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A line graph showing market volatility. The graph features a jagged line that starts on the left, rises to a peak, falls to a trough, rises again to a higher peak, and then falls. A green rectangular box is overlaid on the graph, containing text. The text is white and reads: 'Stuff Your Mother Never Told You About Wall Street and the Fed Interview with Jim Bianco'. Below the text, the date 'May 10, 1999' is written in white. The background of the graph is white, and the line is black.

## Stuff Your Mother Never Told You About Wall Street and the Fed Interview with Jim Bianco

May 10, 1999

# The Fed Blew It. So Did The Consensus - Again!

## What Was The Fed Thinking?

Real growth when both the fed funds rate and the discount rate fall at least 50 basis points (1958 to 1998)

| Quarter        | Funds Rate   | Qrtly Chg.   | Disc. Rate      | Qrtly Chg.   | Real GDP      |
|----------------|--------------|--------------|-----------------|--------------|---------------|
| Q4 1970        | 4.90%        | -1.4%        | 5.50%           | -0.5%        | -3.90%        |
| Q1 1971        | 3.71%        | -1.2%        | 4.75%           | -0.7%        | <b>11.30%</b> |
| Q4 1971        | 4.14%        | -1.4%        | 4.50%           | -0.5%        | 1.10%         |
| Q1 1975        | 5.50%        | -3.0%        | 6.25%           | -1.5%        | -5.40%        |
| Q2 1980        | 11.00%       | -6.0%        | 11.00%          | -2.0%        | -9.30%        |
| Q4 1981        | 13.50%       | -2.0%        | 12.00%          | -2.0%        | -4.90%        |
| Q3 1982        | 10.00%       | -4.0%        | 10.00%          | -2.0%        | -2.00%        |
| Q4 1982        | 8.50%        | -1.5%        | 8.50%           | -1.5%        | 0.50%         |
| Q4 1984        | 8.00%        | -2.5%        | 8.00%           | -1.0%        | 2.60%         |
| Q2 1985        | 7.80%        | -0.8%        | 7.50%           | -0.5%        | 2.00%         |
| Q3 1986        | 6.00%        | -0.8%        | 5.50%           | -1.0%        | 2.20%         |
| Q4 1990        | 7.00%        | -1.0%        | 6.50%           | -0.5%        | -4.00%        |
| Q1 1991        | 6.00%        | -1.0%        | 6.00%           | -0.5%        | -2.10%        |
| Q4 1991        | 4.00%        | -1.2%        | 3.50%           | -1.5%        | 1.00%         |
| Q3 1992        | 3.00%        | -0.8%        | 3.00%           | -0.5%        | 3.00%         |
| <b>Q4 1998</b> | <b>4.75%</b> | <b>-0.5%</b> | <b>4.50%</b>    | <b>-0.5%</b> | <b>5.60%</b>  |
|                |              |              | Avg.            |              | -0.53%        |
|                |              |              | Pct Neg.        |              | 47%           |
|                |              |              | Pct. Below 2.5% |              | 80%           |

Source: Logical Information Machines, Chicago IL

Note: There were no instances between 1958 and 1970

## Too Low Again!

GDP has beaten median estimate for 11 consecutive quarters (Estimate taken the week before the release)

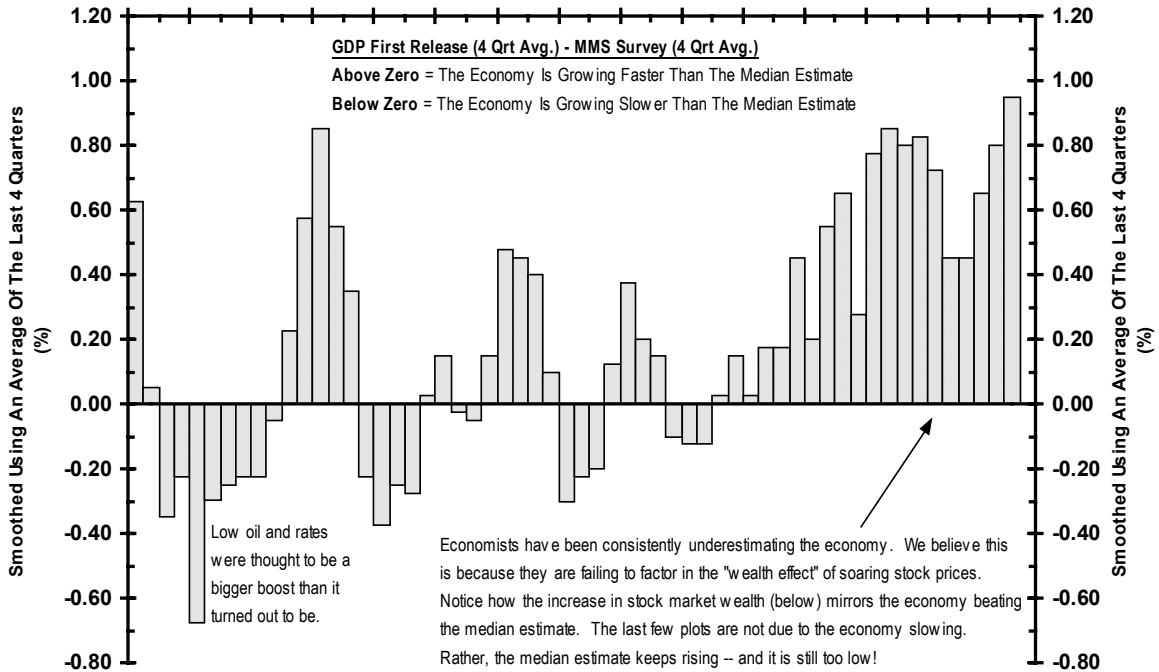
| Quarter        | GDP -- First Release |             | Difference (Act - Est) |
|----------------|----------------------|-------------|------------------------|
|                | Actual               | Estimate    |                        |
| <b>Q1 1999</b> | <b>4.50</b>          | <b>3.40</b> | <b>1.10</b>            |
| Q4 1998        | 5.60                 | 4.20        | 1.40                   |
| Q3 1998        | 3.30                 | 2.20        | 1.10                   |
| Q2 1998        | 1.40                 | 1.00        | 0.40                   |
| Q1 1998        | 4.20                 | 3.50        | 0.70                   |
| Q4 1997        | 4.30                 | 3.60        | 0.70                   |
| Q3 1997        | 3.50                 | 3.20        | 0.30                   |
| Q2 1997        | 2.20                 | 2.00        | 0.20                   |
| Q1 1997        | 5.60                 | 4.00        | 1.60                   |
| Q4 1996        | 4.70                 | 3.50        | 1.20                   |
| Q3 1996        | 2.20                 | 2.00        | 0.20                   |
| <b>Q2 1996</b> | <b>2.20</b>          | <b>2.30</b> | <b>-0.10</b>           |
| <b>Q1 1996</b> | <b>0.50</b>          | <b>0.90</b> | <b>-0.40</b>           |

