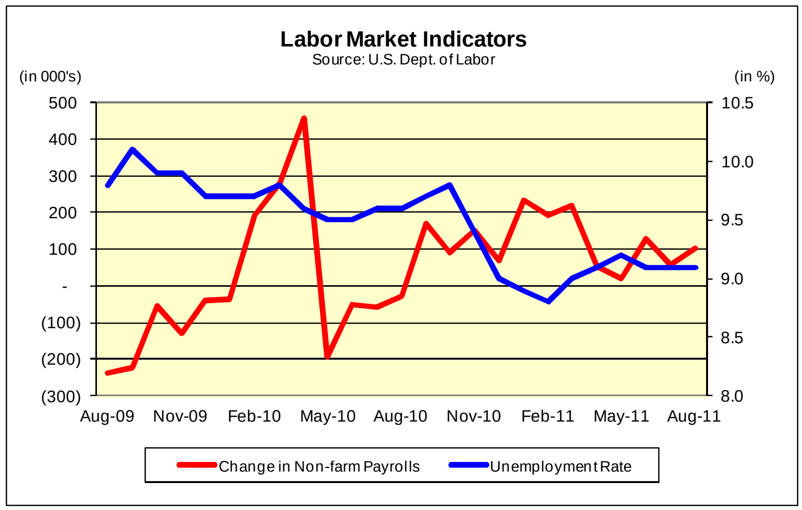
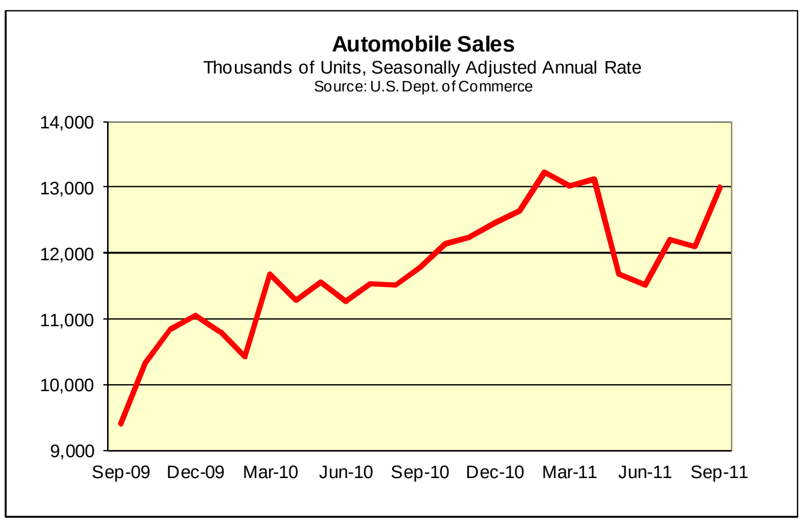
Hints of sunlight have pierced the gloom of economic night recently. For one, we've actually been getting some decent economic reports, among them September employment. The data isn't great, mind you, but good enough to dampen fears that we have tipped into recession. The European Union is also taking another crack at fixing up its financial problems, which has notably cheered financial markets in recent weeks. For now, the economy seems to have been able to weather this year's daunting slew of growth inhibiting events – the energy and food price spikes, the Japanese natural disaster, the budget ceiling imbroglio, Europe – without actually contracting. This isn't to say we are going gangbusters, however, since GDP growth during the quarter just ended was likely under 2%. We also continue to await the 20 pound turkey drop in the European financial crisis (we'll explain in a bit), recent cheery pronouncements of real progress in the negotiations notwithstanding. But for one month we get to be a little more optimistic.

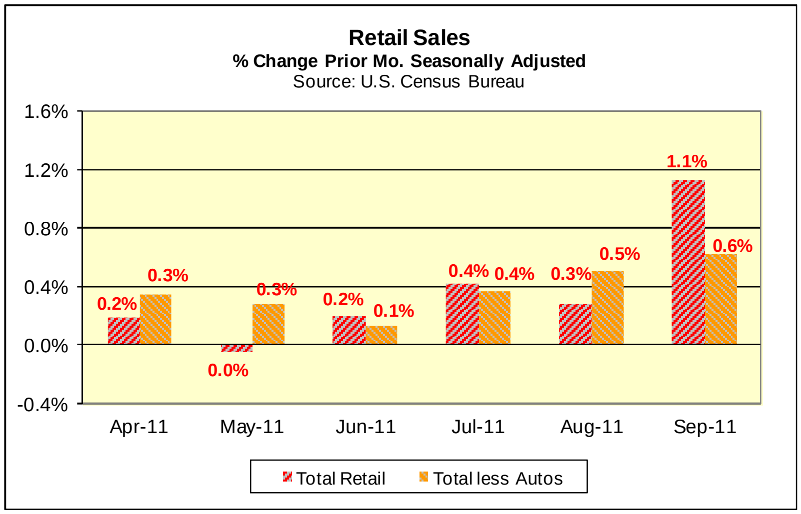
It's a measure of how low expectations have become that the September employment report was met with a near universal sigh of relief. The economy added 103,000 jobs and the unemployment rate stayed flat at 9.1%. The private/public dichotomy continued, with the private sector adding 137,000 jobs and the public sector shedding 34,000. Almost half the job gain was the result of strikers returning to work at Verizon, so the report isn't quite as optimistic as appears on the surface. Some of the other details were encouraging, however. The two prior months were revised upwards by a combined total of over 100,000 jobs, average wages and hours worked both increased (after decreasing in August) and temporary employment increased for the third consecutive month after a long run of decreases. Since temporary hiring is often a precursor to permanent jobs, it's an indication of a possible inflection point. Since May, or about the time we hit our economic rough patch, we've been adding an average of around 70,000 jobs a month. We need at least twice that rate to feel good about the economy. But, considering the recent headwinds, adding anything at all feels like progress.



