



American Shareholders Association

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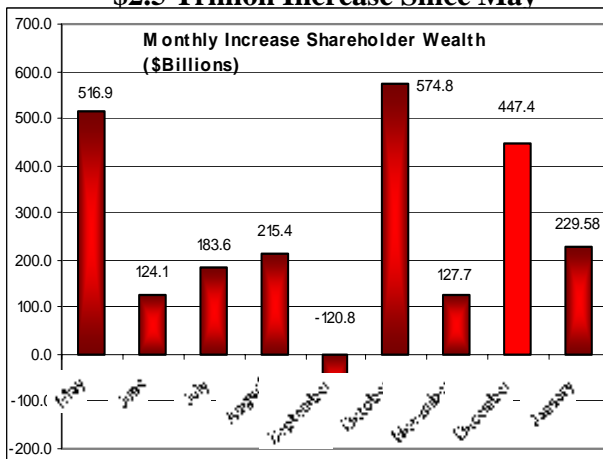
Jobs and Growth Tax Relief Reconciliation Act

ASA Stock Market Scorecard – 2/17/04

How High Can the Markets Go?

Coming off a superb year, in which shareholder wealth increased more than 29 percent, most analysts are suggesting growth will fall more in line with historic averages in the 7 – 10 percent range in 2004. However, 2004 started with a bang as shareholder wealth is up 3.5 percent for the year, with more to come in the future. January experienced an increase of \$230 billion and February, which historically is a down month for stocks, is already up \$145 billion in just 10 trading days. The forward earnings yield on the S&P500 relative to the yield on the 10-year Treasury bond is indicating the market could still be undervalued by as much \$3.5 trillion, which would place shareholder wealth above its March 2000 peak. Barring unforeseen circumstances, a 1,300 S&P and 12,000 Dow are well within reach this year. Corporate profits are at record highs and with low interest rates and stable inflation, shareholder wealth is on pace to accumulate an astonishing \$6.3 trillion of new wealth between October 2002 and Election Day 2004.

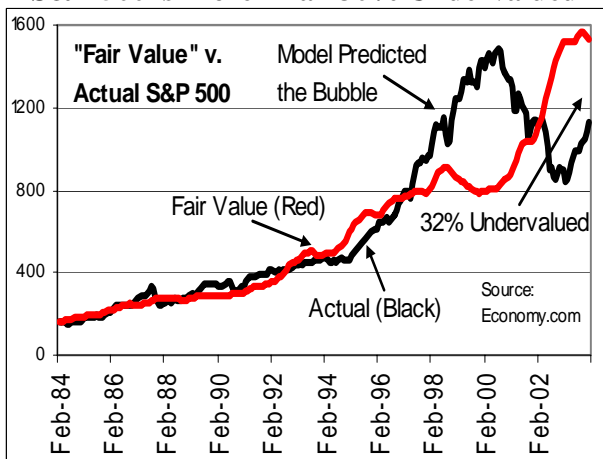
\$2.5 Trillion Increase Since May



2004 Starts Off With a Bang

Shareholder wealth increased another \$230 billion, or 2.1 percent, in the first month of 2004. January marked the fourth straight month shareholder wealth increased and the 10th time in the last 11th months. The rally has continued through the first two weeks of February, running up an additional \$145 billion in just 10 trading days. Since April, shareholder wealth has increased by at least \$120 billion in every month, save for September. Since May, shareholder wealth has increased by 28.5 percent which translates in \$2.5 trillion for shareholders. Shareholder wealth has now restored 52 percent of all the losses from March 2000 through October 2002. 62.7 percent of the increase has occurred since the tax cut agreement was reached May 20th.

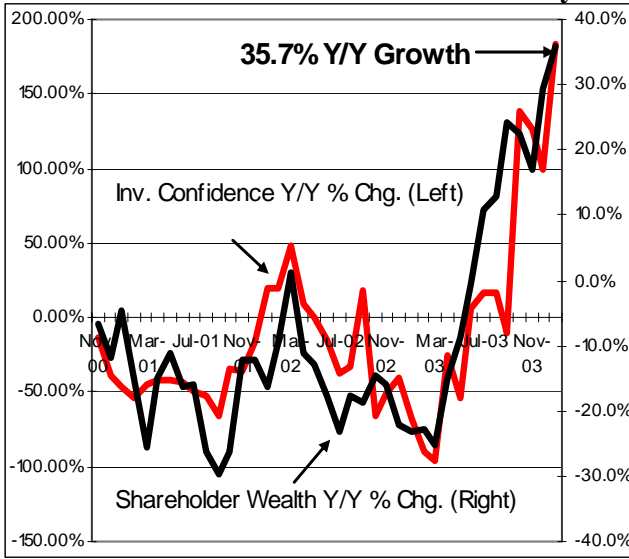
S&P 500 is More Than 30% Undervalued



Stock Market Is Significantly Undervalued

Despite the \$3.8 trillion increase of shareholder wealth since October 2002, there is significant room for more growth in the markets. In fact, the S&P 500 can be as much as 35 percent undervalued. Using Federal Reserve Chairman Alan Greenspan's "fair value" of stock prices (the forward earnings yield on the S&P500 to the yield on the 10-year Treasury bond) markets appear to significantly undervalued. Currently, the forward earnings yield is significantly higher than the 10-year Treasury (see chart). With corporate profits as a percentage of GDP at its highest level ever and interest rates still historically low, total shareholder wealth should be around \$14.8 trillion, a level higher than its March 2000 peak. Moreover, the S&P 500 should be hovering around the record breaking 1600 mark.