MMS Survey taken the week before the release

# Are Economists Missing The "Wealth Effect"

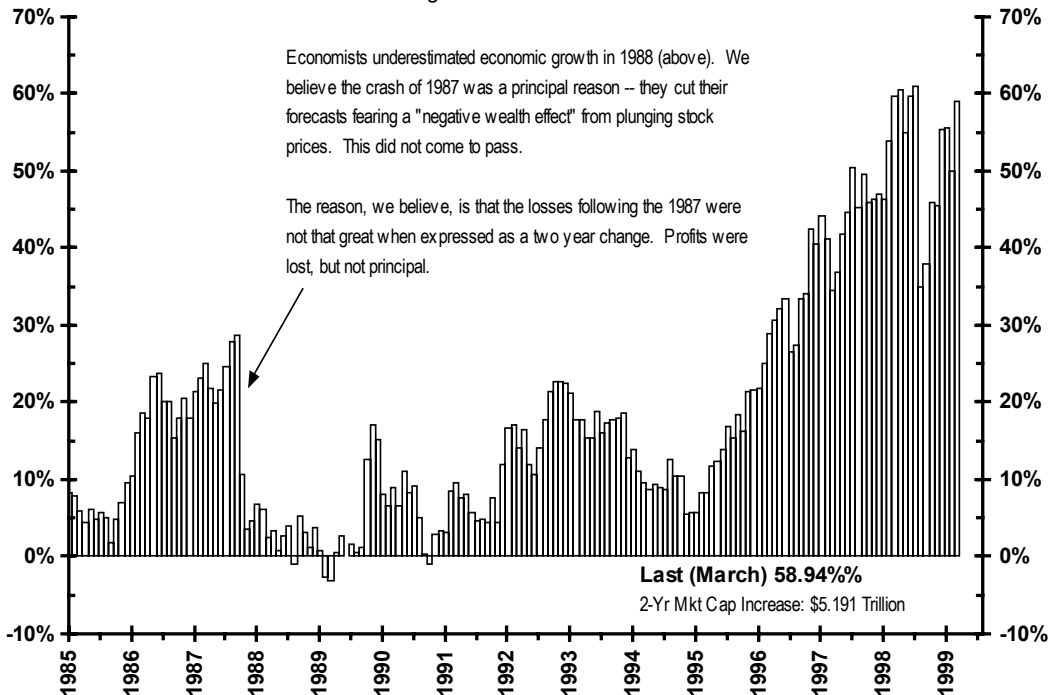
## GDP Reality vs Perception: Actual GDP Minus MMS Median Estimate Survey

