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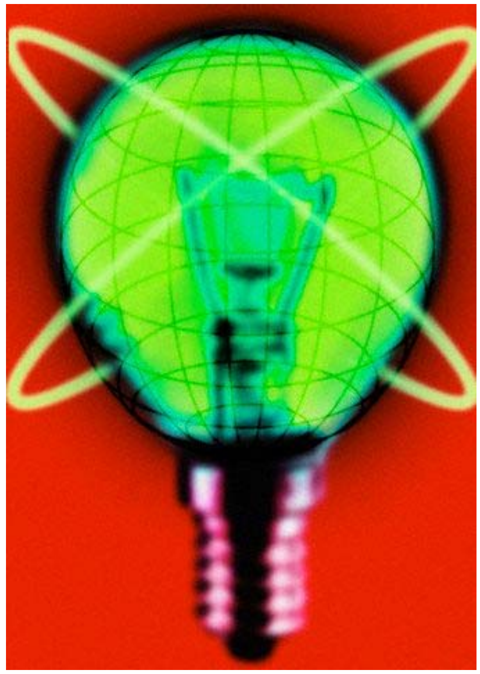


06/03/2013	Value	YTD %
Dow Jones Industrial Avg	15115	15.3%
Vanguard 500 Index	150.80	15.3%
Vanguard Total Bond Index	10.87	-.9 %

BRIGHT FUTURE

If current economic indicators are any indication, the current economy is running on fumes but not collapsing. Instead it continues a faltering recovery, up a little here, down a little there. Today's mildly negative ISM reading of 49 confirms such a perception.

The Federal Reserve continues to pump money into the financial system, producing an effect somewhat like pushing on cooked pasta. The employment numbers suggest that many people have simply quit looking for work. There's no question about it, our economy IS improving, but grudgingly.

Why, then, are the real estate and stock markets rebounding? The Federal Reserve policy of Quantitative Easing is adding $85 billion per month into the economy through long-term bond purchases. Rather than translating into genuine economic growth, this stimulus is producing asset inflation in the stock and bond markets.

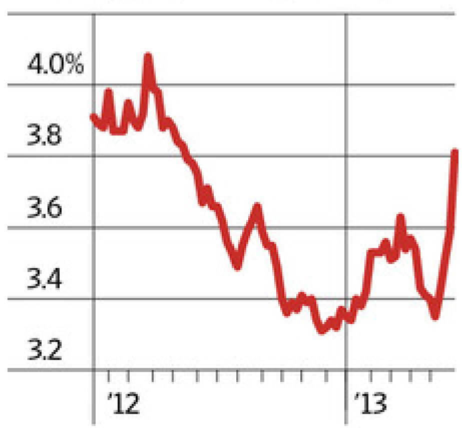
What we are seeing is a global economy profoundly dependent upon financial life support. And Quantitative Easing is inevitably and correctly ending. We are left to wonder what will happen next.

The Value Line Appreciation Potential statistic, the VLMAP, is 40, which is definite sell country. This is beginning to remind me of 1987: it's extreme enough now that a correction might sting a bit.

Our primary goal right now is to stay safe in both the stock and bond markets. We are invested internationally, and these mutual funds have produced much less than domestic stock mutual funds. We also have a large allocation in bond mutual funds, and bonds are actually down year to date. Thus we are riding some mild losses in our bond funds. These should reverse when and if a correction occurs.

Mortgage rates are beginning what may be a long-term rise. If this continues, this is likely to crimp housing market growth in coming years. For now, we are staying diversified and waiting it out. **Graph 1**

Graph 1 Fixed rate on 30-year home mortgages, weekly average



Source: Freddie Mac

Meanwhile I'm seeing wonderful changes in the decades ahead.

Last week I was able to drive a Nissan Leaf, an all-electric car with plenty of torque and handling ability. It was simply unbelievably advanced. And the NTSB, the National Transportation Safety Board, is predicting that driverless cars are inevitably going to take over the roads.

Picture, if you will, a largely electric mix of autos and trucks which are largely self-driven. The potential social changes are immense. A wide spectrum of society will change; cab drivers and truck drivers will be unemployed, while the elderly, the young, and the impaired will experience a tremendous increase in freedom. Potentially work hours will increase as people will be able to work while commuting.

Another great change appears to be looming in the energy sector. Fossil fuel production in North America is at all-time highs and so is electrical capacity. Solar electricity production, although quite flawed and expensive, represents a leap forward of hundreds of thousands of years, bypassing the eons needed to transform plant material into petroleum in a matter of weeks. In other words, at this point an energy shortage doesn't seem to be likely.

Combine the social changes of transportation and access to inexpensive energy, build in the inevitable changes of technology, and you've got something to which we can all look forward. Yes, there will be lots of social upheaval, but the changes will probably be amazing.

What could derail all this? Crazy people starting wars might stall us. More obviously, we face a Mount Everest of debt which will take years to pay off. That's probably our biggest challenge in coming years. **Graph 2**

The only way to deal with this mountain of debt is to grow the economy faster than we grow debt. Thus, to reach our bright future, we will have to dim our debt creation. That in itself will create profound social change.

At least we won't be bored. ■

Graph 2