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August 10, 1989

TO: Members of the Board of Trustees and Inner Circle
FROM: Steven Cord, President *gbc*

From time to time, I like to keep our trustees and Inner-Circle members abreast of latest Foundation news.

1) Don't worry - we are changing the letterhead as soon as we finalize our office lease. We are likely to remain where we are for the next three years, but there is a possibility of change.

2) Our latest Annual Meeting of the Board proceeded smoothly, and so did the International Conference; both were held at the University of Pennsylvania in Philadelphia. There was the usual stimulation (almost to the point of exhaustion!), plus we made many valuable contacts (e.g., with Charles Ravasch of Hungary), plus we got good hard empirical evidence from Canada, Denmark and Victoria; see future articles in IT.

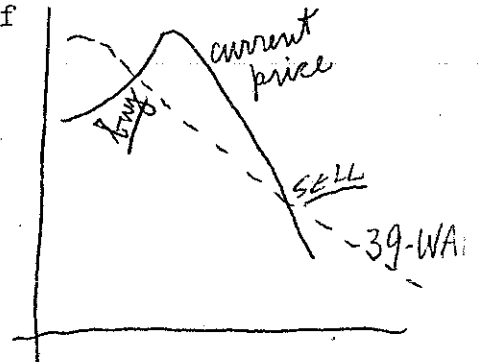
3) I would like to welcome four new trustees into our midst - all 100% Georgists. They are Gurney Breckenfeld (replacing Perry Prentice) who wrote that famous Fortune magazine article; Bill Kells (replacing Edward Schoyer) and Jean Windsor (replacing Marian Hahn); and Woodrow Williams (replacing Richard Biddle). The new trustees will be receiving special financial materials. They were all present at the Conference.

4) Our total assets (HGFA, C.S.E. and CG/USA combined) now exceed \$350,000, almost \$220,000 of which were invested according to the timing system of Richard Fabian, advisor. So far this year, this system has exceeded the DJI return and is yielding a 26% gain, with much of the year still to go. I would like you all to know how this system works.

With minor variations, when the current price of a mutual fund composition is above its 39 weekly average reading (of the 39 previous Friday closings) then we get a BUY signal to go into growth mutual funds; when it falls below it 39-WAR, then we get an automatic SELL signal and retreat into money-market funds until the next BUY signal occurs; we accomplish

this switch by a telephone call (we only buy one of the many funds which maintains a family of funds and a telephone-switch privilege). The system is automatic, relying not at all on intuition or knowledge of the market (which are unreliable). There is no secret information - Fabian's newsletter (\$117/yr.) provides all the necessary data to operate and check up on the results.

Two problems can result, but fortunately there are remedies. First, we can lose a little money if the 39-WAR is declining, which is rare but it does occur (see diagram). But Dan Sullivan has suggested that when this does occur, we can move in only half of our assets until the 39-WAR turns upward. Secondly, we can suffer excessive exposure if our mutual fund composite floats high above its 39-WAR (a happy occurrence but one which allows us to be excessively exposed to an unlikely drop in the market for stocks) - but for this we are positing a new rule, when the current price floats more than 8% above its 39-WAR, then we will start using a 13-WAR which will give us a sooner SELL signal and cut down our downward market exposure. These two new rules should enable us to beat the Fabian system record, which is a solid 20%/yr. total return for every five-year period since 1977, when the Fabian newsletter began (documentation upon request). The return is not even - in some years there were big gains, in other years no, but since 1977, the return has averaged 20%/yr. over every five-year period. We would like to continue with this system.

