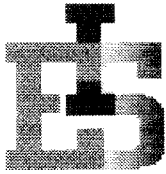


EIS Business Forecast.

Issued February and August.

Produced by: Economic Indicator Services - 247 Flinders Lane Melbourne 3000

July 9th 1998.



Contents:

The big picture	Page 3
Kondratieff Wave review	5
Kondratieff Wave eras	7
The business cycle	9
What happened last cycle	11
Interest rates	13
Inflation	15
Property	15
Stock market	17
\$A	19
Japan comment	21

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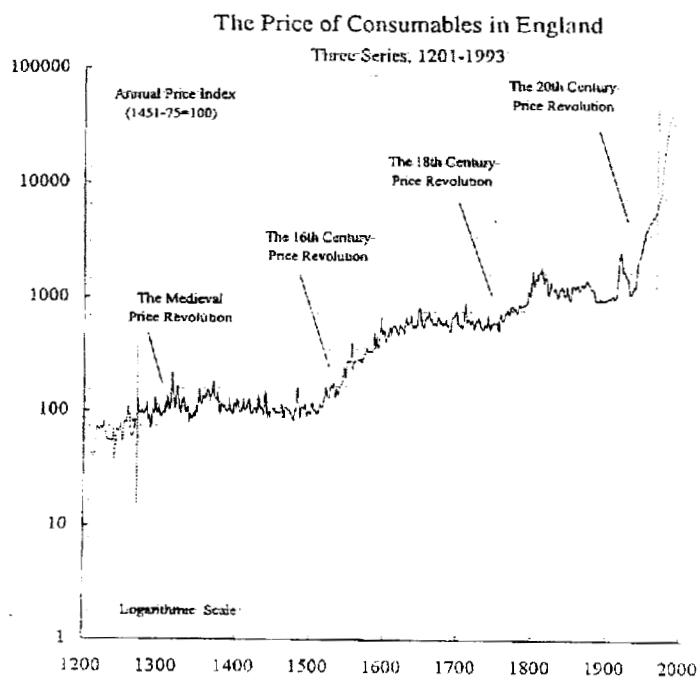


Fig. 1.
Price series of consumables in England.

From D L Farmer's index of wheat prices in shillings 1210 to 1275, Phelps Brown Hopkins price index of consumables in shillings for Southern England from 1264 to 1954 and Ministry of Labour index of British retail prices £ sterling 1952 to 1993. Converted to a common base of 1451 - 1475 = 100.

(Other European based indices show the same pattern.)

Cycles; the big (really big) picture.

For the August '98 half year forecast, we begin by having a more detailed look at history.

Figure 1 charts commodity price movements over the past one thousand years. This has not been difficult to chart, as commodity prices have been quite accurately, though not necessarily intentionally recorded by most civilisations since the Egyptians.

A look at figure 1 shows that since the year 1200 or so, there have been four great price revolutions. These price revolutions, or waves, as some historians have called them, are easily discernible in the price series data. We can see that most inflation over this millennium has occurred in four great waves of rising prices. Social historians have dated these inflation periods as follows;

- ~ the first great price wave, 1180 to 1350,
- ~ the second from 1480 to 1660,
- ~ the third from 1730 to 1820, and
- ~ the fourth started in 1896, and is still running.

Each price wave was interspersed by some eighty years, on average, of marked price stability.

This pattern is not something only EIS has noticed, and the chart is also quoted in the book *The Great Wave: Price Revolutions and the Rhythm of History*, by David Hackett Fisher. Fisher noted some striking similarities and repetitive economic and social behaviour within each price revolution, noting in particular:

~ Within the years of each wave, and as each price wave progressed, people began to notice the trend. The response to the rising prices (inflation), caused prices to rise even faster (more inflation).

~ Rising prices put pressure on coins, with currency debasement usually the end result.

~ The response of governments / monarchs to rising prices was growing budget deficits and regressive taxation.

~ The returns to land and capital sky rocketed as inflation really took hold, returns to labour diminished. (As would be expected.) Economic behaviour adjusted accordingly.

~ Commodity price volatility (extreme) at the end of each wave.

So why is this important ? This big picture of commodity price movements seems to have set the backdrop for economic behaviour from 1974 to 2003. The final 30 years of each previous price wave has been marked by extreme commodity price fluctuations. The penultimate stage of this 30 years of price extremes has historically been identified by stagflation. And in all previous waves, the final price peak has seen a general world crisis and then a collapse in commodity prices. Events this decade have not caught EIS by surprise. (Refer July 1996 Indicator.)

Worth noting

Commodity prices are probably the only source material that goes back over our entire history. These price records survive in great abundance, and can tell us much about a civilisation's system of production, methods of exchange, and general economic conditions of the time. Human behaviour, both economic and social, has varied in accordance with these price changes.

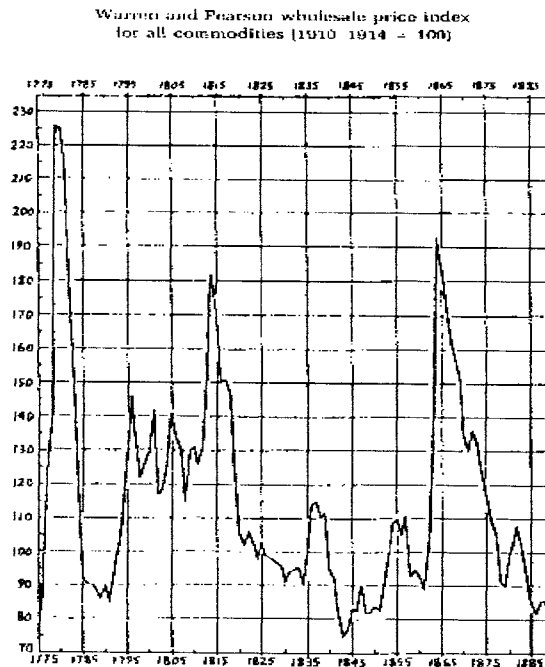
Crime levels during these price waves have closely matched the price extremes. So too behaviour. For example, the Bastille fell during the French revolution on 14th July 1789, the day prices peaked in Paris. Indonesia has just repeated this pattern, where fuel prices were hiked 71%, just prior to the time President Soeharto was forced from office. Such events are not coincidental.