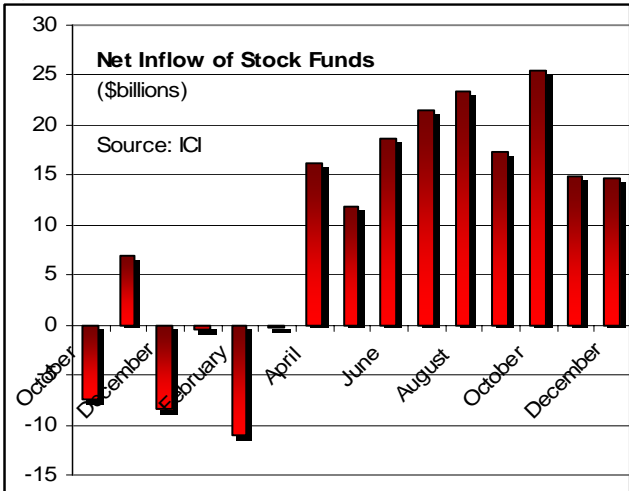
Annual Growth Accelerates in January



Shareholder Wealth Up, Investor Confidence Up

Annual growth of shareholder wealth accelerated in January due to the strong gains in the month and a low base in January 2003 when war uncertainty weighed down the markets. The 35.7 percent annual growth is very impressive reflecting broad based growth in the markets and the return to strong profitability. Since the market's low, October 9, 2002, shareholder wealth has increased an average rate of more than \$11.2 billion per session. Even more impressive, shareholder wealth has increased at a rate of \$12.8 billion per session since the tax cut agreement was reached May 20th. This equates roughly to an annualized rate of \$3.3 trillion of shareholder wealth. The annualized rate has stayed above \$3 trillion every day since December 18th indicating the rapid growth is more than just a low base. Shareholder wealth is now accelerating above the previous trend and as a result investors are growing increasingly more confident.

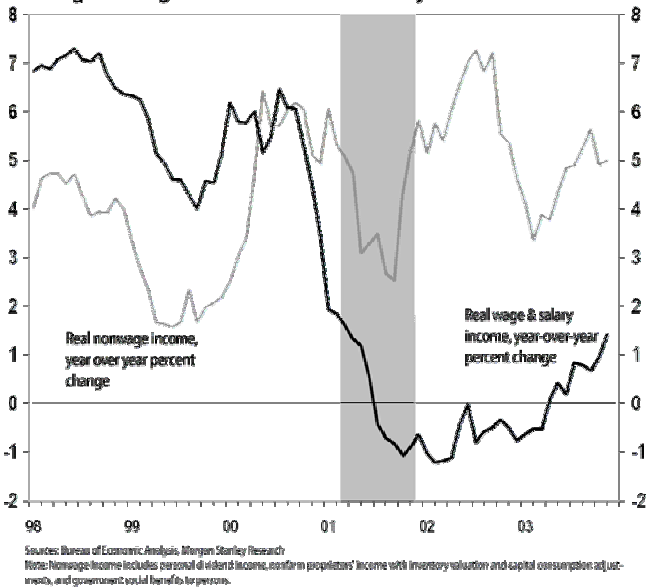
\$152 Billion Increase into Stock Funds in 2003



Investors Continue Pouring Cash into Mutual Funds

The combined assets of the mutual funds industry continued to increase in December according to the Investment Company Institute (ICI). The combined assets of the mutual fund industry now stand at \$7.413 trillion, a 2.5 percent increase from November. Driving the growth of this increase was net inflow of stock funds. December marked the ninth straight month net inflow into stock mutual funds increased. Over this nine month period, a total of \$164 billion net inflow has been placed into stock funds. This is average of \$18.22 billion per month. For the year, a net inflow of \$152.2 billion has been placed into stock funds, thus rebounding after a negative first quarter. The outflow of money market mutual funds continued in the month of December with a net outflow of \$22.83 billion. This indicates that investors continue to grow more confident of the market fundamentals and are taking on more risk.

Soaring Nonwage Income Cushions the Paycheck Growth Shortfall



CBO Underestimating Non Wage Income Growth

Last month, the Congressional Budget Office (CBO) released their annual forecast for the federal government finances. The report, however, missed the growth of non wage income such as capital gains, dividend, stock options, bonuses, and small business income resulting from a booming stock market. In fact, the report actually predicts a decline of capital gains revenue despite the record breaking growth of shareholder wealth and the change in the capital gains tax rate, which results in investors "unlocking" their gains. Moreover, the report misses the rapid response to the change in the dividend rate and is thus overestimating the revenue "loss" from the dividend tax cut. Most importantly, the growth of small business income has been growing at double digit pace over the past year which will result in higher tax payments in April. Despite the average American family receiving a \$2,500 refund on their taxes, expect to see a substantial reduction in the deficit forecast when the tax returns are tallied up in May resulting from the stock market.