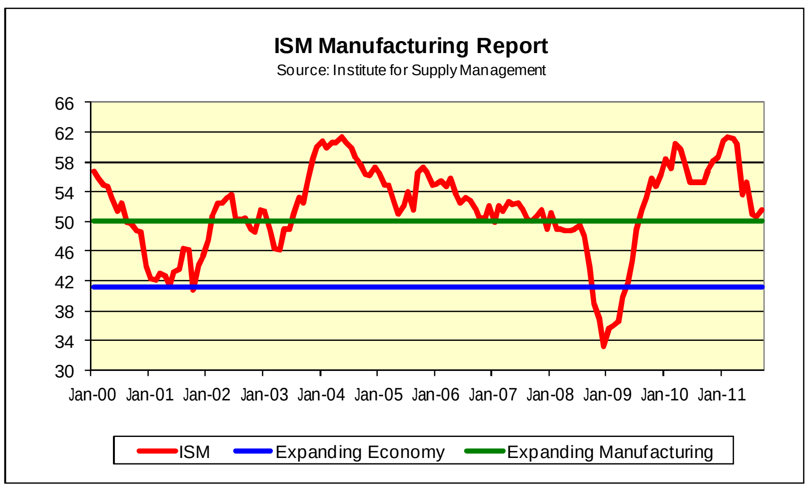
Another pleasant surprise has been that car sales are bouncing back nicely from Japanese-related supply chain issues. The annualized seasonally-adjusted selling rate in September hit about 13 million units, which is right around the level from prior to the summertime troubles. Given the uncertainty that is hampering growth in so many other sectors of the economy it's a little surprising that a big ticket category



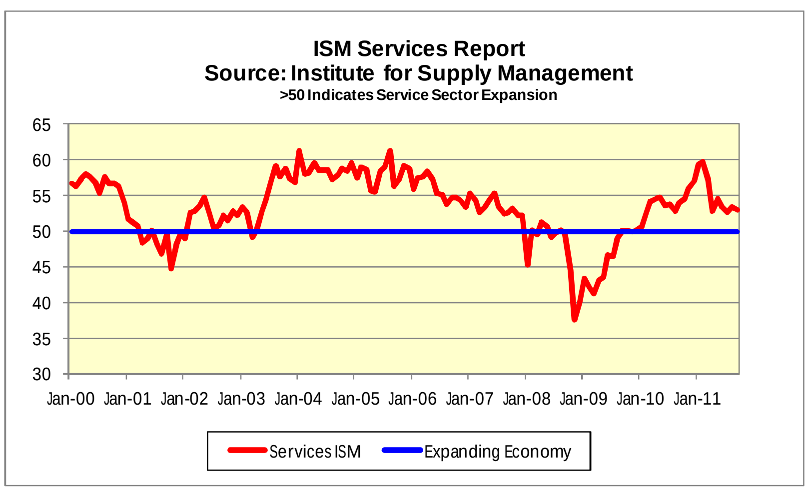
like autos is doing relatively well. It goes to show how much pent up demand there is for replacing worn out vehicles. We finally bit the bullet a couple of months ago ourselves and replaced a vehicle destroyed by Hurricane Katrina. No sense rushing things, that's our motto. But at a certain point you've got to bite the bullet and we think a lot of other people have hit that point too. It doesn't hurt that the product choices now are great across the board. In fact, a little too great. Since we last purchased an auto, during the late Mesozoic Era, car electronics have made a rather substantial leap forward. To the point that we are anxious to touch anything for fear that we might accidently launch some missiles or something. Also, it talks to us, although we have to say that it isn't a very good conversationalist. Maybe that's an extra option. And yes, we know we could read the owners' manual, but for this car that's a 200 plus page document written by engineers who, although undoubtedly fine engineers and wonderful human beings, flunked the "Writing Clearly for a Non-technical Audience" class at engineering school.



Retail sales in general were surprisingly robust during September, rising 1.1% from prior month and 0.6% after backing out the strong auto sales. This one month of "yeah" followed five months of "meh", however, so let's not get too hyped just yet. Much of the increase likely resulted from retailer's clearance sales at the end of what turned out to be a so-so back-to-school season. It's hard to see how that will continue given weak employment and income trends, but we shall see.