Fig 2.
Generally accepted dates of economic down-
turns, Western (capitalist) nations, back to 1700.

1990/1, 1982, 1974, 1961, 1949, 1937, **1932**,
1921, 1907, 1897, **1893**,
1884, 1873, 1866, 1857, **1847**,
1836, 1825, 1815, 1804/5, **1793**,
1783, 1772/3, 1763, 1753, 1742,
1731/2, 1711, 1701.

Historical repetition would suggest another
downturn sometime in the next three years.

Fig. 3
Commodity prices, Warren and Pearson
wholesale price index



Kondratieff waves.

Comment

Having glimpsed the bigger picture, we turn now to the so called Kondratieff wave.

Figure 2 lists a few numbers. The numbers are of course the dates of previous economic downturns dating back over the last three hundred years. The downturns are fairly evenly spaced, about eight to eleven years apart, and their occurrence has been regular (cyclical). Some of the downturns have been noticeably more severe than others. The more severe years, dates bolded, have occurred every fifty to sixty years.

It was Nikolai Kondratieff, a Russian economist of the 1920's era, who first noticed this. He had been instructed to undertake empirical exercises to test for price and output long waves in so called capitalist economies, with a view to updating Comrade Stalin on Capitalism's eventual demise. He was at the time Professor of Agricultural Economics in the newly communist city of Moscow. Kondratieff, (1926), fitted ordinary least square trends to commodity, and interest rate price data, and then used a nine year moving average of the deviation to eliminate well known short (Juglar) business cycles.

Even in the raw commodity price data, figure 3, dramatic and repeating price ups and downs could be seen, which Kondratieff may have measured and noticed.

It should be noted that Kondratieff's work stands out as incomplete, was a somewhat preliminary exercise, and has often been criticised as lacking proper econometric skills, however he did identify a repeating pattern up to 1925, and then successfully forecast the 1930's depression and subsequent capitalist revival. (Kondratieff died in a Siberian labour camp, from one of Stalin's purges, after being accused of leading a revolt of the Workers Peasant Party. Solzhenitsyn, in his book "Gulag Archipelago", wrote that Kondratieff died within the Gulag system whilst in solitary confinement.)

Worth noting

The phenomenon Kondratieff supposedly identified has so far been a very reliable indicator of the long term trend of commodity prices and interest rates. There seems no reason at present to doubt its future repetition. EIS believes the current wave will trough in 1999. Historical repetition suggests long term bond rates will approach 3% next year. 3% to 4% is about the long term historical average, and is what our forefathers would have regarded as normal.

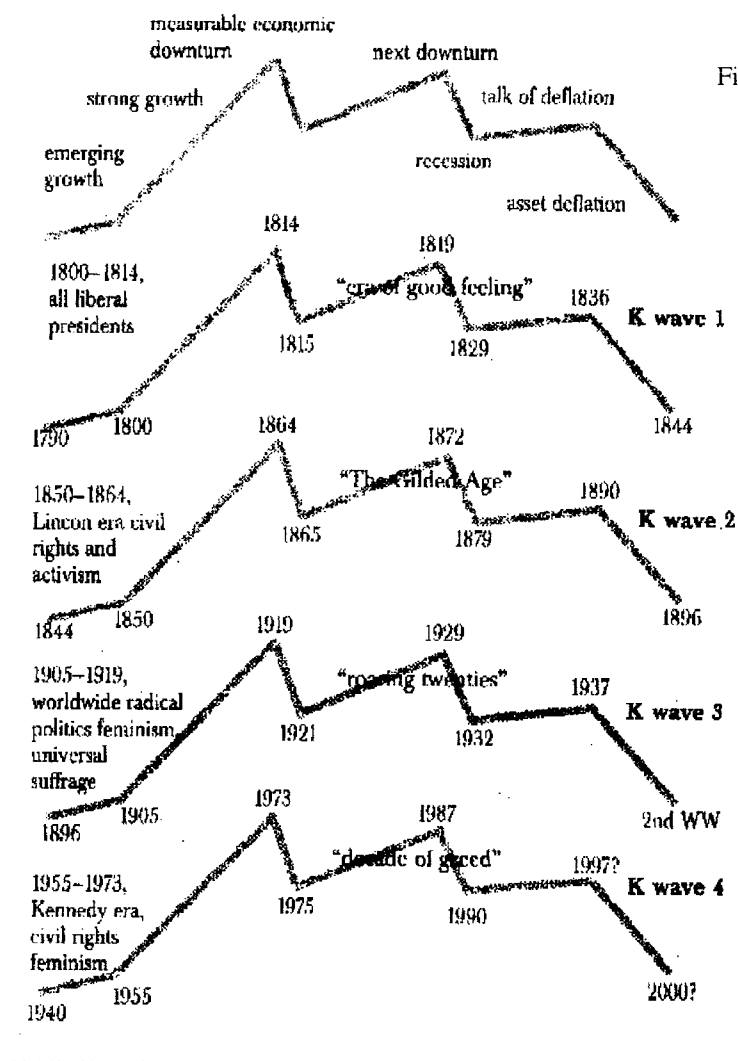


Fig. 4.
Kondratieff waves,
(stylised representation)
As continually published
by EIS since 1994.

Kondratieff wave troughs are notorious for effecting dramatic institutional change, as each new Kondratieff wave upswing requires new thinking, a paradigm shift of thought, to be carried into it.

EIS research has been able to break down further these Kondratieff waves into quite astoundingly similar social eras, that have exhibited remarkably similar crowd behaviour, and repeating economic events. Figure 4. EIS describes these waves as follows;

(most of this section had been written, and published, by 1994)

Eras of noticeable productive growth

1789 – 1814, 1845 – 1864, 1896 – 1919, 1940/45 – 1973

These periods have been associated with an expansion of production and investment. Rising affluence generally caused prices to rise, leading usually to a peak in inflation levels. Such eras lasted about 25 years. During rising productive activity, there also occurred social upheaval, (democratic), and radical changes as new and often very different technology was introduced. Adjustment to the new technologies did not occur overnight, (indeed was actively resisted in some quarters) but eventually gathered pace as people began to appreciate the technological advantages, ably assisted by rising community affluence. The changes wrought by the introduction of these driving technologies should not be over estimated.

