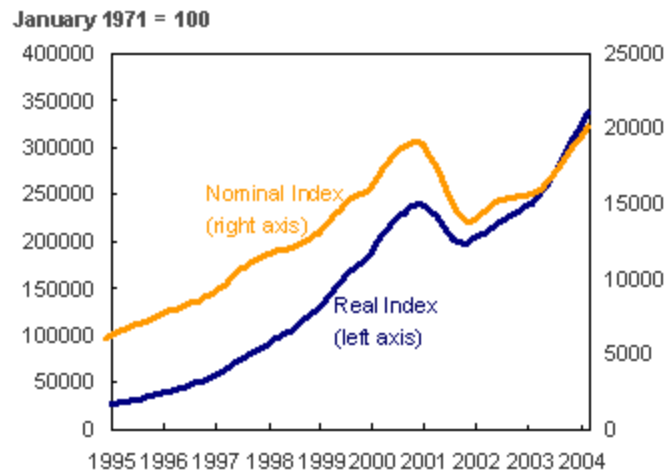


OUR VIEWS

March 2004

The U.S. economy grew at a 4 percent annual rate in the fourth quarter of 2003. While this was about half the rate the economy grew during the third quarter, it was slightly lower than the 5 percent rate that had been expected by many economists¹. However, the growth in the third quarter of 2003 could have been fueled by the Federal income tax refunds that consumers received during that time along with the additional benefits many homeowners garnered from refinancing their residential mortgages.

While many business leaders continue to be optimistic, concern about the Federal budget deficit and lack of job creation continues to dampen the overall outlook. The economy appears to be rebounding as both business and consumer investment continues to grow but at a slower rate than had been expected. Growth in the technology sector continues to be torrid, but the spending appears to be concentrated in the larger businesses. According to the Federal Reserve Bank of New York, the Tech Pulse Index, which is a summary statistic that tracks the health of the technology sector of the economy, grew at an annualized rate of 35.3 percent and a nominal rate of 28.0 percent in February 2004. The Tech Pulse Index is compiled from data drawn from investment, consumption, employment, industrial production, and shipments in the technology sector².

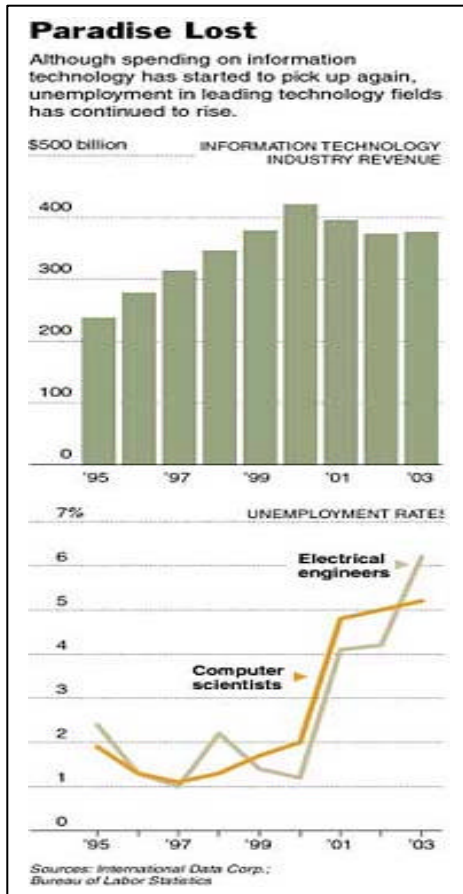


Source: Federal Reserve Bank of New York – Tech Pulse Index
http://www.ny.frb.org/research/national_economy/tech_pulse_index.html

Job growth continues to be pallid, as unemployment remains more problematic especially in this Presidential election year. Although corporate sales and profits are rising, and the spending in the Information Technology (IT) sector is strong but below the levels of 2000, the U.S. economy added a paltry 21,000 jobs in February 2004. The main culprit of the anemic job growth appears to be increased productivity, due in large part from investment in IT, which has affected every sector of the economy³.

The opinions expressed are those of The Chalfin Group Inc., as of the date of this newsletter and subject to change. There is no guarantee that the forecasts made will be achieved. This newsletter does not constitute investment advice and is not intended as an endorsement of any specific investment. This newsletter is distributed with the understanding The Chalfin Group Inc. is not rendering legal, accounting or other professional advice and assumes no liability whatsoever in connection with its use.

Copyright © The Chalfin Group, Inc., 2004



Source: "Lingering Job Insecurity Of Silicon Valley," The New York Times, March 9, 2004

While the unemployment rate for the entire U.S. is currently around 6 percent, the rate in the technology sector is over 5 percent. Historically, the technology sector has enjoyed a much lower rate than the entire economy⁴. In addition, the compensation for workers with specific skills in this sector has declined since 2001⁵. For example, in 2003, computer scientists and systems analysts experienced an unemployment rate of 5.2 percent, which was quadruple the rate in 1998. The unemployment rate for electrical engineers was 6.2 percent in 2003. Prior to 2003, the highest rate for this profession was 4.3 percent, which occurred in 1994⁶.

Besides increased productivity, another reason for this change is the growing trend by business to outsource IT and other jobs to India and other lower-priced countries. Studies have projected that this practice of outsourcing will continue to expand.

India has been the primary beneficiary of this trend for a variety of factors including 1) lower labor costs than the U.S., Western Europe and Japan, 2) a system of colleges and universities that

provide training in IT, 3) an educated, English-speaking workforce, and 4) the existence of an efficient and affordable telecommunications infrastructure⁷.

Although the trend toward outsourcing may be an ominous warning, we believe that change breeds opportunity. Overall, we expect the economy to continue to grow through the November election; however, there will be some hiccups. The reduced capital gains taxes, coupled with the low interest rates, should continue to prime the economy. However, any unexpected events could have a negative effect.

¹ Andrews, Edmund L. "Economy Remained Strong in 4th Quarter, U.S. Says" The New York Times, January 31, 2004.

² Ruben Hernandez-Murillo, "Computer Use and Productivity Growth," National Economic Trends, December 2003; Federal Reserve Bank of St. Louis, December 2003.

³ Cooper, James C., "The Price of Efficiency," Business Week, March 22, 2004, page 40

⁴ "Lingering Job Insecurity Of Silicon Valley," The New York Times, March 9, 2004.

⁵ Swoyer, Stephen, "Careers: Offshore Outsourcing Hits U.S. IT Workers Hard," Enterprise Systems, January 27, 2004, www.esj.com/enterprise/print.asp?editorialId=835.

⁶ "Unemployment Rate for Electrical Engineers and Computer Scientists Reaches All-Time High in 2003," IEEE USA News, www.ieeusa.org/releases/2004/022604pr.html.

⁷ Won Kim: "On the offshore Outsourcing of IT Projects: Status and Issues", in Journal of Object Technology, v ol. 3, no. 3, March-April 2004, pp 21-26. www.jot.fm/issues/issue_2004_03/column2.

**Economic Loss Calculations * Wrongful Termination
Negligence * Personal Injury * Wrongful Death
Medical Malpractice * Business and Commercial-Related Matters**

The opinions expressed are those of The Chalfin Group Inc., as of the date of this newsletter and subject to change. There is no guarantee that the forecasts made will be achieved. This newsletter does not constitute investment advice and is not intended as an endorsement of any specific investment. This newsletter is distributed with the understanding The Chalfin Group Inc. is not rendering legal, accounting or other professional advice and assumes no liability whatsoever in connection with its use.