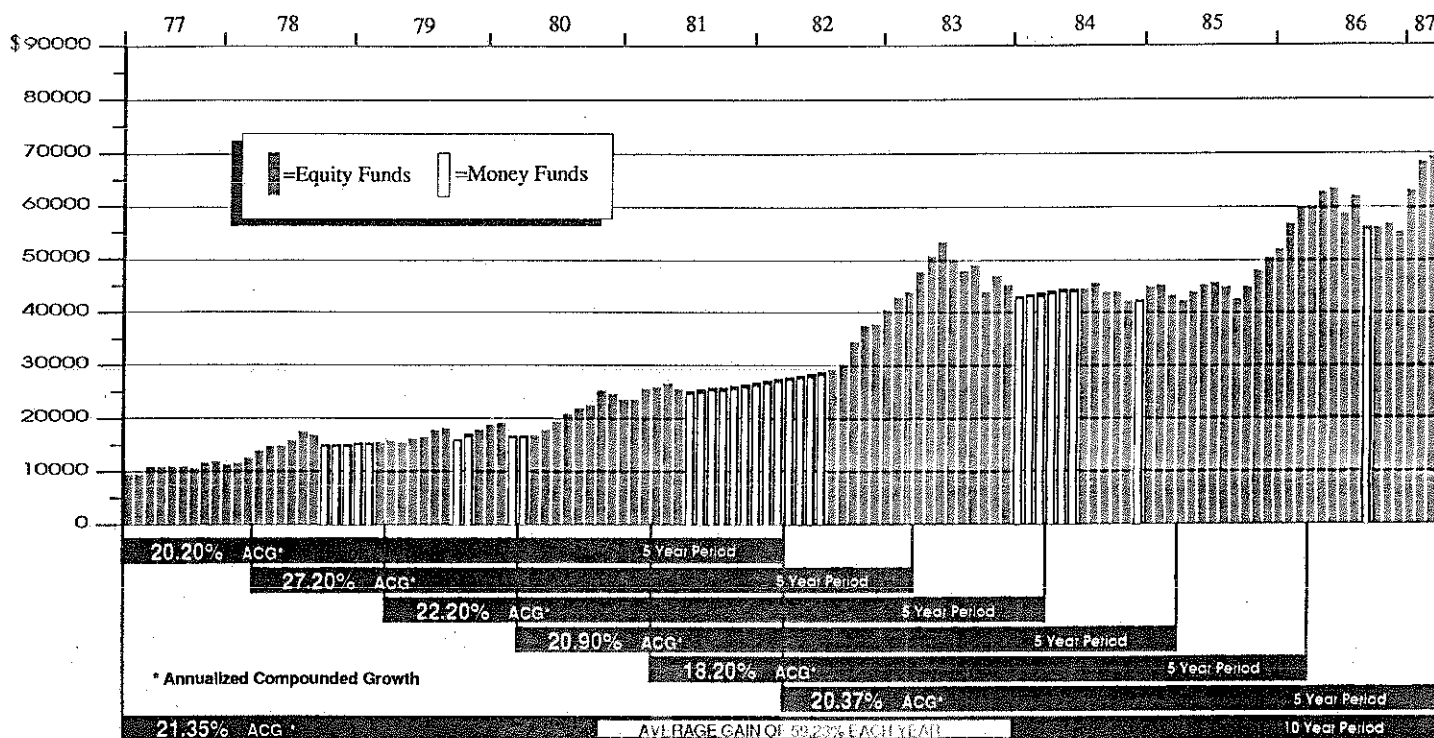


The Record: Mark Hulbert, who is the premier evaluator of market timers, rates the Fabian system #4 for risk-adjusted performance (the other three all depend on what I regard as undependable secret market knowledge and intuition). Since 1967, the Fabian system has not had an annual loss over any 5-yr. period and almost equaled at least 20%/yr. over any 5-yr. period; likewise when applied to the S&P 500 average over the 60 yr. period 1926-1986 (the study was finished in 1986). A buy-and-hold for the DJI starting in Oct. 1926 resulted in \$10,000 growing to \$127,200 by Sept. 1988; the 39-WAR Fabian system resulted in \$10,000 growing to \$1,101,000 (documentation available upon request).

Prospect: will we get out ahead of when we went in at 12/7/88? Will we beat the S&P500 during this time? We are optimistic. Remember, the current price is always more volatile than the 39-WAR, so it will dive below the 39-WAR, giving us an automatic SELL signal, once the market starts turning downward - so this system is VERY conservative.