The peak year.

1814, 1864, 1919, 1973.

Such years are a definable turning point in human history, often seen in terms of political or social change that took place at this exact time. Although recessions have occurred during the productive growth era, they have been quickly forgotten. The peak defines the start of the next two years or so, labelled a “primary recession” in cycle terms. Peak years have been noticed and remembered, bringing with them a change in popular mood and public opinion.

The feel good era. (Plateau)

1815 – 1819, 1865 – 1872, 1921 – 1929, 1983 – 1989.

A speculative era, investment more in financial assets, debt financed. Common to these eras is an increase, (accumulation) in consumer and business debt. The feel good era is remembered for the feelings of community affluence, high consumer spending and good business. A share market panic has brought these eras to a close.

15 years of decline and panic.

1830 to 1850, 1879 – 1896, 1932 – 1950, 1990 – 2003

The strain of debt and consumer spending cannot continue unchecked forever. Problems arise for debt that can no longer be serviced. One or two businesses fail, perhaps even a bank or two. Finally, a failure in the financial and banking sectors in particular, triggers a sharp downturn in public confidence. The fragile nature of the economy becomes obvious to all, in hindsight. Information surfaces about political bribery, business rip offs, and community scandals.

The shake out in this decline and panic era has in the past taken fifteen years to work itself through. This fifteen years is characterised by constant cost cutting techniques introduced by business and government, interest rates bottom out, and strenuous efforts are made to commercialise all those innovations that were left on the shelf the past ten years, considered at the time as uneconomic, or not feasible. Declining prices start talk of possible deflation. Community attitudes may shift markedly to the right of the political spectrum at this time.

A typical sign that this fifteen year era has yet to run its full course is the extent to which gambling takes hold of the masses, copying what their business leaders were doing just a decade before. Toward the end of the decline and panic era, stock markets collapse for a second time, (watch the Dow Jones index). Real estate prices also decline after having regained some or all of their values since the speculative peak.

In this fifteen years real estate gains have usually been local events, not general across the country. (Location, location, location).

An accumulation of capital can be expected to take place in the hands of major banking and financial institutions, as liquidations and debt repudiations proceed. A single major invention or development can often be later traced back to this era. (Internet ?). In past similar eras, railroads, motor vehicle, wireless radio.

Space does not permit the countless examples that could be cited to illustrate the repetition of history, but to mention just a few:

- ~ Australia's 1889, 1989 property booms and subsequent bust into depression
- ~ Barings Bank went bankrupt in the 1890's as well as the 1990's. It was saved in the 1890's by a substantial injection of capital, gold, and went bust then for similar reasons, derivatives trading.
- ~ The 1920's was full of stories about the energy crises, and the oil problem, as were the 1970's
- ~ The 1860's came to be known as the black minstrels era, 1920's the jazz age, 1970's rock and roll. Similar economic times, similar social behaviour.

Note the swing from the so called generation B in the Kondratieff upswing, to generation X on the downswing. Today's young adults belong to a generation exhibiting unprecedented levels of pessimism and uncertainty about the future. Current literature reflects this; Shoovy Jed, Care factor zero, Dear Miffy etc. Our generation of parents have great trouble understanding, indeed coming to terms with this behaviour, as they grew up in times of unprecedented optimism, no "shortage" of jobs and basic family harmony.

Commodity price peaks (1920's, 1970,s) bring discussions of population limits and worries that the world will run out of resources (forecasts to suit the times, Club of Rome etc.) But at Kondratieff wave troughs the rise of religious nuts and right wing ideology comes to the fore. For example, in the early 1840,s a wealthy American farmer named William Miller claimed to have figured out the date of the end of the world. This would occur in 1843. His passionate preaching drew 50 000 people to wait patiently in a nearby field for this moment. Many had closed their shops and given away farms in anticipation. Alas the moment passed. Miller subsequently changed the date of his prediction to Oct 22 1844, but alas this moment also passed. But this did not stop the formation of a massive religious movement, known today as the 7th Day Adventists. (And they are still forecasting our imminent demise.)

In May ('98), a newly formed Perth company began advertising to wealthy Americans their new business "Surviving 2000 Organisation"; a business set up to allow the wealthy to flee their cities and towns to live off self sufficient farms and country properties in Western Australia, thereby avoiding the economic and financial collapse from the millennium bug. The same month that the Pope was forced to issue a papal announcement to his flock, that no, the world would not end at midnight December 31 1999, despite the millions of letters he has received to say otherwise. Entirely predictable behaviour at the trough of a Kondratieff wave, made worse today by the millennium change.

Kondratieff also noted the timing pressures for global conflict, within the ebb and flow of commodity prices. At the wave's peaks, the world has endured wars of expansion; Napoleon 1814, American civil war 1860's, World War I 1919, and the Vietnam war 1973. These wars caused the commodity price peaks.

At the troughs we witnessed wars of independence, where nations attempt to shrug off their colonial overlords; the Balkans being the latest example. (World War II does not fit the pattern.) Most new nations have come into existence on the down side of each Kondratieff wave. The historical repetition of this is most intriguing.

Notice also the flow of economic thought. Physiocrats / Adam Smith 1770's - Cobden / free trade 1844, - Karl Marx / Henry George 1890's, - J M Keynes / Lord Beveridge 1930's and now privatisation in the 1990's. The new economic idea, or philosophy as each really became over time, fed into the driving forces that pushed up each Kondratieff wave.

The business (decade) cycle.

Figure 5 shows the usual order for an unfolding decade cycle. This is nothing new. The diagram was in fact first published by the London Evening Standard in 1937, and the order of events was noticed by some as far back as the 1870's. The banking, credit and financial processes that occur cyclically as the decade cycle turns have been accurately described by other economists, Minsky and Galbraith amongst them, so we won't repeat it again here. Most professional investors would also be familiar with this cycle turning. If not, you should be.