Economists Continue to Underestimate the Economy

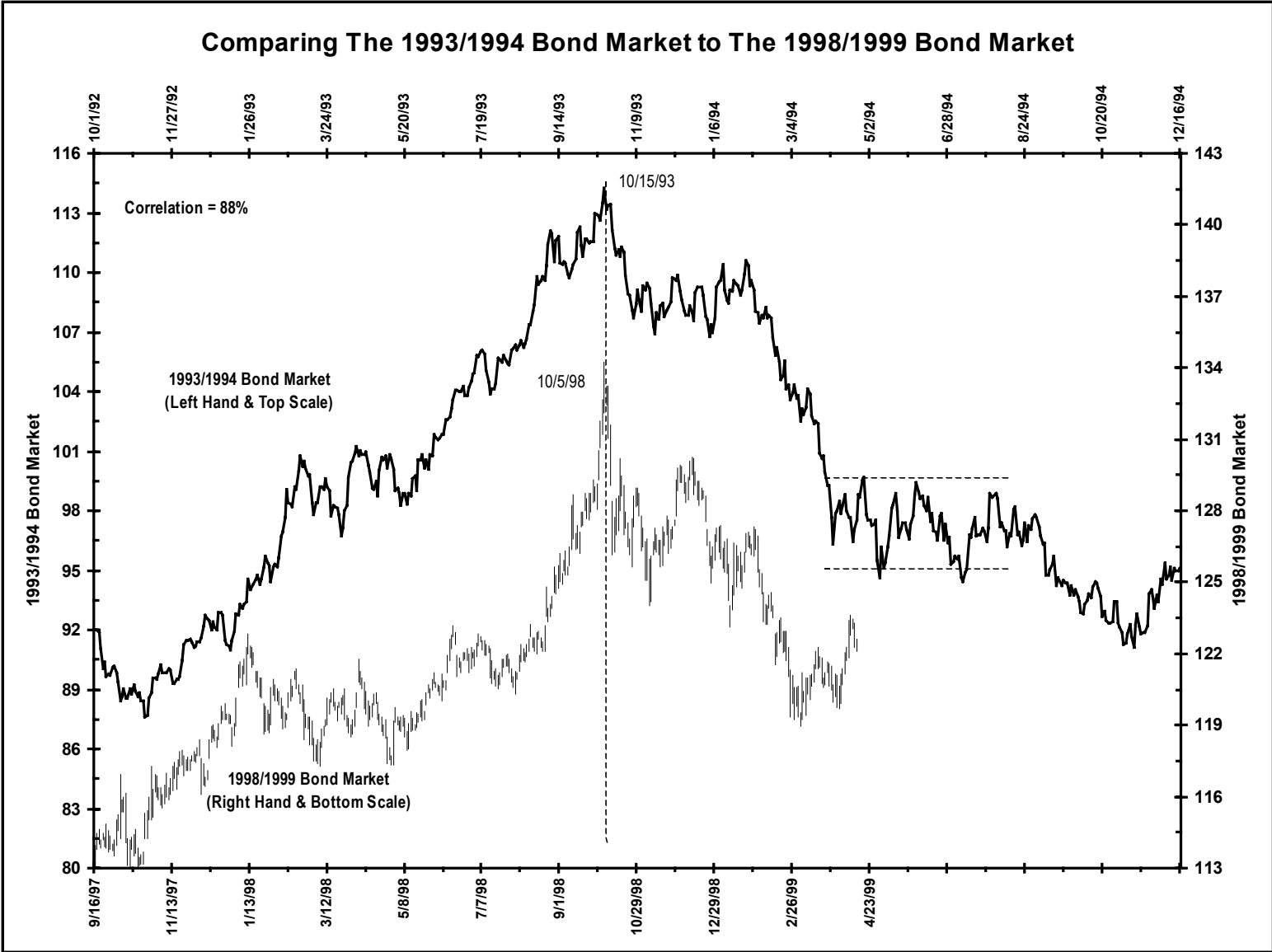


## 2 Year Increase in the Stock Market's