last month. In our view, the Fed continues to do an excellent job of money supply management under Chairman Alan Greenspan.

| Latest Monthly Data (\$ billions) | November 2004 | November 2003 | Y-O-Y Changes | Real Y-O-Y* Changes |
|--|----------------------|----------------------|--------------------------------|--------------------------------------|
| Monetary Base | \$ 766.0 | \$ 719.3 | + 6.5% | + 3.3% |
| M-1 | \$ 1,346.6 | \$ 1,281.1 | + 5.1% | + 1.9% |
| M-2 | \$ 6,370.8 | \$ 6,085.5 | + 4.7% | + 1.5% |

* Real changes year-over-year, adjusted for the consumer price index increase of 3.2% for the 12-month period through 11-30-2004.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

| <u>FUND</u> | <u>INV.*</u> | <u>SIZE</u> | <u>% Total Return</u> | | | | | | <u>\$1000 INV.</u> | <u>EST.^a</u> | <u>TEL.</u> | <u>ANN.^b</u> | <u>PRICE</u> |
|--|--------------------------|---------------|-----------------------|------------|------------|------------|------------|-----------------------|--------------------|-------------------------|-------------|-------------------------|-----------------|
| | <u>OBJ.</u> | <u>MIL.\$</u> | <u>'99</u> | <u>'00</u> | <u>'01</u> | <u>'02</u> | <u>'03</u> | <u>'04</u> (11-30) | <u>1-1-99=</u> | <u>YD.</u> | <u>SWCH</u> | <u>EXP.</u> | <u>11-30-04</u> |
| Baron Small Cap Fund 767 Fifth Avenue 49 th Floor New York, NY 10153 800-992-2766 <u>www.baronfunds.com</u> | CGA BSCFX | \$ 1896 | 70.8 | (17.5) | 5.2 | (9.7) | 38.8 | 12.1 | \$ 2083 | 0.0% | # | 1.39% | 20.80 |
| Baron Partners (address/phone above) | CGA BPTRX | \$ 295 | --- | --- | --- | --- | --- | 29.7 | --- | 0.0% | # | 1.37% | 15.79 |
| Gabelli Asset Fund One Corporate Center Rye, NY 10580 800-422-3554 <u>www.gabelli.com</u> | G GABAX | \$ 2185 | 28.5 | (2.4) | 0.2 | (14.3) | 30.6 | 11.9 | \$ 1574 | 0.0% | Yes | 1.38% | 40.59 |
| Meridian Growth Fund (N) 60 E. Sir Francis Drake Blvd. Wood Island; Suite 306 Larkspur, CA 94939 800-446-6662 <u>www.meridianfund.com</u> | G MERDX | \$ 1333 | 13.3 | 28.2 | 14.8 | (17.8) | 47.9 | 10.4 | \$ 2238 | 0.7% | # | 0.95% | 36.46 |
| TIAA/CREF Equity Index 730 Third Avenue New York, NY 10017 800-223-1200 <u>www.tiaa-cref.org/mfs</u> | Russell 3000 TCEIX | \$ 364 | --- | --- | (11.6) | (21.5) | 30.7 | 7.8 | --- | 1.0% | Yes | 0.26% | 8.52 |
| Thompson-Plumb Growth 1200 John Q Hammons Drive Madison, WI 53717 800-999-0887 <u>www.thompsonplumb.com</u> | G THPGX | \$ 1374 | 6.5 | 25.7 | 19.1 | (20.4) | 31.9 | 0.3 | \$ 1679 | 0.6% | Yes | 1.15% | 46.03 |

* Investment Objective Codes: CGA = Capital Gains Aggressive; G = Growth; G&I = Growth & Income

a) Estimated annual yield represents approximate investment income for last 12-months expressed as percentage of fund assets.

b) Annual expense ratio reflects investment advisory fees and other expenses expressed as percentage of total fund assets.

Telephone redemption available.