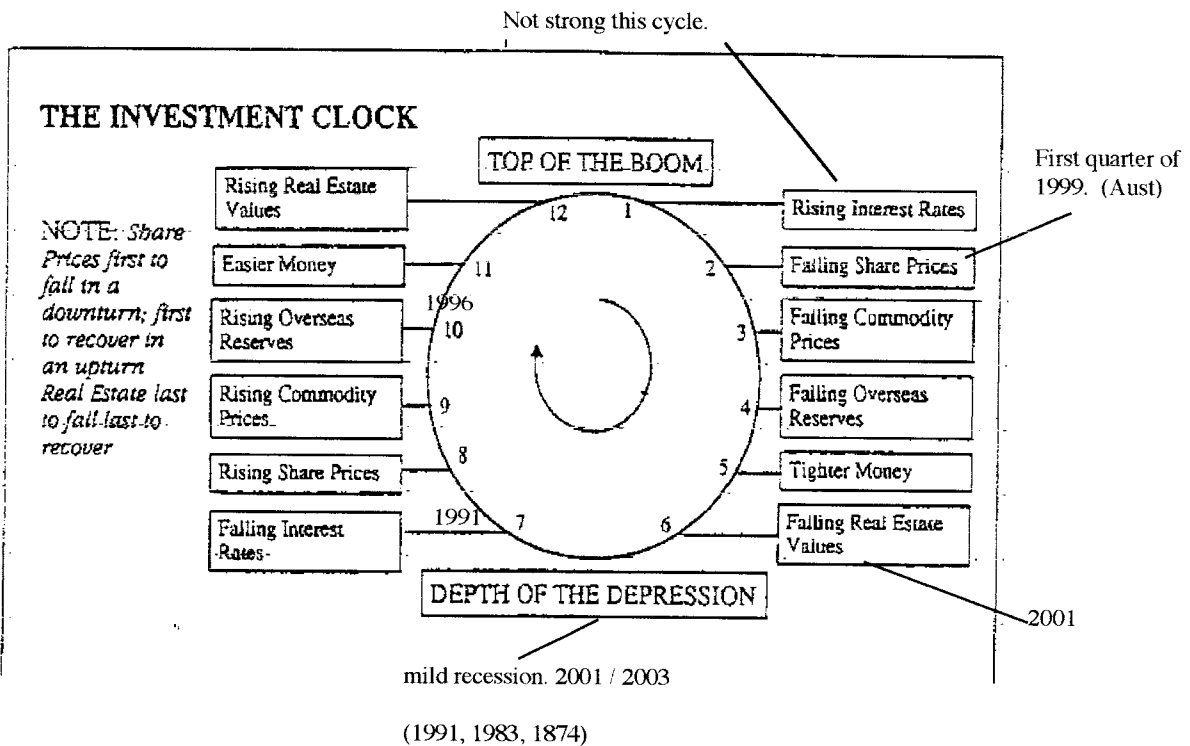
Figure 5 also shows some dates to help identify past sequences, and dates for how the current decade cycle will unfold as EIS sees it. (Dates as published by EIS for some years now.) EIS believes we are currently moving into the one o'clock zone.

It should be noted that the present decade cycle's euphoric stage will be muted, as determined by the Kondratieff wave trough, which will itself be under the influence of the last stages of the fourth great price revolution of commodity price volatility discussed on page 3; behaviour unfamiliar to anyone who has not studied past Kondratieff wave troughs and the very long wave price revolution history.

The stage has been set for a further (final) and possibly quite savage, commodity price deflation.

In our view, further interest rate rises are unlikely this decade. And if there is to be one in the US, it will not be substantial.

Fig. 5. Movements within the business cycle, average 8 to 11 years in length, and our datings based on research to date.



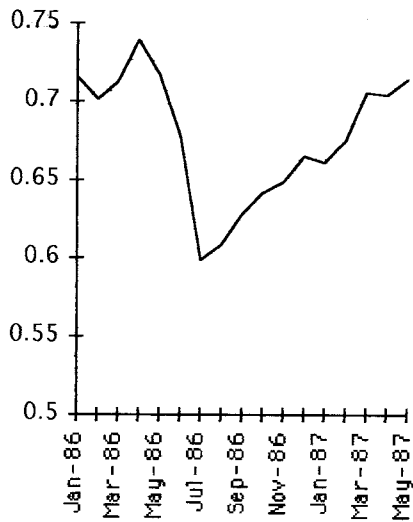


Chart 1.
\$A / \$US exchange rate, Jan '86 - May '87.
Month's average.

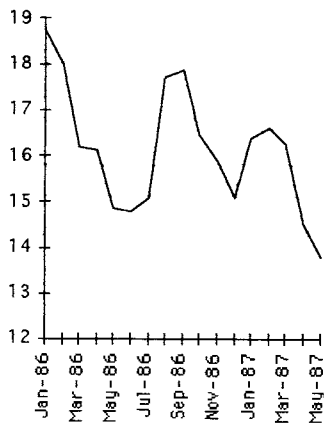
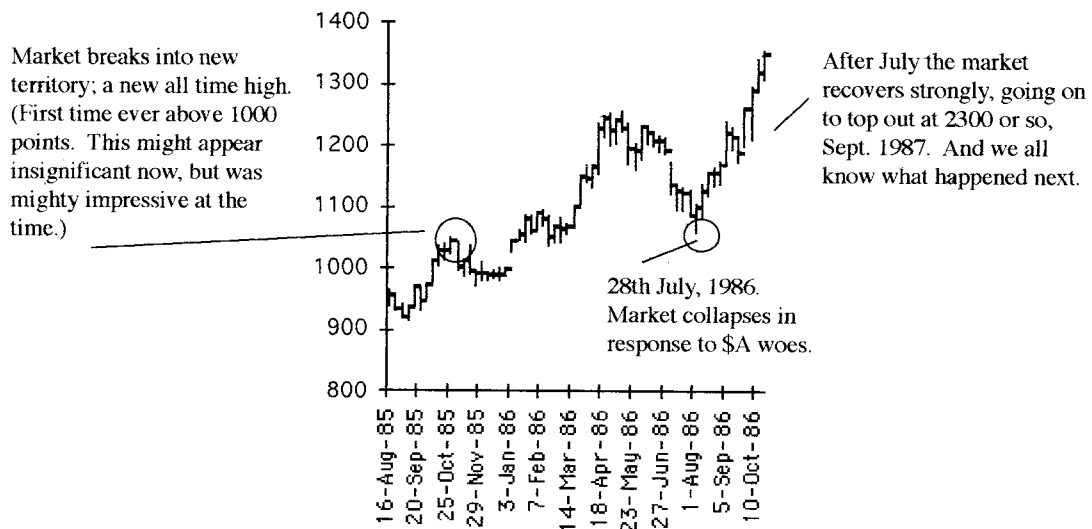


