

RON BARON TARGETING 28,000 DOW! RAM'S TAKE ON HIS PREMISE.

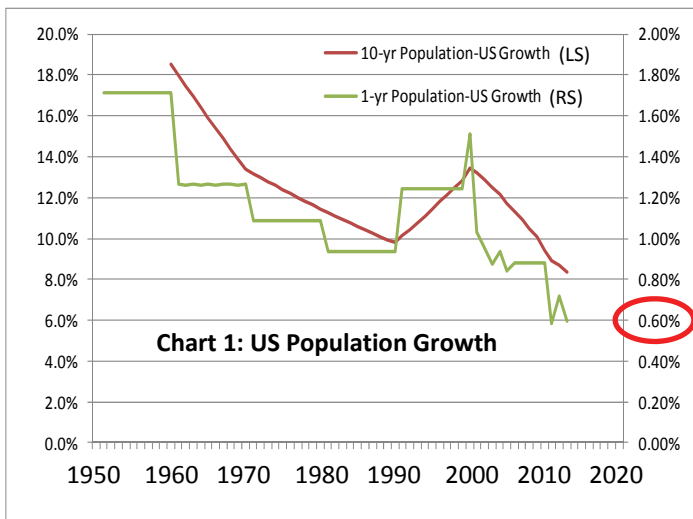
The Investment Climate: Ron Baron, an influential investment manager, stated on CNBC he is targeting 28,000 on the DOW Industrials Index and he bases this prediction on his claim that the US economy compounds at 7+% per year and that the market appreciates on a one-to-one basis - excluding dividends we assume. Thus he concludes that buying

one's money, RAM has been compounding at that rate* since its launch in 1996. We just take issue with the risk that it may not be from current levels thus luring investors into today's market based on a premise not supported by the facts or the law of probabilities.

So let's look at the facts start-

very important to US GDP growth, but weakening domestic population trends cannot be dismissed. The US population growth has been declining for 60 years and is now growing at only 0.57% per year (chart #1). The US fertility rate - the number of births per woman - is now down to only 1.93 versus the equilibrium rate of 2.1. Given our current immigration-policy issues, it remains unlikely that the US can offset this trend by importing citizens. At a population of 313 million it would require an additional 250,000 immigrants per month to get back to past rates. Given the US unemployment rate is

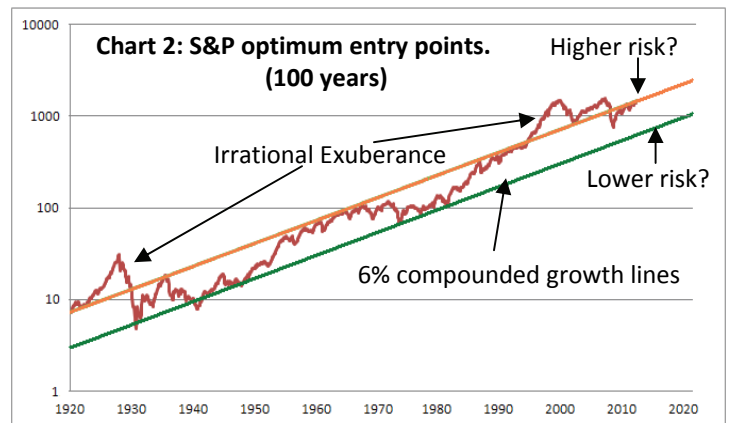
Mr. Baron's premise that GDP will double in 10 years allowing the market to double appears to be a low probability outcome. Perhaps, like most of us, Mr. Baron had the great fortune of starting his career at the launch of the greatest period in stock-market history and thus is confusing his experience with the norm. During this period interest rates experienced a spectacular decline benefiting equities. Following a prolonged climb that depressed stocks for a decade, interest rates topped at 15% in 1980 then steadily declined to 2%. That's a tremendous tailwind, one that cannot be repeated.



the DOW today at 14,000 would yield a doubling of one's investment in ten years.