Capitalization as a % of Nominal GDP

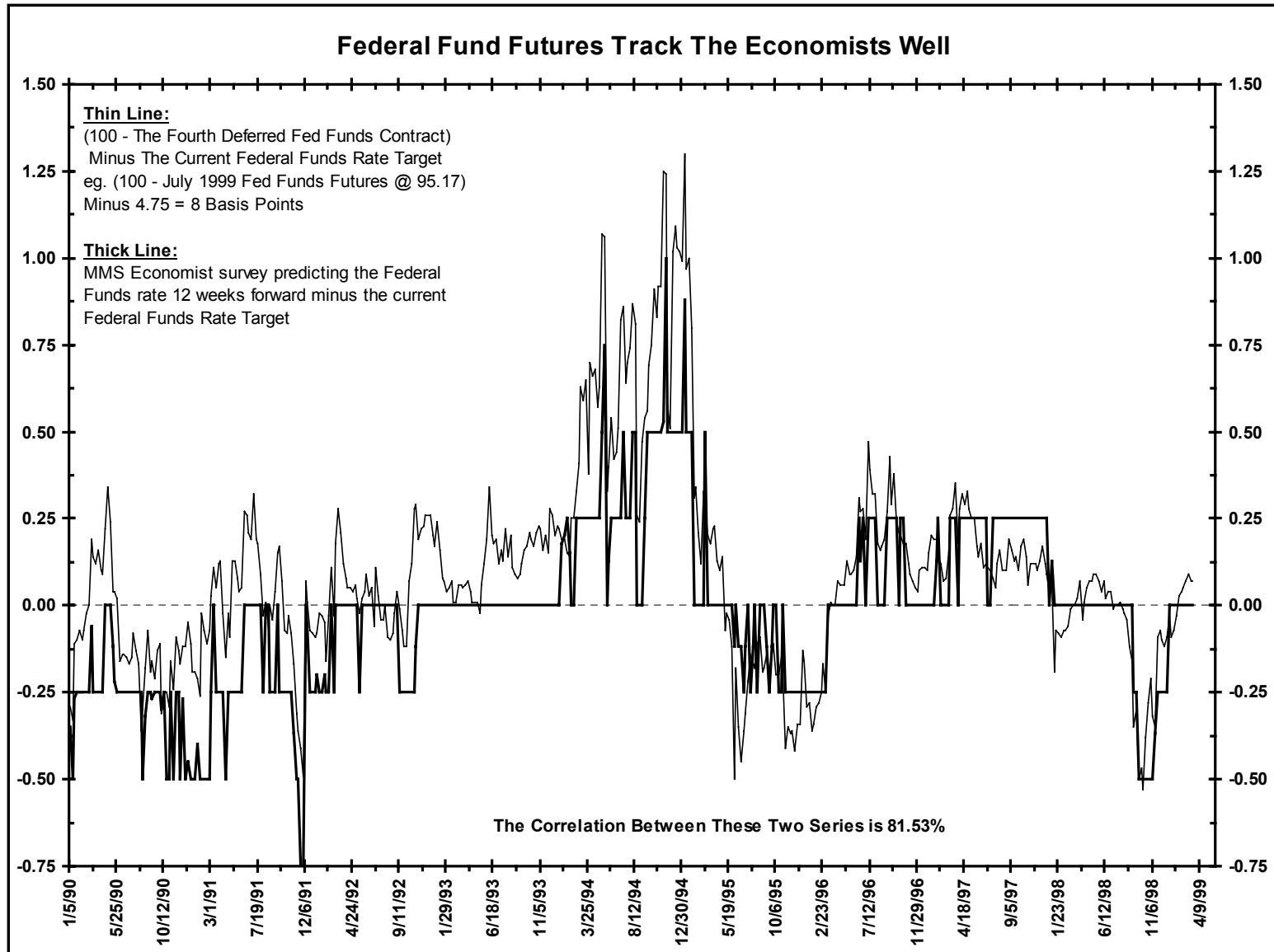
The Largest Creation of Wealth Ever



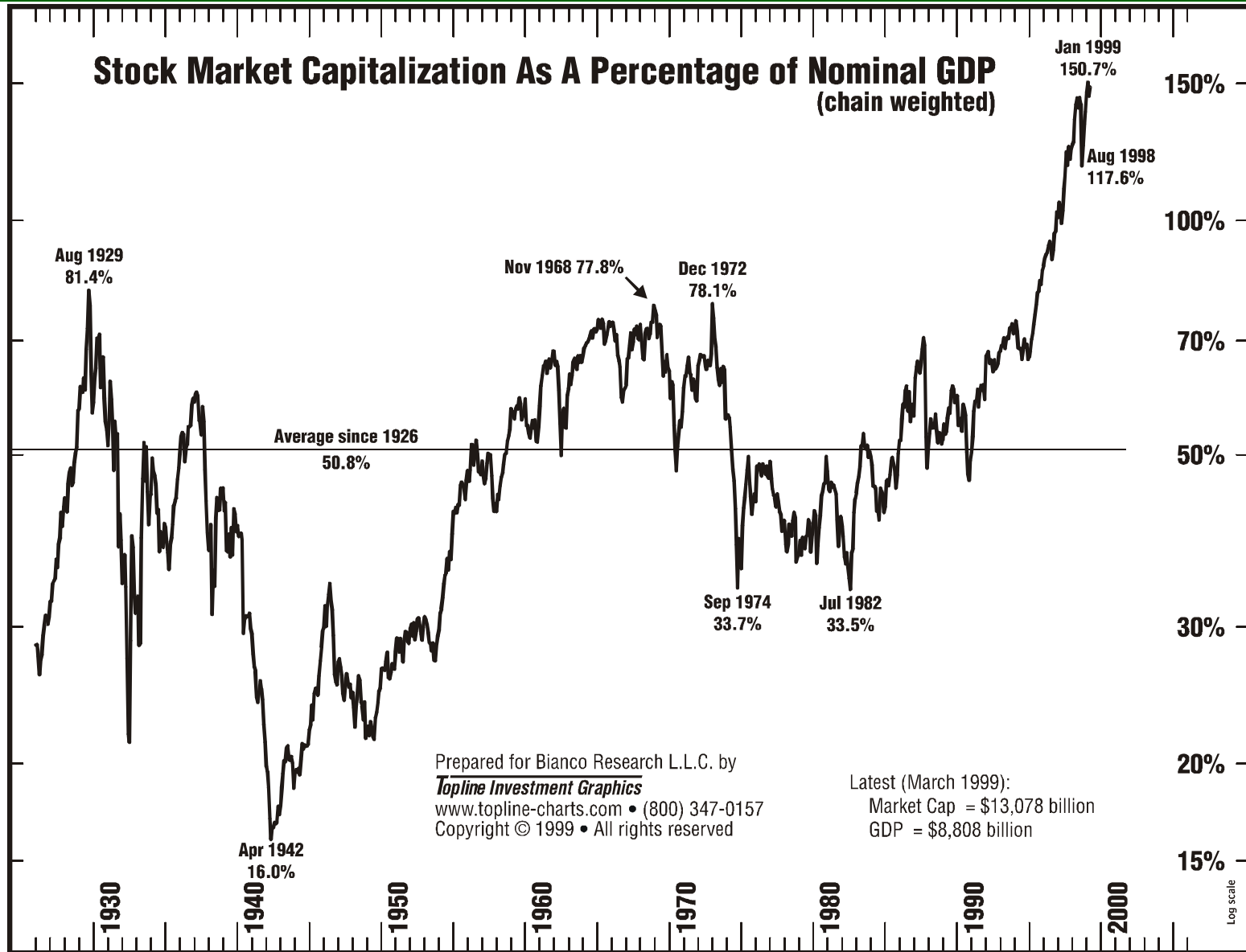