Chart 2.
90 day bills, Jan '86 - May '87.
Month's average

Chart 3.
Aust. Stock market, Aug '85 - Oct '86



What happened last business cycle ?

Comment

To understand the future, know the past. So before commencing our usual discussion of interest rates, inflation etc, we have a look here at what happened last decade cycle, to give us a possible scenario for the remainder of 1998. We are at an interesting part of the decade cycle.

The last time Australia's dollar 'crashed' was in 1986, July 28th to be exact; that famous 'banana republic' claim. The charts on this page illustrate the event, and go on to show what happened afterwards.

Chart 1 sees the \$A falling quickly to the July '86 low, then slowly recovering over the next twelve months. Government and private debt levels, and our current account deficit was probably worse then than it is now.

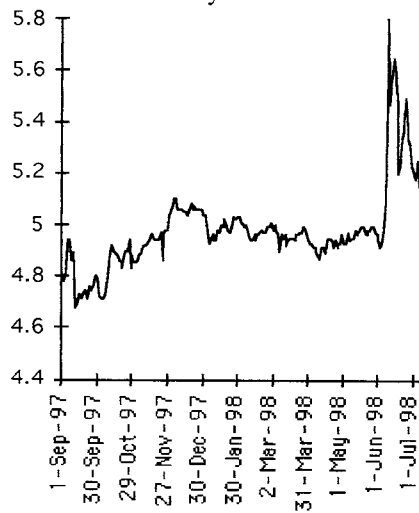
Chart 2 shows that official interest rates were lifted to counteract the \$A trend and give stability to the dollar. But the existing down trend was quickly resumed shortly after the crisis.

Chart 3 shows the Australian stock market. The climb out of July 28 was very fast. (At the time still too many people "buying the dips".)

Worth noting

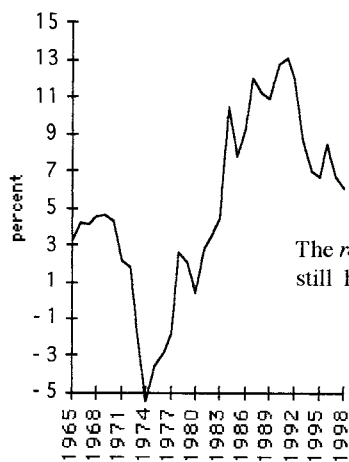
Those who have done EIS classes will recognise that the previous \$A low occurred twelve years ago; or 144 months. An interesting number. In our opinion, history repeats in a non random fashion.

Chart 4.
 Australian 90 day bill rates, daily, Sept '97 - July '98 .



90 day bill rates spiked upward, June 5th, in expectation of a rates rise due to the collapsing dollar.

Chart 5.
 Real interest rate. Overdraft, (small business unsecured) rate minus inflation.



The *real* cost of borrowing is still higher than it seems.

Interest rates.

Forecast

Pressure on interest rates remains on the down side.

Comment

What hope does the average punter have ? On Sunday 8th June, *the Age* headlines its front page with "Bank poised to lift rates". *The Sun* went one step further and announced it was already official. However the expected rise is yet to occur.

Note what happened over the long term in 1986. Page 10. The times now are deflationary, and the trend for interest rates is still down. Given the Asian problems to our north, and the pressure this may be placing upon Australian business, it would be 1930's style economics to have lifted interest rates.

Recent ABS figures reveal that as at February '98, the proportion of loans at fixed rates stood at 25%; the highest proportion recorded since the series began in 1991. Anecdotal evidence from June suggested a flood of enquiries to fix rates further. As a rule, the herd is usually wrong, since their decisions are mostly based on emotion, rather than the trend or cyclic economic position.

Try this for a scenario: one quarter of all home mortgages are on fixed rates. This proportion may yet go higher. But *real* interest rates are at their highest level since the 1930's. If inflation stays low, and the business cycle turns down next year, we have a lot of people stuck paying very high interest charges. This could prolong a recession. In deflationary times like these it's hard to see interest rates moving up much. It seems to EIS that any move by the reserve bank to lift rates would only be a temporary measure, designed to protect the currency. The chances of this appear remote now.

Worth noting

The Kondratieff wave has not troughed yet in our view, so therefore neither have interest rates. (Or commodity prices)

We repeat again from the last issue; in the last stages of the Kondratieff downswing, which is applicable to this current decade cycle, in what EIS calls the decline and panic K wave era, interest rates are not a reliable indicator of economic direction, *nor are they of any use in trying to work out where we are in the business (decade) cycle.*

Chart 6.
Inflation in Australia over thirty years.

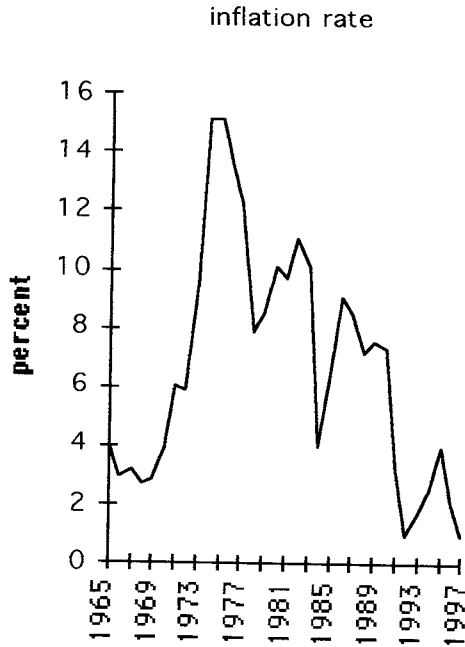


Chart 7.
Inflation in the 1990's, Australia, quarterly year ended.

