MAXIM GROUP

Mid-Week Update: **June 19, 2003**

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Market Summary:

Nasdaq	**1,677.10**	**+8.70**	**+0.52%**
DJIA	**9,293.80**	**-29.22**	**-0.31%**
S&P500	**1,010.09**	**-1.57**	**-0.16%**
Russell2000	**457.51**	**-0.50**	**-0.11%**
Nasdaq100	**1,247.90**	**+8.30**	**+0.67%**
NYSE	**5,706.06**	**-16.79**	**-0.29%**

The Big Picture:

The *New* "Productivity Paradox"

In 1987, Nobel laureate Robert Solow famously observed: "You can see the computer age everywhere but in the productivity statistics." Despite massive investment in IT infrastructure, productivity growth was nonexistent. At the time, this was known as the "Productivity Paradox."

Since the mid-'90s, the Productivity Paradox appeared to have been solved, as U.S. productivity growth surged. Since 1995, labor force productivity has been increasing at 2.25% per year, double the annual rate of the previous two decades. This "productivity feast," as its been called by Fed Chairman Greenspan, is the largest increase in non-farm business output per hour in 30 years.

Therein lies the ***new* Productivity Paradox**: Productivity continues to increase year after year at 2.25%; At the same time, the labor force itself is growing at ~1% per year. Thus, *Real GDP has to increase at 3.25% per year just for the economy not to hemorrhage any more jobs*.

During the boom year, productivity increases got the credit for a myriad of positives: increased living standards, higher corporate profitability, boosted tax revenues, better funded pension plans. Now, we are confronting the dark side of productivity: Companies need less laborers to produce more goods and services; Less workers means less consumer spending, lowered tax receipts, weaker corporate profits.

In order to stem the tide, one of two things needs to occur: Either GDP must improve dramatically, or productivity gains must tail off, if not reverse. If neither of these events occur, the U.S. could continue to lose jobs at a disturbing rate.

Unemployment seems to have stopped getting worse, but its not yet getting better. This is what the next Fed rate cut may actually be about: Getting GDP to the point where, despite the high productivity, the economy starts creating, instead of losing, jobs. That demands a GDP over 4%.

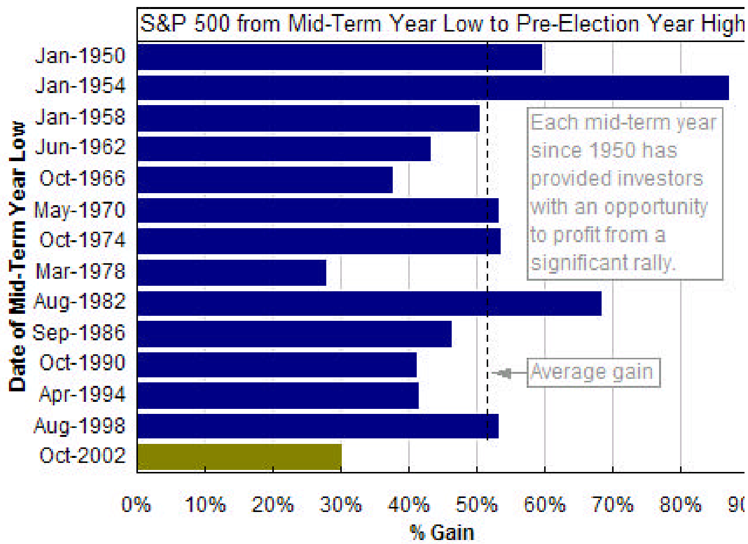
That's the heart of the argument favoring a ½ point rate cut on June 25. The economy probably doesn't need more than a ¼ point cut – if even that. We could muddle along for a few Qs at a 2% growth rate, with GDP rising to 2.5-3% in '04 . . . But that's not what's driving this debate. What's on the line is not merely the economy, but Sir Alan Greenspan's legacy as well as the President' re-election.

Any rate cut will be a near-term positive for the markets, but could lead to unintended consequences. That's the danger when politicians start mulling over about their place in history, instead of their immediate charges.

Chart of the Week:

Mid-Term Presidential Election Cycle

The Stock Trader's Almanac has long noted that the period starting in the Summer of the second year of a President's term is often a bottom for the markets. This seasonality is supported by the view that the President will whatever needs to be done to insure the economy is healthy by re-election time.



The above chart suggests that, based upon historical averages, this rally could have another 20% or so to run.

Charts courtesy of ChartoftheDay.com

Economic Calendar:

THU JUN 19
8:30 Jobless Claims
10:00 Leading Indicators
4:30 Money Supply

FRI JUN 20
Quadruple Witching
Option Expiration

Random Items:

SEC: Delist Companies That Retaliate Against Analysts

Regulate the F.C.C.

The Fed Files

What would Buddha do?

Unintended Consequence of the Tax Cut: AMT

Pfizer: Bigger than Microsoft

Quote of the Day: " I began my education at a very early age - in fact, right after I left college."
- Sir Winston Churchill

Please refer to pages 2 and 3 of this report for important disclosures

Explanation of Holding Periods
Long Term - Price movement expected in months to years.
Intermediate Term - Price movement expected in weeks to months.
Short Term - Price movement expected in days to weeks.

Explanation of Ratings
Buy - Expected relative performance of greater than +20% in the intermediate term.
Trading Buy - Expected relative performance of greater than +20% in the short term
Hold - Expected relative performance of -10% to +10% in the intermediate term.
Reduce - Expected relative performance of -10% to +10% in the short term.
Avoid - Expected relative performance of -10% to -20% in the short term.
Sell - Expected relative performance of less than -20% in the intermediate term.
Short Sale - Expected relative performance of less than -20% in the short term.
Ratings are benchmarked relative to the S&P 500

*In addition to the above listed rating there is a category called Remove that is not considered a rating. The term Remove means that the position is recommended to be eliminated and coverage is suspended.

Coverage Universe

Rating	Percent
Buy	38.1%
Trading Buy	9.5%
Hold	42.9%
Reduce	9.5%
Avoid	0%
Sell	0%
Short Sale	0%

Coverage universe as of March 31, 2003.

Valuation Methods
One or more of the following valuation methods are used in making a price projection: Analysis of the supply and demand for a security to ascertain how high or low a stock price may move before either overhead supply or underneath demand develops. Analysis of a companies P/E ratio, price/book ratio, price/cash ratio, earnings expectations or sales growth as they relate within an industry group or to the broader market. Dividend yield of the S&P 500 vs. the dividend yield of the 10-year government bond. Individual sector analysis along with investor sentiment and Federal Monetary policy.

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