# 1993/1994 vs. 1998/1999



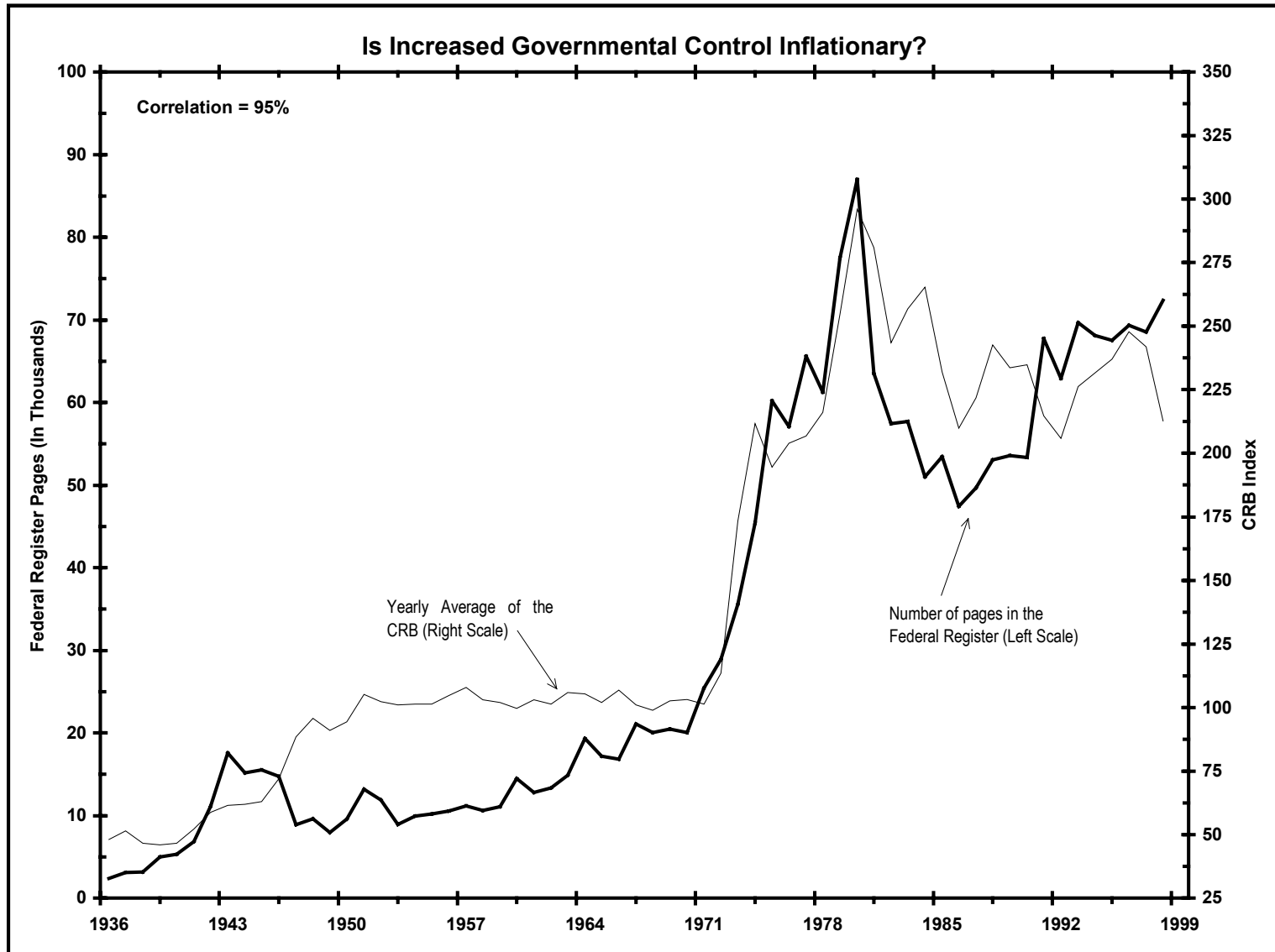
# Federal Funds Futures as an Indicator



