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Ned, what a great job with your August 2 update of the Bubble of 2000. The time has now come to title this chapter "The Mother of All Battles – The Coming Deflation." Having taken a beautiful, relaxing Saturday afternoon to read the Bubble of 2000 Then & Now, I attempted to score your updated indicators: Here goes (kindly correct where I have misstepped):

Improved but still negative	*Positive*	*Still Negative*	*Worse than May 2000*
Savings	CPI falling (actually PPI down bearish to deflation)	Inst. For supply Mgt price index	Household debt
Capacity utilization	Fed Model	NYSE Breadth - starting negative	Credit market debt
M3 (just turning up)	CPI below trend but still very low		Corp debt (+ $600b)
Stocks vs GDP	Fed Policy		Foreign holdings
Valuation – P/B, P/E, P/D, P/CF	Prime rate		Breadth (Market – Nasdaq)
S&P Real E yield	ST gov't bond momentum		Big Mo Tape composite
CRB (from + to neutral)	Excess liquidity (M3 – Industrial Production)		St. Mutual fund cash/assets ratio
Technical Indicators Risks	ST Bond momentum (P up)		Household's free liquidity (- $1.3t from May 2000 on top of $7t equity losses)
Consumer confidence	Volatility		
Stocks as % Fin. Assets	Bulls/Bulls+Bears - Sentiment		
Stocks as % Household Fin. Assets	NDR Crowd sentiment poll		
AAII Allocation survey	Available liquidity forecast		
#US Investment clubs			
MSCI World Index valuation			
Fidelity select investors 98% To 94% invested now			
Mutual funds inflow update!			
Fidelity TNT (from 80% to 50%)			
Nasdaq P/E to margin debt			

Almost without exception, the improved but still negative column includes indicators that have rolled over but have not even come close to trend line, fair valuation, undervaluation or Bullish for equities.

The Positive Indicators are very similar to the leading indicators (vs. coincidental business indicators) within the LEI Index while the others are short to intermediate term sentiment indicators. **The inflation indicators turning down starts the deflation thesis (PPI negative 1.7% yoy in July I believe)**…only exception-volatility.

The Still Negative includes the ISM Price Index and the beginning of NYSE breadth rolling over.

We should now segway to your Table of interest rate and stock price movement after FF rate cuts. **After 11 Fed Funds cuts (and 20 months later), the market in every recession (with the exception of supply led excess capacity recessions…wj editorializing) was 20-30% higher…not this time!** Combine the fact that there has been only one other time in US history when this occurred and there has **never** been a time in global history (I believe) when the items under Worse Than May 2000 have ever occurred.

Date of 2001 Interest Rate Cut	Dow				S&P				NASDAQ			
	3mos	6mos	9mos	1 Yr.	3mos	6mos	9mos	1 Yr.	3mos	6mos	9mos	1 Yr.
3-Jan	-13.34%	-3.42%	-16.65%	-7.07%	-17.89%	-8.40%	-20.43%	13.50%	-36.06%	-18.19%	-39.59%	-21.88%
31-Jan	0.1	-3.35	-16.65	-8.89	-7.29	-11.3	-22.42	-17.3	-21.8	-26.89	-39.04	-30.25
20-Mar	9.53	-13.83	2.72	8.03	7.05	-13.8	-0.24	0.8	9.36	-20.81	3.29	-1.32
18-Apr	-0.43	-13.68	-7.95	-3.87	-2.46	-13.7	-8.93	-9.18	-3.04	-20.52	-7.17	-13.32
15-May	-4.85	-9.2	-8.92	-5.79	-5.72	-8.6	-11.63	-12.68	-7.99	-8.87	-13.44	-17.26
27-Jun	-16.8	-2.91	-0.08	-11.16	-15.9	-4.5	-5.49	-18.2	-29.6	-4.74	-11.95	-29.67
21-Aug	-3.34	-3.34	-0.67	NA	-1.75	-6.6	-6.69	NA	2.39	-6.28	-9.13	NA
17-Sep	10.89	18.58	8.59	NA	9.2	12.2	-0.25	NA	25.82	18.84	-1.66	NA
2-Oct	12.54	15.23	0.64	NA	9.83	8.13	-9.82	NA	32.63	20.91	-9.01	NA
6-Nov	0.65	2.26	-13.73	NA	-3.16	-5.92	-23.17	NA	-1.22	-13.98	-31.36	NA
11-Dec	7.31	-3.75	NA	NA	2.77	-10.83	NA	NA	-3.62	-25.21	NA	NA

The only way this could occur would be through blatant, transparent Federal Reserve action to fight the deflationary battle with increased money supply growth and secondly, lowering of interest rates. With excess capacity being created through supply side policies, the venture capitalists took us to new heights unbeknownst before to mankind. The result was a false positive; an economy that peaked with SuperBowl 2000's incredibly opulent, gaudy advertising extravaganza. The Dot.com era had peaked with Greenspan's fire-hosing money into the system to battle potential Y2k problems and his resultant retraction of the money supply in the first quarter of 2000.

The **Worse** column is the next bubble! You pointed it out two years ago. It has only gotten worse! What the general public understands is one thing, "if they will lend it to us, we will borrow it" to make ends meet. With all the equity take down of the home through cash out refinancing, people are able to survive. The business sector has done exactly the same thing – leveraging up its balance sheet in 2001 to untenable levels! It has been observed that they are now reliquifying as they have been basically shut out of the markets in 2002. What the investing public does not understand is **too much debt creates its own deflation**. Your update brings this conclusion into a new, very bright spotlight. Many thanks.

Worthington Johnson, Jr.