

RIKOOON CARRET
510 Don Gaspar
Santa Fe, NM 87505-2626

Fall Commentary 2006

The Markets and the Economy

It has been an unexpectedly dynamic last three months as the world's stock markets reignited in a way that hasn't been seen in almost a decade. In the United States, the narrowly defined Dow Jones Industrial Average of 30 stocks gained 4.7% to end the third quarter with a year to date gain of close to 9%. The broader based Standard and Poor's 500 increased 5.2% from July to the end of September 5. The technology laden NASDAQ composite index gained 4%, moving out of its negative returns at the end of June to a positive 2.4% return so far in 2006. The Rikoon Carret stock portfolios have gained 9% year to date.

The Dow Jones 30 briefly surpassed its record close that was last seen in January 2000. This past quarter saw the Dow's largest quarterly advance since 1995. The Federal Reserve's decision to quit raising interest rates has, as we have been anticipating, triggered a minor stampede in the stock market. It is likely that central bankers will leave interest rates steady for the rest of the year and expectations are that they will actually lower rates during 2007. The Fed has changed its tack of raising rates for the last five years and, due to moderate employment growth, cooling manufacturing activity, and an anemic U.S. economy which is growing at an approximate 2% annual rate, investors think that no more rate hikes mean good news for stocks. It has been a self-fulfilling prophecy, so far at least!

The big worry is inflation, not just from oil prices but from higher labor costs for skilled workers. On the other hand, U.S. consumers are not spending on big ticket items like they did during the last three years. Ford, General Motors and Chrysler all have announced deep cuts for the remainder of 2006 and the early part of 2007 due to bloated inventories. Car prices should come down while unskilled labor unemployment will likely rise.

It is well known that the retail housing market is not only slowing down but prices are actually declining for the first time in five years. What has been surprising is that commercial construction actually increased in 2006. This is providing some buoyancy for the U.S. economy as a whole.

The big question is with U.S. growth moderating, will we end up in a recession and if so, what effects will that have on the rest of the world? One model developed by Federal Reserve economists put the chances of a recession over the next year at about 40%. Consumers are enjoying lower gas prices, but this does not mean that consumer spending will fill in the breach created by slowing overall economic activity. New home sales and

existing home resales, both benchmarks of consumer confidence, were both down sharply in the third quarter of 2006 compared with a year ago. As a result, many housing related industries have started to lay people off, to the tune of 20,000 jobs per month. This is not yet up to the level seen during the last recession (1990 – 1991) where housing industries shed about 35,000 jobs per month. Home equity withdrawals, that is, cash taken by consumers out of their appreciated assets, fell by about 40% from the final quarter in 2005 to the third quarter in 2006.

None of the above benchmarks concerning real life economic activity have dissuaded investors from piling back into stocks. We are now in the fifth year of an anemic bull market which we feel exists only within the confines of a larger downtrend. Although the S & P 500 has rallied for four consecutive years, it is still 13% below its highest close in 1990 and the NASDAQ is still down over 50% from its record high.

As you hear or read the news in the media about the Dow Jones 30 reaching new highs, remember its context. The Dow had far less territory to recover, as it was down only 38% from its zenith, compared with the 50% loss in the S & P 500 and almost 80% loss in the NASDAQ 100.

The current rally in stocks has not extended to a very broad range of stocks at all and this is a concern to us. In fact, short term bull markets, like the one we believe exists today, fail to return stock prices to their prior peaks over half the time. This current market advance, from 2002 – 2006, has been one of the weakest on records.

Overseas, stock markets have rallied despite deeply disturbing political news. In Israel, the Tel Aviv stock market index gained 7.3% during the third quarter despite a major military confrontation which many people feel was misguided. Thailand, which experienced a military coup in September, ended the third quarter with a higher stock market index than it started, though it is still down slightly for the year. In Europe, investors are shrugging off worries that the central banks will continue to raise interest rates. Other than the price of oil, inflation has been relatively benign.

The world stock market indexes, excluding the U.S., gained 3.2% during the third quarter and so far, year to date, in local currency terms, they are up 11.3%. In Europe, the index of the 50 largest stocks gained 5.6% for the third quarter and year to date is up 6% in local currencies but for U.S. investors, the European markets are up 13.7% due to the U.S. dollars slight decline. Our international portfolios, now emphasizing Asian companies, rose 9.85% during the first nine months of 2006.