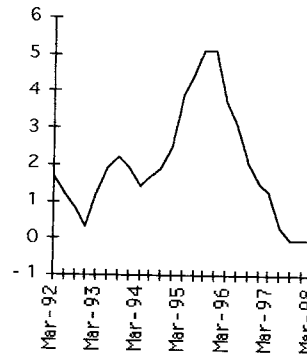
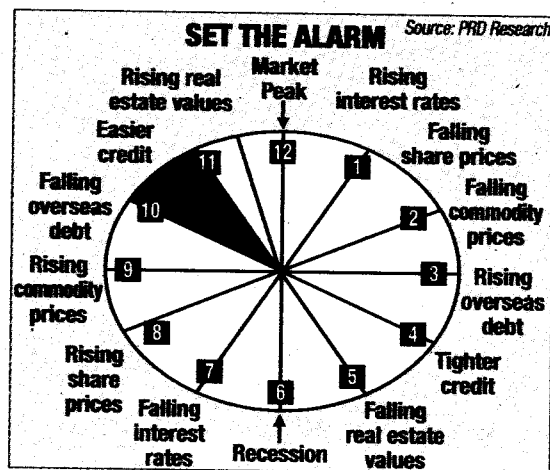


Fig. 6
Another view of the business cycle,
from PRD Research, March 1998.



Inflation.

Inflation is expected to remain at low levels.

Forecast

The threat of any real inflation is probably non-existent. Deflation is what should be of concern to our decision makers. A possibility consistently raised by EIS since 1994.

Comment

Be warned, deflation and capitalist economies do not get along at all well together.

Property.

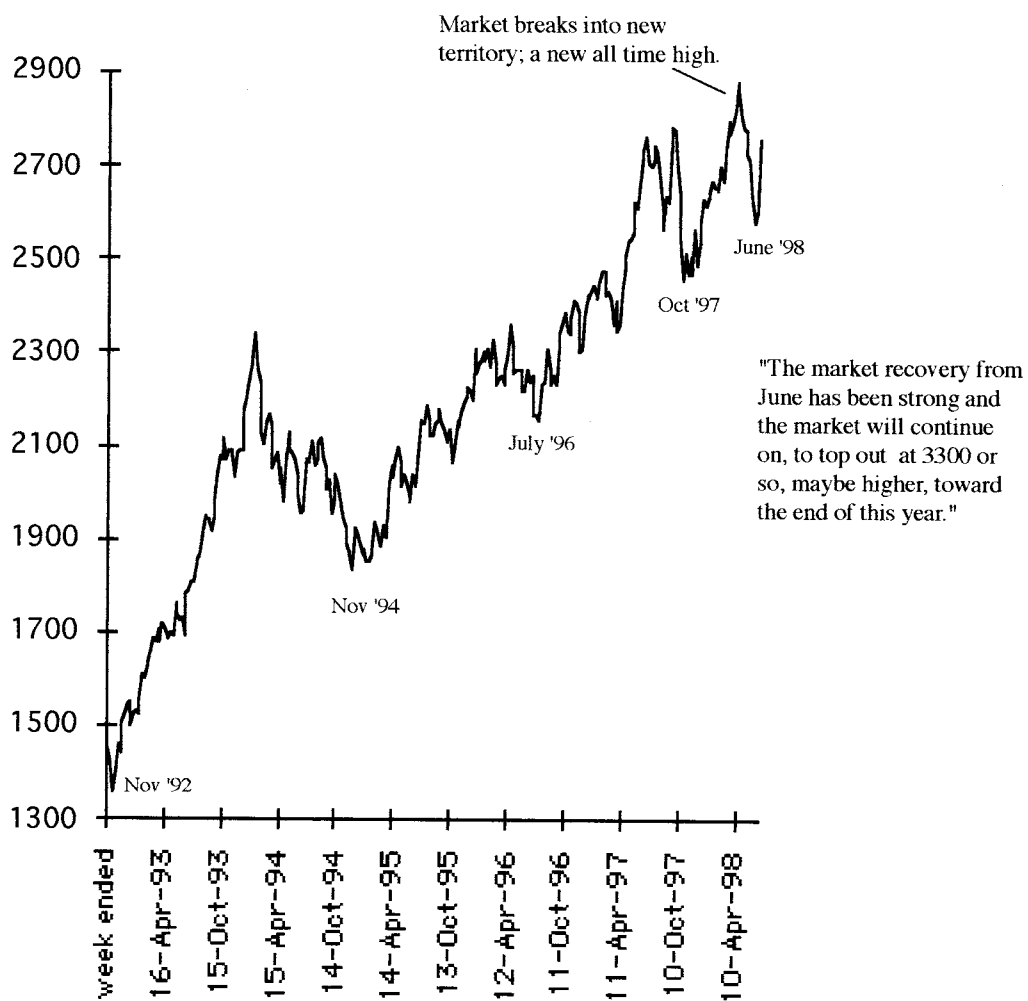
We are at that time in the business cycle where property prices already have most of the capital gain built in.

Forecast

Investment property, if bought at present should be bought on the basis of cash flow, not capital gain potential. Prices can be expected to show stability however over the remainder of 1998 / 99. A good time to be selling. Most real estate agents that we speak to report buyer demand for properties is continuing.

Comment

Chart 8.
 All Ordinaries Index, Nov '92 to current.
 Days close.



The Stock market.

Forecast

The trend on the Australian stock market is up; continuing higher tops and higher bottoms, a bull market. A strong year has developed, as earlier forecast. This will run to at least December. We expect this to be the final leg of this decades bull run. It will be a big one.