N) not available in Nebraska

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

| FUND | INV.* | SIZE | % Total Return | | | | | | \$1000 INV. | EST. ^a | TEL. | ANN. ^b | PRICE |
|---|-----------------|---------|----------------|--------|--------|--------|------|----------------|-------------|-------------------|------|-------------------|----------|
| | OBJ. | MIL.\$ | '99 | '00 | '01 | '02 | '03 | '04 (11-30) | 1-1-99= | YD. | SWCH | EXP. | 11-30-04 |
| Muhlenkamp Fund 3000 Stonewood Drive # 310 Wexford, PA 15090 800-860-3863 <u>www.muhlenkamp.com</u> | G | \$ 1481 | 11.4 | 25.3 | 9.4 | (19.9) | 48.1 | 16.9 | \$ 2118 | 0.1% | # | 1.18% | 74.24 |
| | MUHLX | | | | | | | | | | | | |
| Jensen Portfolio 430 Pioneer Tower 888 SW Fifth Avenue Portland, OR 97204 800-992-4144 <u>www.jenseninvestment.com</u> | G | \$ 2271 | 16.7 | 20.0 | 0 | (11.0) | 16.1 | 1.6 | \$ 1470 | 0.6% | # | 0.90% | 23.38 |
| | JENSX | | | | | | | | | | | | |
| Schwab 1000 (R) 101 Montgomery St. San Francisco, CA 94101 800-435-4000 <u>www.schwab.com/funds</u> | G | \$ 4484 | 21.0 | (8.2) | (12.3) | (21.2) | 28.7 | 7.1 | \$ 1058 | 1.1% | Yes | 0.46% | 33.89 |
| | SNXFX | | | | | | | | | | | | |
| Vanguard Calvert Social Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739 <u>www.vanguard.com</u> | Social Index | \$ 279 | --- | (9.0) | (14.1) | (24.2) | 31.7 | 4.4 | --- | 0.8% | Yes | 0.25% | 7.85 |
| | VCSIX | | | | | | | | | | | | |
| Rydex OTC Fund 9601 Blackwell Road Suite 500 Rockville, MD 20850 800-820-0888 <u>www.rydexfunds.com</u> | CGA | \$ 879 | 100.6 | (37.8) | (34.7) | (38.6) | 46.2 | 6.2 | \$ 777 | 0.0% | Yes | 1.27% | 10.55 |
| | RYOCX | | | | | | | | | | | | |

R) 0.50% redemption fee on shares held less than six months.

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BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

| <u>FUND</u> | <u>INV.*</u> | <u>SIZE</u> | <u>% Total Return</u> | | | | | | <u>\$1000 INV.</u> | <u>EST.^a</u> | <u>TEL.</u> | <u>ANN.^b</u> | <u>PRICE</u> |
|---|---------------------------|---------------|-----------------------|------------|------------|------------|------------|-----------------------|--------------------|-------------------------|-------------|-------------------------|-----------------|
| | <u>OBJ.</u> | <u>MIL.\$</u> | <u>'99</u> | <u>'00</u> | <u>'01</u> | <u>'02</u> | <u>'03</u> | <u>'04</u> (11-30) | <u>1-1-99=</u> | <u>YD.</u> | <u>SWCH</u> | <u>EXP.</u> | <u>11-30-04</u> |
| Vanguard Index (x) Extended Market Portfolio P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739 | Index VEXMX | \$ 5070 | 36.2 | (15.5) | (9.2) | (18.1) | 43.4 | 13.7 | \$ 1395 | 1.1% | Yes | 0.26% | 30.32 |
| Vanguard Index (x) Small Cap Stock Portfolio (address/phone above) | MSCI 1750 NAESX | \$ 5991 | 23.1 | (2.7) | 3.1 | (20.0) | 45.6 | 15.7 | \$ 1671 | 1.4% | Yes | 0.27% | 26.14 |
| Vanguard Index Total Stock Market Portfolio (address/phone above) | Wilshire 5000 VTSMX | \$ 29632 | 23.8 | (10.6) | (11.0) | (21.0) | 31.4 | 8.5 | \$ 1109 | 1.4% | Yes | 0.20% | 27.94 |
| Vanguard Index 500 (address/phone above) | S&P 500 VFINX | \$ 82053 | 21.1 | (9.1) | (12.0) | (22.1) | 28.5 | 7.0 | \$ 1038 | 1.5% | Yes | 0.18% | 108.78 |
| Vanguard Balanced Index Fund (address/phone above) | G&I VBINX | \$ 4495 | 13.6 | (2.0) | (3.1) | (9.5) | 19.9 | 6.5 | \$ 1247 | 2.4% | Yes | 0.22% | 19.13 |
| Vanguard International (z) Growth Portfolio (address/phone above) | Non USA VWIGX | \$ 7652 | 26.3 | (8.6) | (18.9) | (17.8) | 36.2 | 13.8 | \$ 1193 | 1.8% | Yes | 0.69% | 18.35 |
| Dodge & Cox International 555 California Street 40 th Floor San Francisco, CA 94104 800-621-3979 <u>www.dodgeandcox.com</u> | Non USA DODFX | \$ 1812 | - | - | - | (13.1) | 49.2 | 26.4 | --- | 0.6% | # | 0.82% | 29.69 |

x) Vanguard Index Extended and Small Cap funds charge purchase fees of 0.5% or less to defray expenses of broad diversification;
annual expense ratios on these funds are extraordinarily low.

z) Vanguard International Growth Fund charges a redemption fee of 2% on sales of shares held less than two months.