Moving forward, we expect the remainder of this year to show only moderate returns in the equity markets due to decreased earnings on the part of most corporations. Of course, now that people are getting the jitters about real estate and, since the news about stocks is generally good, we can expect to see continued interest on the part of individual investors in the world's stock markets.

The bond markets performed well during the third quarter. The U.S. taxable bond market increased 2.4%, on a total return basis, during the third quarter to end September, 2006 with a year to date return of 3%. The Rikoon Carret taxable bond portfolios gained 4.3% year to date. As part of our bond strategy, we have started to overweight longer term bonds in our new purchases for the first time in five years.

Returns have been muted in the tax-free area, since high dividend paying stocks still enjoy the benefits of an almost complete, but still generous, exclusion from income tax, thanks to the Republican led Congress initiative that has been in place for the last four years. The Municipal Bond Index gained 1.2% during the third quarter and for the first nine months was up 2.45%. The Rikoon Carret municipal bond portfolios increased 2.85% year to date. We expect all tax rate reductions to be partially rolled back over the next decade due to structural budget deficit problems.

Energy: Is Nuclear Power The Answer?

Is our nation inexorably headed down the nuclear path, and if so, does it make any sense? There is a growing sense that the only way to meet our increasing need for electricity and to counter the challenge of global warming is to go nuclear. I found myself starting to think this way recently, and I even considered investments in nuclear related technology until some friends helped me clarify the issues. The push towards nuclear power has nothing to do with protecting the environment, or reducing our dependency on foreign oil, or economic sense.

Often, today's energy debate assumes that we really only have one choice for abundant on-demand energy: nuclear power. In researching this issue the economic realities of nuclear energy have been articulated by the Rocky Mountain Institute and its CEO, Emory Lovins. RMI presents a compelling story that the financial returns to anyone from nuclear power are dismal and that the spread of makeshift nuclear weapons will likely be on the rise if the public's ignorance of the facts remains unabated.

It is easy to compare the costs, benefits and risks associated with nuclear energy versus decentralized wind, solar, and cogeneration power plants (the burning of waste by-products close to the source of their production). All we need to do is simply look at what market forces are telling us.

The trend in much of Europe is towards wind energy. In 2004, Spain and Germany each added as much wind power generating capacity as the entire nuclear industry added worldwide. The International Atomic Energy Agency expects nuclear power to be responsible for only 1/177th of new net capacity over the next 10 years. This is surprising because we hear that countries such as China are going all out to bring nuclear power on line. We rarely read about our nation's plan to reduce America's dependency on foreign sources of oil by reigniting a domestic nuclear energy program.

The 2005 Energy Policy Act passed by Congress gives \$13 billion to nuclear power plant expansion, provides federal loan guarantees up to 80% for new and ongoing nuclear energy projects, grants \$3 billion in research and development funds to the industry,

subsidizes half the cost of going through the licensing process for new nuclear plants, gives \$2 billion of insurance against delays, provides operating subsidies of \$6 billion, caps the industry's liability for accidents, gives payments for waste shipping (to as yet undetermined locations), offers free security and provides tax breaks to private companies for the eventual decommissioning of plants, though no one yet knows how to accomplish this.

The overall question is when will the nuclear industry finally turn profitable? All this government aid adds up to approximately the cost of six new nuclear power plants. Even if these six new plants were given free to their owners/operators at a cost to taxpayers of around \$30 billion, the unknown cost of taking care of them once their useful life (40 years) is over and disposing of their wastes makes it the kind of business venture that no private company will ever undertake.

In fact, no private company anywhere, at anytime, in anyplace, has tried to build a nuclear power plant on their own because the economics of it make no sense. France, which gets 85% of its electricity from nuclear power, has a heavily socialized and subsidized nuclear industry.

Even with \$13 billion of new direct subsidies, Standard & Poors long standing mediocre ratings on nuclear power companies in the United States remain unchanged because the basic financial problems of it remain unresolved. British, French and Japanese projects to run nuclear fuel reprocessing plants, a key to the next generation of supposed efficient systems, have been unmitigated financial failures.

Will new technology fix these problems? The U.S., France, Japan, United Kingdom, Italy, Germany and the former Soviet Union have together already spent tens of billions of dollars in an unsuccessful effort to commercialize plutonium breeder technology. Two other conceptual avenues have both been tried and failed. The U.S. Department of Energy now claims a new type of thermal nuclear reactor could be deployed between 2020 and 2035, but these will rely on reprocessing centers not yet built and on designs not yet proven.