Comment

We'd like to tell you why we actively favour long term stock market investing as a tool to build your wealth. The May ASX journal reported the following, compiled by Global Financial Data:

"Your relative died in 1882. At this time he left you one Australian pound, putting half in bonds, half in stocks. The half pound invested in stocks would have grown to \$673,780 by 1997. The half pound invested in bonds would now be worth \$522".

Australian stocks have generated a 12.38% annual return, made up of 5.5% capital appreciation and 6.5% in dividends.

Now examine chart 8. These gains are not built in regular flows, but move in a cycle. Observe how the fastest gains come just after times of fear; mild panic in the markets. October '92, a currency crisis in the UK, Nov / Dec '94, a currency crisis in Mexico, July '96 market turmoil, Oct '97 Asian crisis, June '98 our currency crisis. Regular cycles. They've been happening for hundreds of years.

This month, you can buy Commonwealth bank stock at about \$18, for a pre tax income stream of 9%. The bank itself only offers you 4% if you deposit with them. It is very hard to see our market declining further this year. And many large blue chip companies will continue to offer buy backs; Westpac, Rio Tinto, NewsCorp, Lend Lease, further supporting prices.

Worth noting

Repeating from our Feb '98 half year forecast:

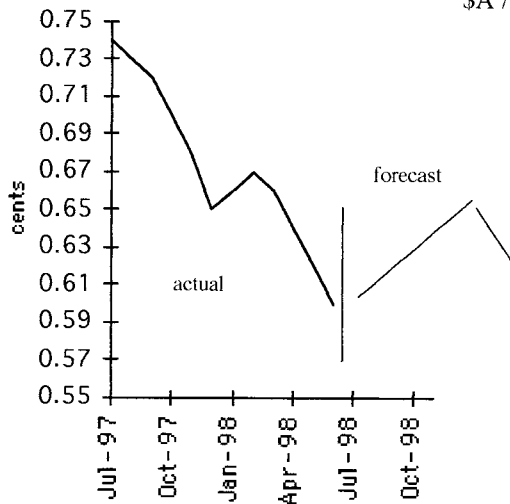
In deflationary environments, interest rates do not necessarily prove to be a reliable indicator of stock market direction. (Normally there is an inverse relationship of course.) As the business cycle peaks here and in the States, given low inflation levels, it may not be a rise in interest rates that brings on the next stock market bear market. (And bear markets always follow bull markets.)

Watch instead for a scandal of some sort to come to light, they always do at market peaks. Stay alert for news that will at the time seem rather insignificant, like Bill Gates selling down his Microsoft holding for example.

Also the one year anniversary date to Dec 31 1999, which brings on the Year 2000 computer date problem should be watched; ie watch Dec 31 1998. Psychologically, this is important. (But we think the problem will be controlled, at least by the important organisations, by next year.)

Share market bull runs finish at the height of the economic business cycle, sometimes with quite a crash, but not always. Bear runs finish at the bottom of the cycle, anticipating the economic upturn.

Chart 9.
\$A / \$US July '97 forward



Opinion:

A country that runs a current account deficit, like we do, remains dependant on other nations, ie foreigners. As some Asian nations have now found out, and of which Australia is reminded in most decade cycles, should at any time we lose the confidence of such 'foreigners' ie those who have lent us their capital, to fund our lifestyle, then the IMF steps in. If you borrow money, you have to pay it back.

The way forward, to strengthen our great nation, is to work hard, produce and manufacture things (not commodities) that the rest of the world wants to buy from us, and then save (reinvest) these funds. Consulting history, one finds that every nation that has done this, soon experienced a great inflow of funds, in the old days gold, that gave that nation great reserves of wealth. Productive wealth then used to re invest elsewhere to make more wealth. And producing wealth is much easier to do, especially *within* your own borders, with a strengthening currency. Witness the US now.

Building casinos, and allowing the growth of xenophobic, insular and economically illiterate parties to take centre stage (though they are entitled to express their view) is the exact opposite of what Australia needs at this time, and will make our future nation very very poor indeed.

The current political leadership is the worst this country has ever experienced.

\$A

A recovery in the Australian dollar against the US currency can be expected for the remainder of 1998. However the Kondratieff wave is yet to trough. When it does, (1999 ?), commodity prices will come under further pressure. This puts our dollar on sandy soil, so further pressure on the down side can be expected.

Forecast

Comment

An interesting historical repetition is developing between the 1986 and 1998 currency problems. The driving forces however are a little different. This year has seen commodity prices again under pressure, the same as in 1986. Back then though, the problems were also more internal in nature, being deficit problems on the current account, and the government budget, and the currency declining against *all* trading partners. For 1998, the problems are more external and therefore somewhat beyond our control; the ever rising US dollar against the Yen in particular.

There are two other issues of difference this time also, the non existent threat of inflation from rising import prices, and the fact that our currency has actually *appreciated* against most of our Asian trading partners, even if only because our currency has not fallen as far, or as fast. Consequently an *official* interest rate rise just isn't likely this time around.

Worth noting

Interest rate rises in New Zealand has not stopped the fall of the NZ dollar.

The price at which the US intervened to stem the decline of the Yen against the dollar was ¥144, that number again at a critical juncture.

Fig. 7.
Comparative trends of several economic indicators, Japan, 1955 - 1988.
Source: Institute of Economic Research on Construction, Tokyo, 1989.

Taken from "Economic Intelligence", June '94 issue, Centre for Incentive Taxation.