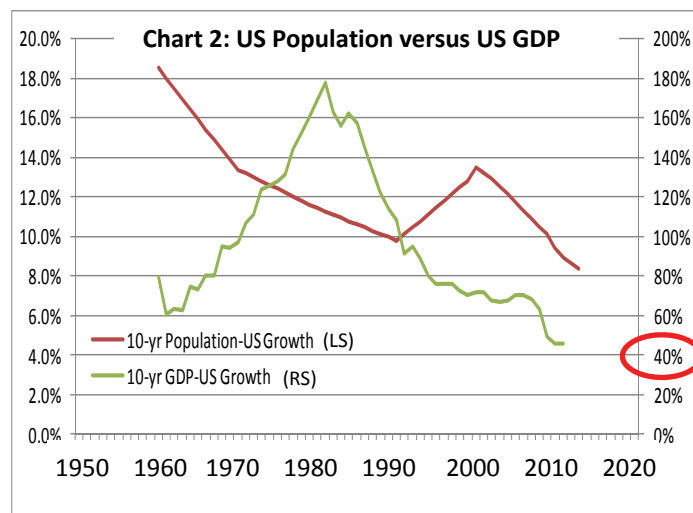
Now, we don't have a problem with the potential for doubling

ing with what we believe is a crucial variable impacting Mr. Baron's GDP growth forecast...domestic population growth. Now we readily agree that the world is flattening and international population is now



stuck at 8% and the economy is having trouble creating jobs, this option would prove politically unpalatable.

If our space weren't limited, I would continue with a discussion of the baby-boom's impact on the market during this period., but you get the point.

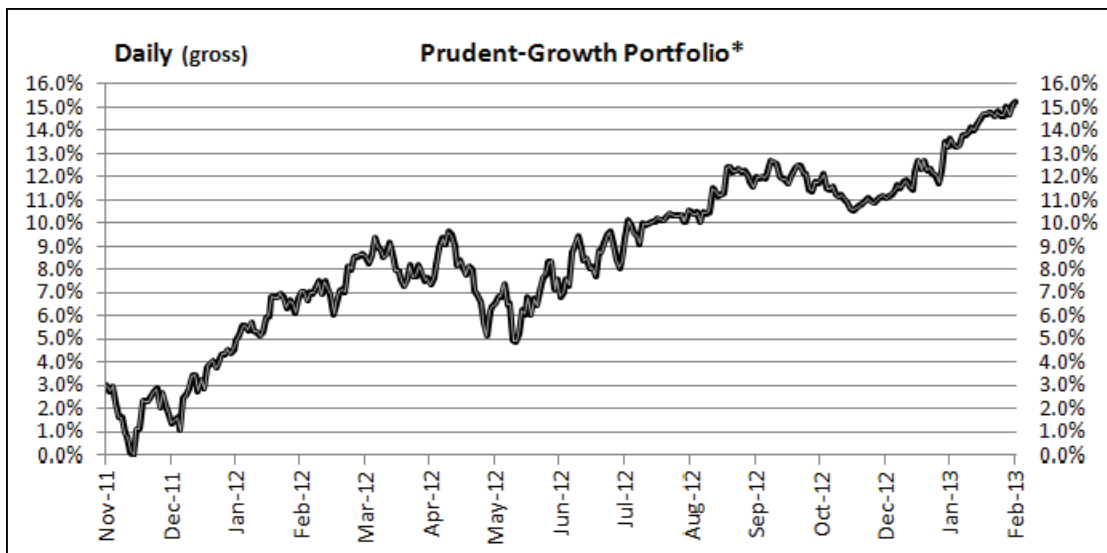


Not only do these trends make Mr. Baron's forecast of a doubling of GDP difficult, the 10-yr GDP growth rate has actually been falling the past 30 years to below 50%, the green line in chart #2, and that's in spite of a blip in population growth during the nineties (the red line) - which in and of itself is interesting given that was the one period since the 1920's that the stock market experienced "irrational exuberance".

Thus, given the greater risks of investing along the red line in chart #3 versus at or near the green line, investing today on the basis of Mr. Baron's 28,000 premise could prove costly for new investors.

One thing we do agree on, the US remains a great country in which to seek invest and for that reason someday the DOW will trade at 28,000.

RAM taxable SMA account. *see disclosure for details.



* DISCLOSURE

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