When we look at the two reprocessing centers currently in operation, Britain's THORP plant and Japan's Rikkacho plant, both have been black holes for taxpayer dollars. These kinds of nuclear reprocessing systems are so expensive that no non-governmental entity will ever take them on.

Why then is our country poised to throw billions of dollars at a technology which makes no economic sense? Why is there so little public debate about the issue? There is much more to this story than meets the eye. My belief is that the military applications of nuclear power are influencing the course of our national energy policy because market or economic forces would clearly shut down and bar further use of nuclear technology to produce electricity.

The influence of those responsible for maintaining America's military supremacy cannot be overstated. The world has a justifiable concern about Iran's nuclear power program. What about Pakistan, Israel, India...our own? We have good cause to be nervous. There is only a mere twist of a screwdriver between the expertise needed to run nuclear power plants and the skills needed to produce bombs. This has been well known for 50 years.

Former administrations, both Republican and Democrat, placed the control and prevention of the spread of nuclear materials, technology and knowledge at the very top of their priority lists. An expanding nuclear energy program will eventually undermine generations of efforts to control the spread of nuclear weapons technology. No matter how our present course to further produce nuclear materials is sold to lawmakers and electorate, there is really one constituency, and one only, that stands to gain and that is the advanced nuclear weapons technology industry.

Let me be very clear about this. \$30 billion for "electricity production" is a thinly disguised way to continue funding a highly contentious strategy to develop new generations of nuclear weapons. We have lost our moral compass and rogue nations and potentially destabilizing groups will probably gain access to nuclear materials due to our subsidies of the nuclear industry.

We do not need nuclear power to meet peaceful energy needs. There are ample alternatives which business is pursuing without much government help. We do not need nuclear electric power to reduce carbon emission or to stop depleting the ozone layer of the atmosphere. The means and desire to do so through other methods are present. The missing ingredient is transparency, honesty, accountability, and awareness.

So, the next time you read or hear or see something related to nuclear power, pay attention, ask questions, and don't assume it's going to be alright because someone else with more expertise or information is doing the right thing about it. When it comes to nuclear issues, they probably are not.

News from Rob

Summary of the Leadville, CO 100 Mile Trail Run...elevation 10,300 feet.

Note: there is a 30 hour time limit to complete the course.

The race was scheduled to begin at 4 a.m. on August 19, 2006. It had been raining hard all night so the prospect was for a wet, dangerous course. About 15 minutes before the start time, a big red fire truck in the middle of Main Street turned on its temporary lights and music started playing. There were 457 runners of which 392 were men. The largest number of men, approximately 1/3 of the total, was between the ages of 40 and 49.

My main goal during the first part of the event was to not go too fast and to take the first hour or two to warm up. 457 people running over roots, stones and wearing headlamps make a startling sight at 5 a.m. My night training on the Appalachian Trail in NC and practice climbs on Atalaya Mountain in Santa Fe was helpful.

I arrived at the first aid station at approximately the time planned, 2 hours and 15 minutes. My two crew members had arrived only 90 seconds before me! I was a bit anxious to get going and hardly stopped to talk, and I began the climb to the first mountain pass as daylight broke. There were great views and people were warming up to each other as well as to the sunshine. It is interesting that ultra marathons are, except for the front runners, a mostly non-competitive breed. Part of the joy of self propelled motion through weird hours is helping out others and being helped when in need.

The first real long descent of the course was down a very steep, rocky and long power line which I managed to navigate slowly and steadily using poles that turned out to be too short. It turns out that already I was not eating enough to sustain my pace. There is a special carbohydrate drink and energy gel combination that my stomach tolerates if I can force myself to drink some every 20 minutes. Twenty miles or so into the race, I forgot about doing this. Also, I put on a headset with music to cover the paved road section. In retrospect, I ran this section too fast (due to the rock & roll beat) and this weakened my quads to where later on they could not stand the stress of the steep down hills yet to come.