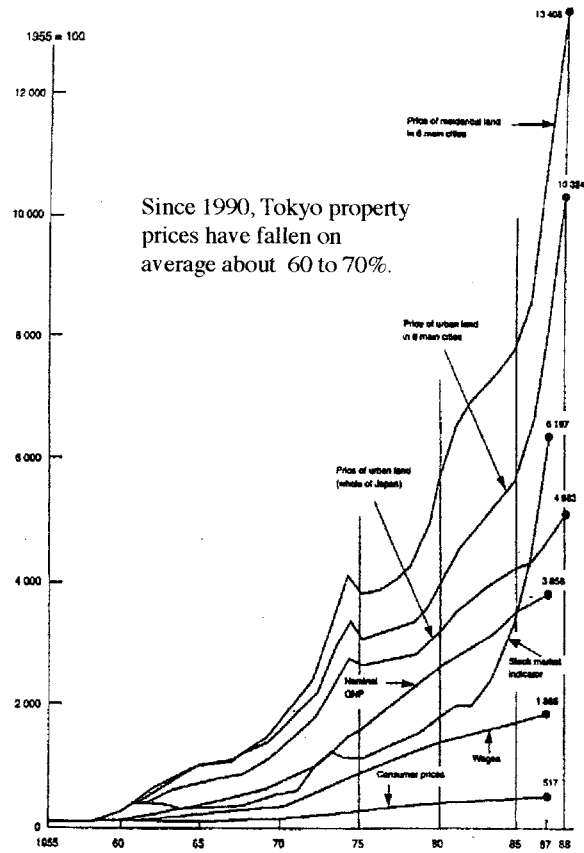
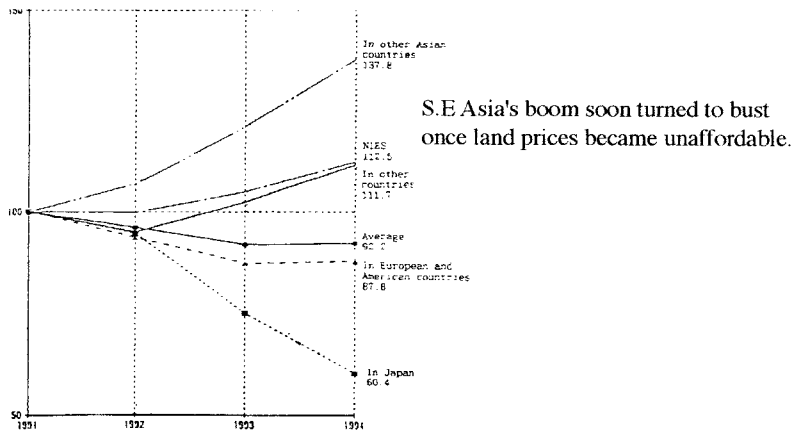


Fig. 8.
Commercial land prices various nation groups.
Source: The world Land Survey, 1995, quoted in The Chaos makers, p 32



Japan.

Comment

Japan, it is believed, has now entered into recession, as technically defined by economists. (Two successive quarters of negative growth.) Such negative growth last occurred in Japan in the April and September quarters of 1992. Over the past seven years, Japan has announced five successive budget stimulus packages, tax increases then tax cuts, and unbelievable spending on lavish public works programs. These initiatives will not however fix the problems.

At the heart of the problem is Japanese banks bad loans. The same problem now facing S E Asian banks. But of itself, it has not been so much the bad bank loans, but Japan's reluctance to admit the problem, and then actively do something about it.

In a capitalist style economy, banking is largely built on credit, which is founded on confidence. As the business cycle turns, more and more loans are inevitably made on the basis of shakier and shakier asset prices, often land value. An economy gets to the point where such real estate values can no longer be afforded by business to be profitable, and soon those businesses "on the margin", start folding. A chain reaction commences and the business cycle boom turns to bust. The severity of the downturn is dependent upon the rise of the preceding upturn.

Japan must now do what America did with its savings and loan crisis of a few years back, and what Victoria did with Pyramid; allow the banks to fail, whilst protecting the savings of depositors. In this way, shareholders carry the burden, as they must in all enterprises. It's what the very good system of capitalism is all about. It looks as though Japan is about to act this way to resolve its problems.

Once this step is taken, it starts a very important process; liquidity is introduced into the real estate market, and values have a chance to drop to levels that can once again allow labour and capital, that's you and me, to resume normal operations and get back to business.

And the cycle starts again.

If you wish to understand this process further, you may like to read Henry George.

Worth noting

Over coming months, many more Japanese bank failures may take place. In the papers this will probably be reported as bad news. Stock markets will rise on such news however, because it is actually good news, and will add to the confidence of big investors that Japan is actually carrying out its restructure.

Endpiece.

Should the cycles repeat, then the following can be anticipated:

Within the decade cycle, world events will occur to drive the stock market to new all time highs. Tops can be expected in August (around the solar eclipse) and then a higher one in December. Should this occur, a bear market can then be expected in 1999. The stock market will make bottom around March of 2000. Property prices, being last to fall, will trough some time after that. Future reports will fine tune this further.

The Kondratieff wave, and hence the price of commodities and the price of money (interest rates) can be expected to trough in 1999. The long swing upwards will then commence, bringing with it great prosperity, though it possibly may not seem like this next year.

As for the long price wave, remember from page 3 we noted that most inflation over this millennium has occurred in four great waves of rising prices. Social historians dated these inflation periods as follows;

- ~ the first great price wave, 1180 to 1350,
- ~ the second from 1480 to 1660,
- ~ the third from 1730 to 1820, and
- ~ the fourth started in 1896, and is still running.

We noted further that each price wave was interspersed by some eighty years, on average, of marked price stability:

- ~ from 1400 to 1470, and history named this period the Renaissance
- ~ from 1660 to 1730, and history named this period the Enlightenment
- ~ from 1820 to 1896 , the Victorian Era

It was the fall of rents and rising real returns to workers that helped bring about the cultural diversity and enlightenment of these eras. The world's greatest achievements were mostly in these eras. They were built upon the introduction of substantial new technology. Prices remained stable, and in some instances showed a steady decline throughout the era. The next recession should end this the fourth great price wave, and mark the start of an era of great price stability. The development of the Internet will push this along.

Now, to bring this back to practical application, business and investors ought to;

- ~ invest wisely in new technology and highly skilled personnel
- ~ ensure a good cash flow going into next year, collect outstanding debtors promptly, and not be highly geared yourself
- ~ not fear the new technology. It will bring new ways to solve old problems
- ~ invest conservatively. High returns are not required to make good profits in times of zero inflation.

It will be a fantastic time to be alive.