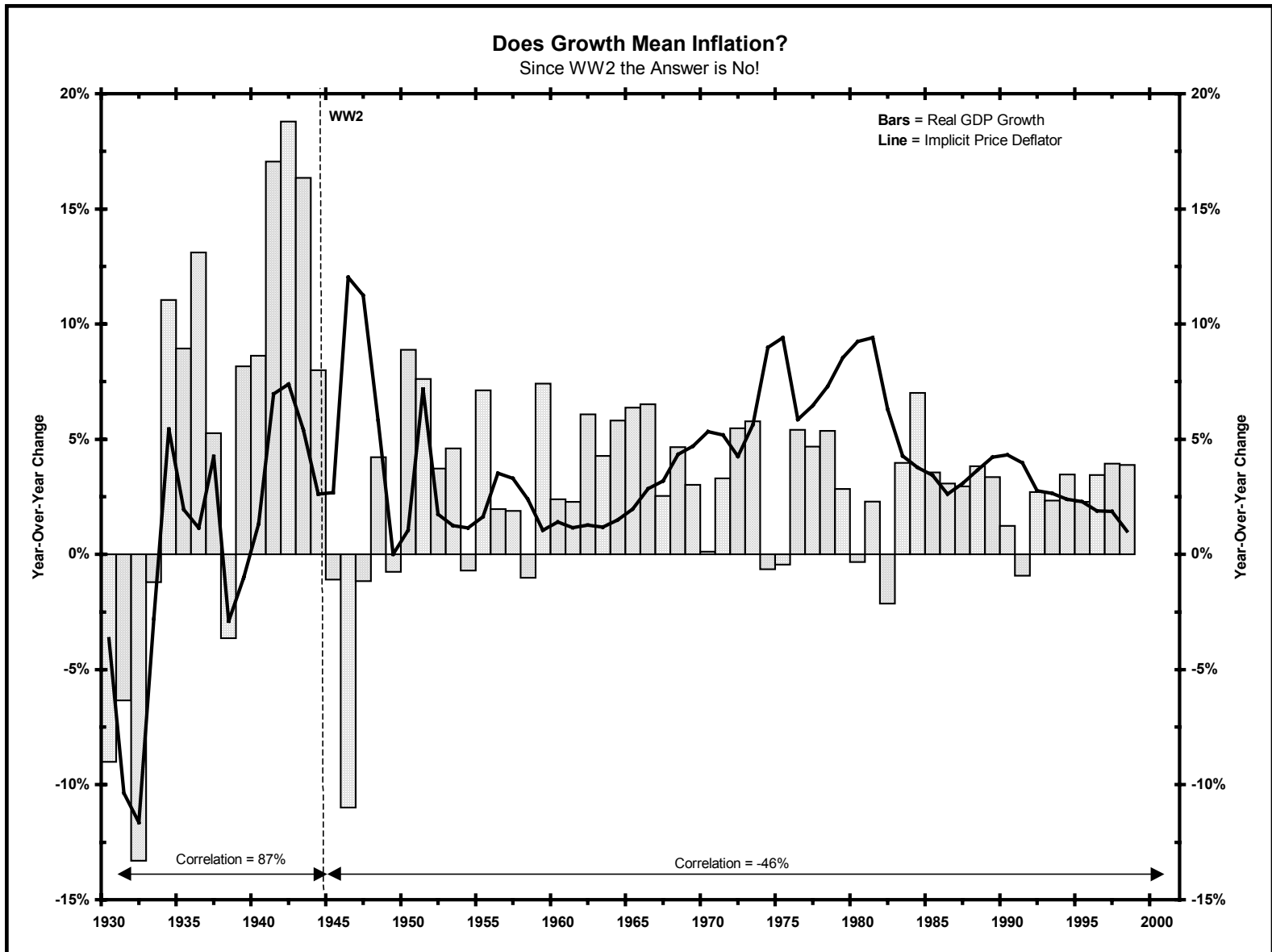
# Measuring The Wealth Effect



# The Federal Register and the Bridge/CRB

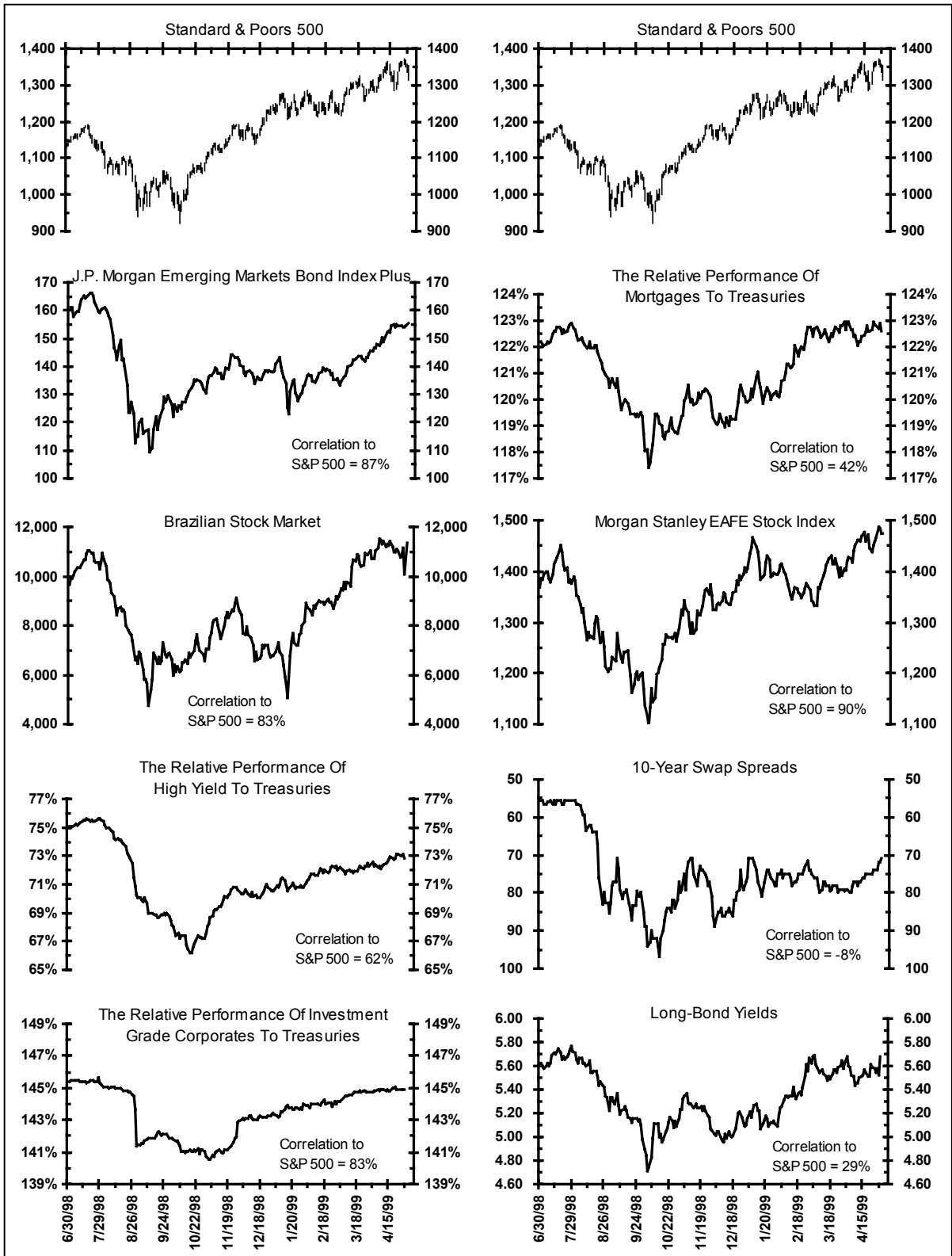