The time approached 10 to 10:30 in the morning as I climbed up into a dense forest. Descending into the 4th medical station, I was weighed by the race personnel and they thought that I had gained 2 pounds, but it was my wet clothing that fooled the scales because it had started to drizzle. Leaving Twin Lakes approximately 2 hours ahead of my planned time, I began the big ascent up to Mt. Hope and fell into step with some fellow runners. I was feeling good, too good for my own good!

Approaching the 45 mile mark at approximately 2:30 p.m. and 12,000 feet, it was beautiful, but then came the steepest descent of the day. My knees started to really hurt; the kind of hurt that really grabs your attention. My running poles were too short and there were no tree branches to use as poles at that high elevation. The poles literally took away my energy and did nothing to cushion the jarring from landing on uneven rocks and boulders. Then it started hailing. I did not have any Advil, knee brace, or friend to help and I began to doubt my ability to run anymore. I lost two hours on the descent so that coming into the halfway point, I was very disheartened even though my overall time was decent.

I arrived at the turnaround point where my crew had set up a tarp on the ground, but unfortunately, there was no shelter from the storm. It was raining hard. My feet needed to be re-taped and that was difficult in the rain. The poles I had expected to replace my short ones had been misplaced. It took me 25 minutes to get in and out of that aid station, and I left in an even deeper funk.

The good news was that my pacer, Mike Levison, of Taos, NM, was present, ready and up for the challenge. He encouraged me to move along at whatever pace I could and immediately took control of my clothing and nutrition. As we started to climb up the

back side of Mt. Hope something clicked, and my legs started to pump again. Climbing is a pleasure when your knees hurt, while going downhill is torture.

As we crested the summit at 12,600 feet, there was a short sunshine break and we came upon a field of geodesic tents set up by volunteers with the help of 30 llamas. What a sight. Animals were grazing the high pastures above the lake just below Hope Pass. It was beautiful. Mike stopped to eat and chat and I started down on my own, resolved to avoid further distraction by food or conversation. This was a mistake, as hot food and sharing misery help the endurance racer cope with mood swings and body pain.

We began the 3500 foot, 3 mile descent around 6 PM. Darkness set in and the darn collapsible poles that I was using gave way every three minutes. We arrived at the aid station in the dark with only a 20 minute cushion from the cutoff time. If you don't make the cutoff, you are disqualified and pulled off the race course. I was not feeling hopeful that my knees would allow me to run again and time wise, we were cutting it close, way too close to relax.

Arriving at the aid station at the bottom at 8:45 p.m., the crew was troubled. No one seemed to know we were coming or where anything was. It took us 25 minutes to change my shoes and socks as a waist deep river needed to be forded to get back to Twin Lakes.

We were still just 20 minutes ahead of being disqualified. A woman runner who I had assisted in a 50 mile race several months earlier had showed up in Leadville to cheer me and some of her other friends on. She had stood in the rain for hours, watching my crew struggle, and she watched me limp into the station. I couldn't say a word, so we hugged and she said some words of encouragement like "you have all night to get back to Leadville. So don't worry." I started up the 7th of 10 sections, a steep rocky embankment, without my pacer. My heart was in the dumps and my knees were not working. There were 40 miles to go.

Mike caught up with me and as it was mostly uphill, we started passing people as we climbed the fifth of six passes. It was now about 11:30 p.m. and we came upon a pacer and her runner, a woman from Japan, who was suffering from oxygen deprivation. We met the local Search & Rescue team coming down the trail about 20 minutes later. Six beefy guys were carrying up a huge stretcher to get her.

Mike had fixed my poles back at the last aid station, so as we came into the seventh aid station, we had actually picked up 10 minutes. I started to have hope that we could make it under the 30 hour deadline, though I knew it would be close.

It was 1 a.m. by the time we arrived at station 8, and Mike and I developed a strategy of my not stopping at all as we passed through the aid stations and crew stops. My pacers would coordinate the gear and then catch up with me, not too hard as I was shuffling along, unable to run.

The second pacer was Karen Turner. We clicked into a productive routine within five minutes and we power walked to the next aid station picking up another 15 minutes. We now had a 45 minute cushion and I started to feel better. The aid station took up 10 minutes so we were only 35 minutes ahead on the second to last section. This was climbing the same power line I had descended much earlier the previous morning. It was now 2:15 a.m.

Karen's husband, Ed Turner, was my final pacer for the last 22 miles. We climbed into a cloud of mist and fog in the middle of the night. The crescent moon came out as did the Milky Way. We passed many runners with pacers and other runners who were alone. Ed is the kind of guy who talks to everyone he meets on the trail. He invited several people without pacers to join us and we found out later that it had helped them out a lot!

