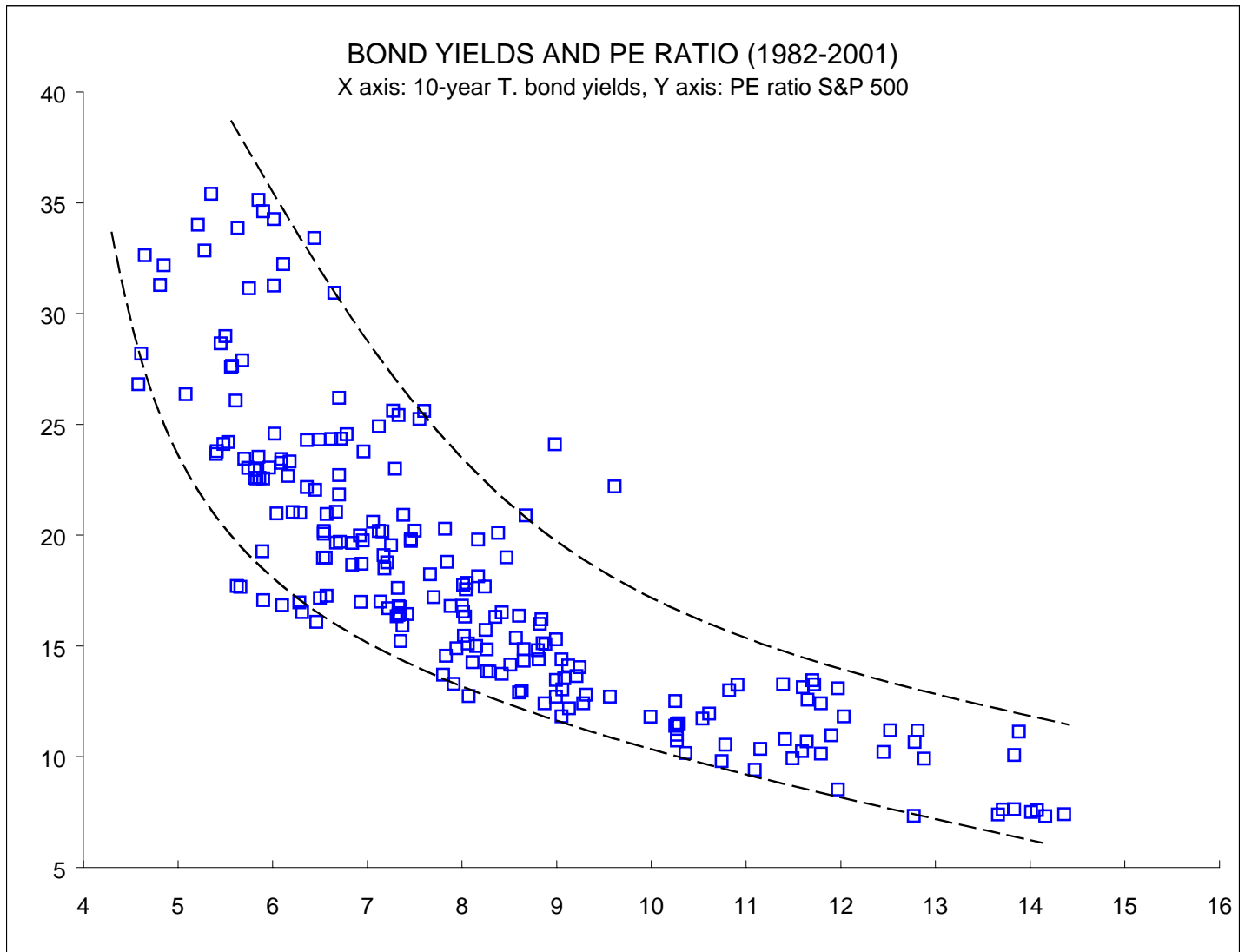


BOND YIELDS AND PE RATIO



This graph shows that the PE ratio of the S&P 500 is inversely correlated with bond yields. This means:

- a) If bond yields rise, the PE ratio and stock prices are bound to decline from current levels,**
- b) If bond yields keep declining, the market is fairly valued and stock prices will remain strong.**

The point of the above relationship is that the valuation of the overall stock market depends on the level and direction of bond yields.