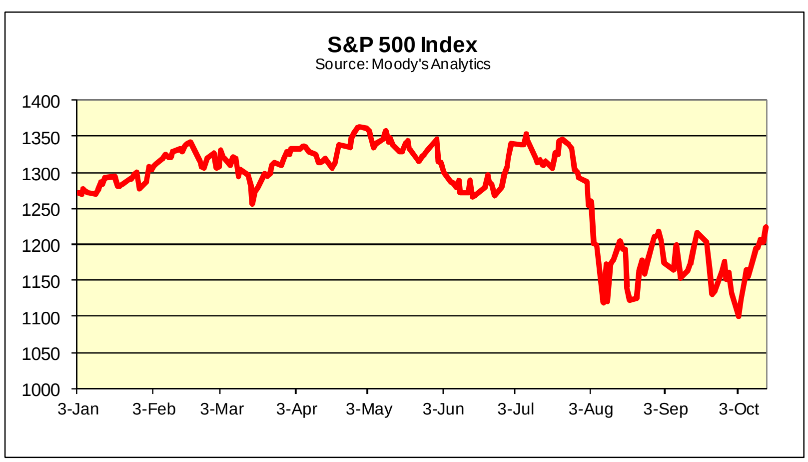
Yet another positive surprise lately was the relative strength of the supply chain reports from the Institute of Supply Management. Again, the key word is "relative" since, in most circumstances, readings in the low 50s would be considered so-so. But >50 indicates at least some growth, so everybody's psyched. Some of the details weren't so great, however. On the



manufacturing side, both the new orders and the order backlog components contracted, indicating some potential cutbacks in production looming down the road. On the non-manufacturing side, the weak points were the employment and import components, indicating a certain lack of confidence in the durability of the expansion on the part of businesses. Also notable was that every single comment included in the non-manufacturing report from respondents was negative, which is highly unusual. Most times *somebody* is having a good month *somewhere*. This month it was all "Business volume outlook and confidence across many market areas in North America appear to be softening" type comments. If we have a recession soon, it might well be because we've talked ourselves into it.

Not to completely shift gears or anything, but one of the better shows on television is *MythBusters* on the Discovery Channel, where teams of special effects experts scientifically test whether certain urban legends are true. Basically it's just an excuse to blow things up and/or crunch large metal things into other large metal things. It's great. One of the first shows we saw, for example, tested the old adage that you shouldn't take a shower during a thunderstorm. Turns out that's true – if a lightning bolt hits your house and goes to ground through the plumbing system while you are in the shower then you will get cleaner than you can possibly imagine. You should also stay off the phone during a thunderstorm, by the way, unless you are keen to have your ear wax melted. Along with your head. One of their best shows tested various legends about how people (guys) use duct tape for purposes the manufacturer didn't intend and included the successful voyage of a boat made completely of duct tape across San Francisco Bay. If you can find that show on the internet somewhere we highly recommend its viewing, although you'll laugh so hard that duct tape will be necessary to reattach various body parts afterwards.

At any rate, during a recent show they tested an old movie stunt where a car perched on the edge of a cliff can be made to tumble off by a bird landing on its hood. So they took an old Ford Crown Vic out to their testing area, balanced it on the edge of a shipping container (standing in for a cliff), strapped a couple of the hosts into the car with helmets (standing in for crash test dummies) and had the third host chuck live birds onto the hood. They started out with a couple of well trained pigeons. Nothing – the car didn't budge. They upped the ante with successively larger birds until they got to an owl. None of that worked either. Since pterodactyls died out around 150 million years ago they had no larger live birds (we confess this was their joke) so they resorted to simulated birds in the form of packaged poultry. They were up to 80 pounds of chicken by the time they resorted to the big guns in the form of a 20 pound turkey. That finally did the trick.



We think that particular show was an excellent metaphor for the European financial crisis. While the financial ministers and central bankers are huddled in the car negotiating the 148th version of a bailout plan (this time they're really serious), the global financial system is chucking poultry onto the hood. One of these days the 20 pound turkey will show up and then its game over. Two big issues for us: 1) when does this happen, and 2) how bad do we get dinged on this side of the pond? It's hard to believe that we can escape unscathed if our largest trading and banking partner goes off the edge. At least some of this risk has been priced into financial markets already, although

it's hard to judge how much of the impact on equity prices this year, for example, derives from our domestic slowdown and how much is European risk. The bounce in stock prices we've seen since the beginning of October is largely due to hopes for a calm resolution to the debt crisis, but it also has coincided with better than expected economic news. What's maybe a better measure than the stock market of the risks embedded in the financial system are spreads between different classes of risky assets. When those start to widen out, the crisis will be truly upon us. We've seen a little widening of late, but nothing to indicate a blow-out as of yet. So maybe the 148th time will be a charm after all.