The descent from the top of Hagerman Pass was painful as it included 3 miles of the very rocky Colorado Trail. At 5:45 a.m., we came into the last aid station, #9. I was in and out in 5 minutes while Ed stayed to eat. We had four hours left and 13.5 miles to go, half of it on a gnarly trail around Turquoise Lake before we hit a short but steep downhill power line and then the road back to town. There were no other runners in sight as I left the station. My mood was somber.

The caffeine I had been drinking all night in the form of Starbucks double shot and occasional gulps of Red Bull and Coke were wearing off. I knew I had to pound the trail in order to keep going. Daybreak was upon us. Finishing seemed possible but not guaranteed.

I reluctantly left my poles with the crew as per Ed's instructions. He urged me to power lope downhill which made our travel pace quicker though more painful.

Running around the lake, we joined two other runners with their pacers. We moved along as a group for almost an hour, and as we came down the short power line, I could barely walk. We had 5 miles to go at about 8 a.m. with little muscle mass.

The final portion of the race was going up the same dirt road we had run down about 28 hours earlier. I was able to muster some extra energy and as it was uphill, we surged ahead of the group with whom we had power walked around the lake. Ed counseled me to soak in the views and was upbeat while I reminded him that we still had 2 miles to go in a little over an hour. I started to feel like we were going to make it.

The last half mile of the race, the crew joined us and a crowd of townspeople started to appear along the roadside. I was, for the first time, able to soak up the beauty of the surrounding mountains in the morning sun. As I crossed the finish line with tears of happiness, the race director couple gave me a large and warm hug.

I slid through the mandatory medical check and then back at the motel my friends helped get my crippled lower body into an ice bath. Later I couldn't get warm, was dizzy and had to lie down as we waited at a local restaurant for some grub.

It seems to me that 100 mile foot races are not so much about running as one's frame of mind and relationships with others. This wonderful event could not have been successfully put on without the support of my great pacers and crew, race volunteers and many public agencies. And, yes, I'm already researching a different race for next year!

Other Personnel News

Juliana: David and I spent two weeks in Scotland, touring the highlands and enjoying the green. We actually had unusually fine weather and contrary to all reports, the food was delicious! I especially enjoyed the seafood – mussels, scallops and salmon are fine with me morning, noon or night.

Jeff: My daughter, Stephanie, and I went to the Sand family reunion in Ellendale, North Dakota this past July. It had been over 20 years since my last visit to ND. We stayed with one of my cousins on his farm. I used to stay with this cousin and his family to work on their farm during the summers when I was a teenager. Stephanie, who is 11 years old, had the greatest time. She liked the wide open spaces and being around all the farm animals. She especially liked riding on the all terrain vehicle (ATV) to go check the cattle each morning with my cousin. Everyday was a great adventure for her and she didn't want to come back home when the week was over. My sister and her oldest daughter, who live in Arizona, also attended the reunion. We got to see lots of aunts, uncles, cousins and friends. We also visited our old neighborhood in Jamestown, ND where we grew up and we had a get together there with a lot of the old neighbors. I got to spend part of that afternoon with one of my best friends from grade school and that was a real treat for me. It had been very hot before we arrived, but we were fortunate that the temperature cooled down and the weather was very nice while we were there.

Dana: I spent most of the summer in Santa Fe tending my garden and beehives after completing a nine weekend course at Ecoversity in organic top bar beekeeping. I'm happily harvesting the golden bounty and am on the lookout for places to situate more hives next spring.

Current & Upcoming Events

Rob is one of the artists represented in a current exhibit at the St. John's College Art Gallery entitled "The Magnificent Subject: Drawing is the Essence of Art." The show features a collection of work from a number of artists who are members of the acclaimed John Sloan Drawing Group. Rob has a number of figure studies as well as two egg tempera panels from a large work in progress. The show runs through Sunday, October 29. Gallery Hours: Fridays and Saturdays 5 – 8 p.m., Sundays 1 – 5 p.m., or by appointment by calling 505-984-6199.

The next tea will be held on Thursday, November 16, from 3 to 4:30 p.m. at the Rikoon Carret offices in Santa Fe. Please RSVP at 989-3581 if you are able to join us.