ADDITION TO RECOMMENDED LIST

This month we have added Baron Partners Fund (BPTRX) to the **Marketimer** No-Load Recommended List on page four. The fund invests for capital appreciation and has an initial minimum investment requirement of \$2000 for both personal and I.R.A. accounts. The fund opened to the public in April of 2003 and has an outstanding performance record to date. The January issue of **Marketimer** will include a writeup on this new fund addition.

INTEREST RATES/FIXED-INCOME INVESTING

The **Marketimer** fixed-income portfolio currently yields 3.9% plus the inflation adjustments that are paid on the Vanguard Inflation Protected Securities Fund. The weighted average duration is 3.1, which implies that a one percent increase in intermediate rates would result in a 3.1% decline in portfolio net asset value. The weighted average maturity is 4.9 years.

| Fund | Weighting | Yield | Average Maturity | Duration |
|--|-----------|--------|---------------------|----------|
| Vanguard Ginnie Mae (VFIIIX) | 40% | 4.57% | 4.5 | 2.9 |
| Vanguard Short-Term Investment Grade (VFSTX) | 35% | 3.15% | 2.9 | 2.1 |
| Vanguard High-Yield Corporate (VWEHX) | 15% | 5.69% | 6.5 | 3.8 |
| Vanguard Inflation-Protected (VIPSX) | 10% | 1.25%* | 10.8 | 6.2 |

* plus inflation adjustments paid quarterly, reflecting the consumer price index.

The Vanguard Tax-Exempt Money Market Fund yield of 1.6% remains close to the yield on the taxable Vanguard Prime Money Market Fund, currently at 1.7%. This makes the tax-exempt fund more attractive to investors in taxable accounts. Vanguard also has tax-exempt money market funds for residents of CA, NJ, NY, OH and PA.

INDIVIDUAL ISSUES

We recommend no more than four percent of an equity portfolio in any one company stock, in order to manage specific stock risk. All issues are rated "hold", however the exchange-traded funds can be used as dollar-cost-average vehicles for subscribers seeking to accumulate equity exposure over time.

| Issue (Symbol) | Beta | Exchange | 12-5 Price | Estimated earnings per share | |
|---------------------------|------|----------|------------|------------------------------|-------------|
| Microsoft (MSFT) | 1.27 | Nasdaq | 27.23 | 1.25 (6-05) | 1.39 (6-06) |
| Vodafone (VOD) | 1.10 | NYSE | 28.31 | 1.77 (3-05) | 1.96 (3-06) |
| S&P Dep. Receipts (SPY) | 1.00 | AMEX | 119.25 | 6.30 (2004) | 6.80 (2005) |
| Total Market VIPERs (VTI) | 0.99 | AMEX | 116.35 | n/a | |
| Russell 3000 IShares(IWV) | 1.00 | NYSE | 68.24 | n/a | |
| DJIA Diamonds (DIA) | 0.93 | AMEX | 105.69 | 6.35 (2004) | 6.90 (2005) |
| Nasdaq 100 Index (QQQQ) | 1.74 | Nasdaq | 40.13 | * | |

* **Marketimer** estimates the average PIE ratio for the 40-largest companies in the Nasdaq 100 Index is 30 times 2005 estimated operating earnings. These companies comprise close to 75% of the index. The Nasdaq 100 Index shares now trade on the Nasdaq Exchange under the ticker symbol QQQQ.

ACTIVE/PASSIVE PORTFOLIO

The **Marketimer** active/passive portfolio remains 90% invested in Vanguard Total Stock Market Index (VTSMX), and 10% in Vanguard International Growth (VWIGX). This portfolio is designed for subscribers seeking long-term growth with broad diversification, high tax-efficiency, and a very low annual expense ratio of only 0.25%.

MEDIA NOTES — Moneytalk is now heard in Seattle on the number one rated talk station, 50,000 watt KIRO (710AM), Saturdays and Sundays live from 1pm to 4pm pacific time.