Hang in there. We need your support, otherwise our accomplishments will diminish greatly.

Dick Fabian's MUTUAL FUND COMPOSITE : April 1977 - March 1987



NOTES

(1) Please read the graphs carefully - they show the Fabian timing record clearly.

(2) There are two ways to do well in the stock market - (a) invest in fast-growth stocks (not good for us - too risky); (b) avoid being in the market during down-turns (conservative - good for us). Moving-average timing does the latter.

(3) When we get larger and develop a surplus income, we can start to diversify even more than now. Now our mutual funds own more than 150 stocks and we are invested in a bond and some unleveraged (or in one case, not highly leveraged) real-estate limited partnerships and also an equipment-leasing limited partnership.

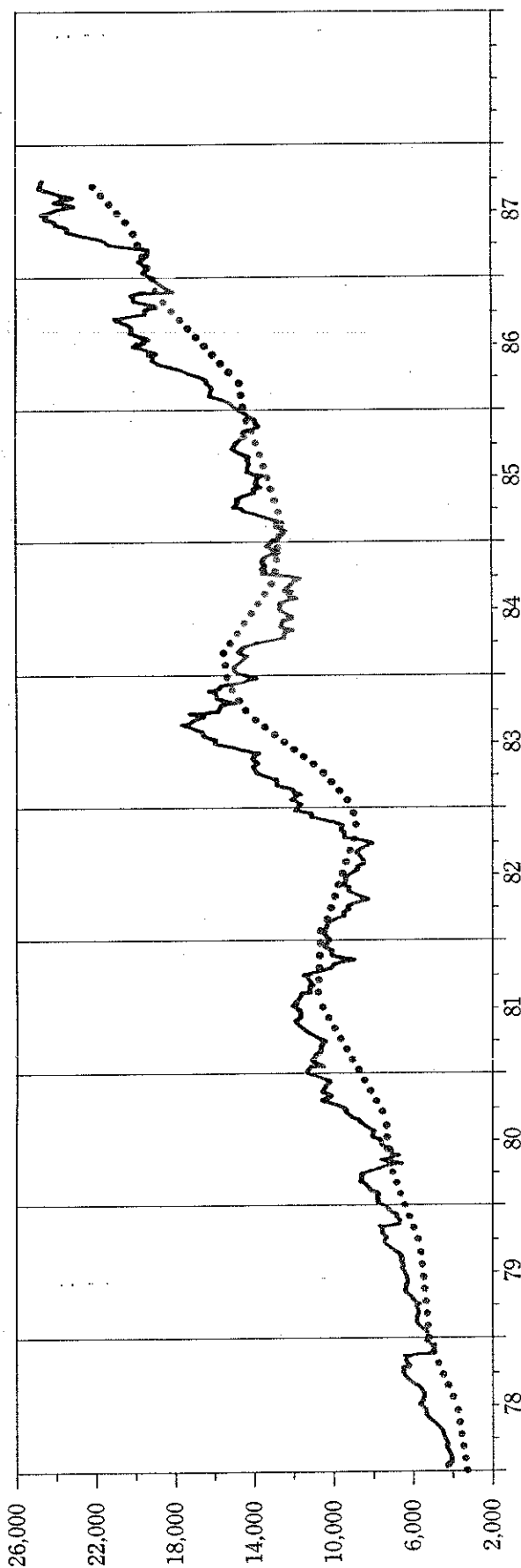
(4) The long-term record indicates that we make our big money in spurts - not evenly (unfortunately) through the years. But we must stay liquid in money-market funds when we are not into growth funds, in order to be able to move back quickly (by phone call) into growth mutual funds. This may mean that on occasion we could be three years in money-market funds. We must be patient and we will need the support of all Board members.

(5) The long-time record indicates that we have never lost money in any five-year period (since 1926, if the system were followed religiously but since 1977, when Fabian began his newsletter, it has produced 21%/yr. With our special additional rules, we should be able to do better than that.

Mutual Fund Composite

Mutual Fund Composite

39-Week Average Reading



PERIOD COVERED January 3, 1967 through June 26, 1987