# Does Growth Mean Inflation?

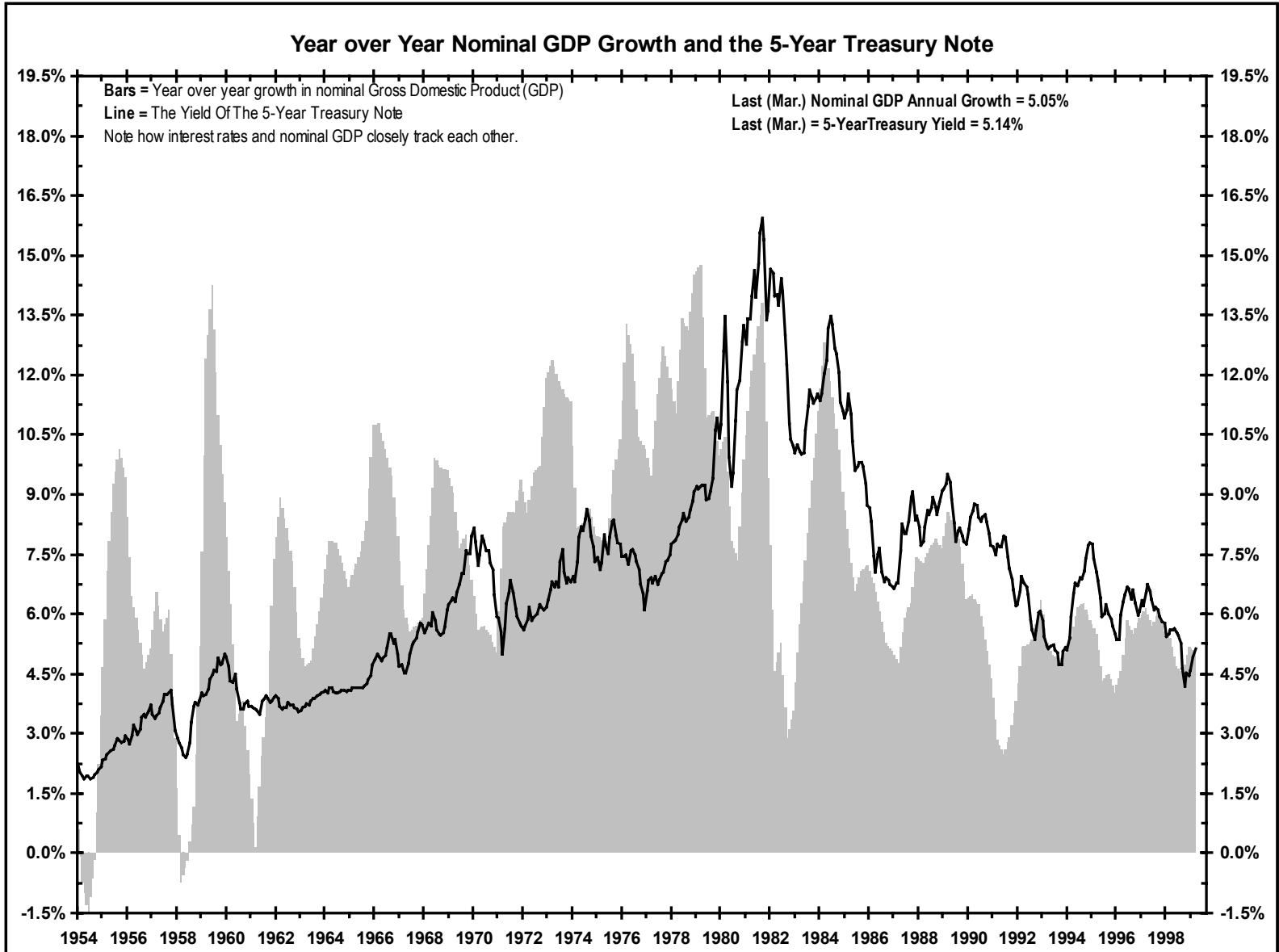




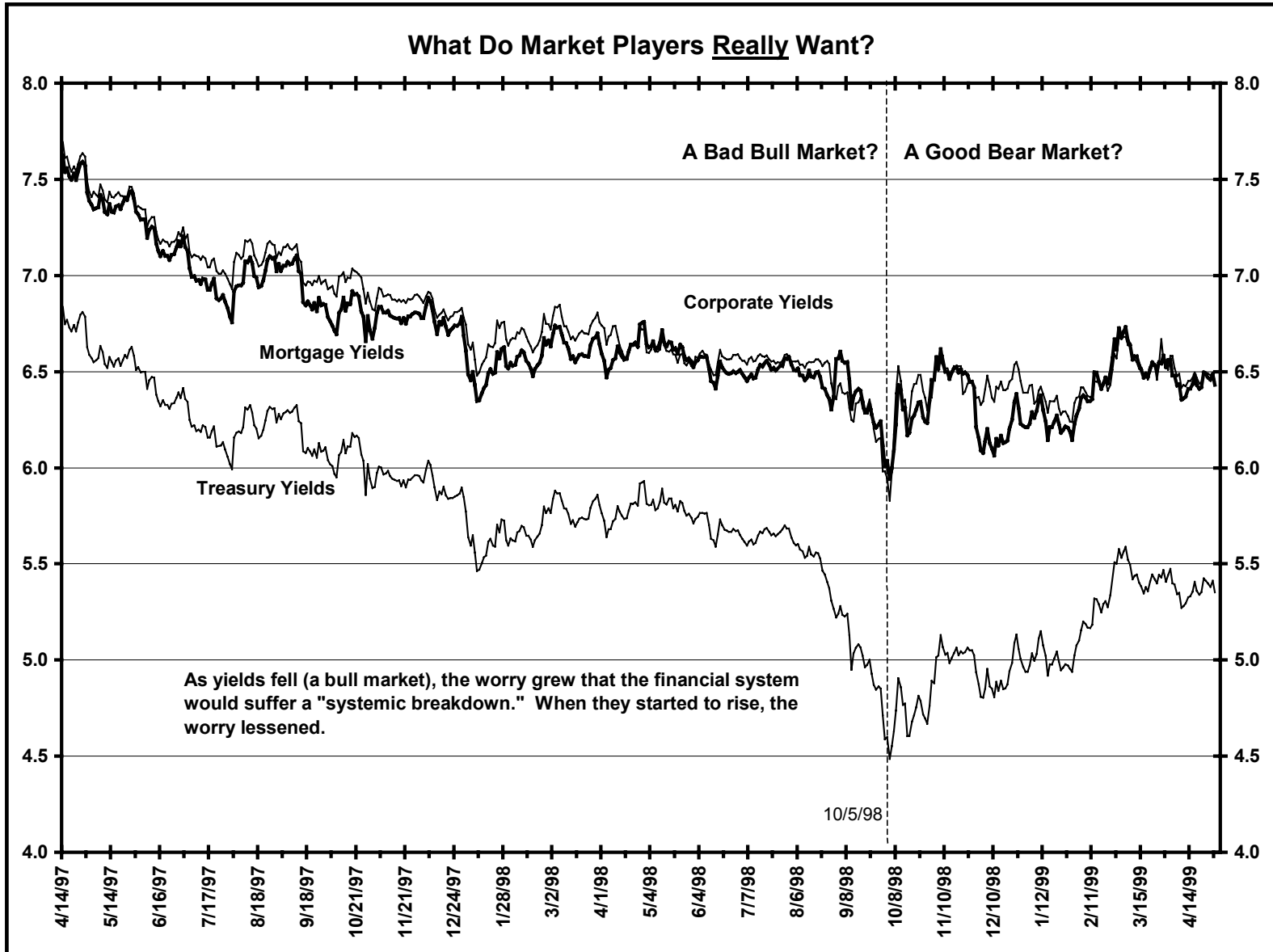
# Are All Markets The Same?



# The Best Measure Of Interest Rate Valuation



# A Bad Bull Market?



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