MARKETIMER NO-LOAD MUTUAL FUND MODEL PORTFOLIOS

The *Marketimer* no-load model portfolios are designed to provide investors seeking aggressive, growth and balanced objectives with a strategic approach to investing in no-load funds over the long-term.

Model Portfolio I is designed for investors with *aggressive growth* investment objectives. Such investors seek maximum returns and are willing and able to accept high levels of risk and volatility. Current income is not a factor in this portfolio.

Model Portfolio II is designed for investors with *long-term growth* objectives. Such investors seek to enhance the value of capital over time and assume a reasonable level of diversified market risk. Current income is not an important factor.

Model Portfolio III is designed as a *balanced* portfolio for current investment income along with capital preservation and modest growth. The portfolio is allocated evenly between equities and fixed-income securities. This portfolio is best suited to investors nearing or already enjoying a retirement lifestyle.

MARKETIMER MODEL PORTFOLIO I (\$20,000 value on 1-1-88)

| <u>Current Holdings</u> | <u>Symbol</u> | <u>%</u> | <u>Beta</u> | <u>Value 11-30-04</u> | <u>% Change</u> |
|-------------------------------|---------------|-------------|-------------|-----------------------|-----------------|
| Baron Small Cap. | BSCFX | 15 | 0.74 | \$ 30,825 | |
| Dodge & Cox International | DODFX | 05 | 1.15 | 12,054 | |
| Meridian Growth Fund | MERDX | 15 | 0.98 | 29,077 | |
| Rydex OTC Fund | RYOCX | 25 | 1.74 | 50,233 | |
| Thompson & Plumb Growth | THPGX | 10 | 1.26 | 19,041 | |
| Vanguard International Growth | VWIGX | 05 | 0.97 | 10,695 | |
| Vanguard Total Stock Market | VTSMX | 25 | 0.99 | 48,919 | |
| | | <u>100%</u> | <u>1.17</u> | <u>\$ 200,844</u> | <u>+ 904 %</u> |

MARKETIMER MODEL PORTFOLIO II (\$20,000 value on 1-1-88)

| <u>Current Holdings</u> | <u>Symbol</u> | <u>%</u> | <u>Beta</u> | <u>Value 11-30-04</u> | <u>% Change</u> |
|-------------------------------|---------------|-------------|-------------|-----------------------|-----------------|
| Dodge & Cox International | DODFX | 05 | 1.15 | \$ 9,862 | |
| Gabelli Asset Fund | GABAX | 10 | 0.94 | 16,886 | |
| Meridian Growth Fund | MERDX | 10 | 0.98 | 15,858 | |
| Muhlenkamp Fund | MUHLX | 10 | 1.27 | 16,954 | |
| Rydex OTC Fund | RYOCX | 15 | 1.74 | 24,658 | |
| Vanguard International Growth | VWIGX | 05 | 0.97 | 8,749 | |
| Vanguard Total Stock Market | VTSMX | 45 | 0.99 | 72,262 | |
| | | <u>100%</u> | <u>1.13</u> | <u>\$ 165,229</u> | <u>+ 726 %</u> |

MARKETIMER MODEL PORTFOLIO III (\$40,000 value on 3-1-90)

| <u>Current Holdings</u> | <u>Symbol</u> | <u>%</u> | <u>Beta</u> | <u>Value 11-30-04</u> | <u>% Change</u> |
|---|---------------|-------------|-------------|-----------------------|-----------------|
| Dodge & Cox International | DODFX | 02.5 | 1.15 | \$ 5,967 | |
| Muhlenkamp Fund | MUHLX | 07.5 | 1.27 | 14,629 | |
| Rydex OTC Fund | RYOCX | 05 | 1.74 | 9,946 | |
| Thompson & Plumb Growth | THPGX | 05 | 1.26 | 9,329 | |
| Vanguard International Growth | VWIGX | 02.5 | 0.97 | 5,293 | |
| Vanguard Total Stock Market | VTSMX | 27.5 | 0.99 | 53,620 | |
| Vanguard Ginnie Mae Fund | VFIIX | 20 | -0.09 | 26,095 | |
| Vanguard Inflation Protected Securities | VIPSX | 10 | 0.00 | 13,589 | |
| Vanguard Short Term Investment Grade | VFSTX | 20 | -0.04 | 26,096 | |
| | | <u>100%</u> | <u>0.55</u> | <u>\$ 164,564</u> | <u>+ 311 %</u> |

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