

# STRUDWICK

## Wealth Strategies

*“Innovation Equals Opportunity”*



### Roller Coaster

By [Barry Strudwick](#)

---

Wow! What a roller coaster of a year!! Wild emotional swings both down and then up marked a Jekyll and Hyde kind of year for the markets. Can you even recall the now ancient history of the “Pre-Iraqi” war pessimism which less than 9 months ago dragged the market down 20% and challenged the “Post 9-11” lows? Then, just as the presidential election cycle started to gear up and with victory almost in hand, George the Younger served up a gift-wrapped rally with the S&P 500 ending the year up 25%. Talk about whiplash! Is it just the cynic in us that suspects Dubya will do just about anything not to repeat his father’s legacy of “winning the war and losing the election”?

Despite this bi-polar market, we’re happy to say our clients captured virtually all of the market upside but with considerably *less risk*. As card carrying skeptics about the sustainability of the market rally, we took profits in the U.S. as a windfall and moved to more *progressively defensive positions* in the second half of the year.

With year-end allocations of just 30% in the U.S. stock market and a reduction in our holding of bonds, we’ve reduced our exposure to both falling profits and rising interest rates. Offsetting this reduction to the U.S. markets, we have increased “*global hard assets*” such as real estate and commodities and also larger holdings in regions benefiting from the new internet-enabled flight of white collar engineering and IT jobs to India, Ireland and beyond. We’ll categorize our new position as “*cautiously cosmopolitan*”.



*Join us for a long weekend getaway this winter or spring!*

#### Upcoming Conferences:

Join Barry and Smilin’ Dan at these upcoming conferences!

*February 26–March 1* The Costa Rica Symposium. Combine discussions on international real estate with trips to the rainforest and beach!

*March 10 -14* Investment University, Delray Beach, Florida.

*March 14 -17* Ambergris, Belize

Please contact [Stephanie](#) for the agendas and details on each one.

January means it's that time of the year where all pundits get to numb you with their rear view mirror "why's and wherefores" of the last year and then add a little humor with predictions of what's in store ahead. Rather than



scribble down a few ticker symbols and confuse you with a few cryptic musings, we instead prefer to urge you to gaze into our crystal ball and continue to focus on the **"Real Big Picture"**. The **single most important thought for 2004** we can convey is that our thesis of **"global deflation"** continues to unfold in slow motion right before our eyes. The ripple effects of Globalization unleashed in the early 1990's have disrupted the crucial balance between supply **and demand** which as we all know is the **single most fundamental and important relationship in a capitalist system**. If you start by understanding the logical consequences of this shift in balance, the current behavior of the markets suddenly are very logical. We'll admit at times it's almost like being caught in an episode of the Twilight Zone, as the rest of the world remains transfixed by the Wall Street / Washington media chorus of **"Happy Days Are Here Again"** as we "connect the dots" which ominously point to progressively stronger deflation. Yet while the media spins this tale, there **is absolutely no question** the current policy actions of Washington are

entirely consistent with very strong efforts to fight this **tightening spiral**. While we understand that fighting deflation is easier with the public not paying attention to the real dangers, we remain surprised at how easily the public is placated. **The Trillion Dollar Question** right now is "Will the limited tools at Washington's disposal be effective in combating what is at its core a global monetary and manufacturing issue? And, should the tools at hand prove ineffective, is the domestic and /or international **political climate** conducive to timely coordinated action should this prove necessary?" We know only the "poor workman blames his tools", but we don't envy the tough spot that Dr. Al and Bush the Younger have been thrown into. Media attention or not, this is a very crucial situation they're dealing with.

### **Radio Thought # 88**

Brush off the old secret decoder ring! The media is starting to solve the mystery of the jobless and profitless recovery. Watch for code words such as "over capacity" and "fierce foreign competition" which are media code words for "deflation".

From the [Mutual Perspectives Broadcast](#)  
October 20, 2003 on [WYPR 88.1](#)

We understand this is very dry subject matter for most people, but it's also very important. Think of it this way: In the 90's we globalized the world's economies, right? Well, if we did that, what is the global currency? Most people will answer "The Dollar". And

in fact, 2/3's of all the dollars in circulation are *outside* the United States. Which leads to the next question, whose job is it to balance the worldwide supply and demand for the unofficial global currency? The Fed has tools to control the domestic money supply but not a global currency. If not the Fed, who? Good question, huh? Now, if the demand for dollars is greater than the supply, *the value of the dollar increases and we call this Deflation*. Central Bankers want stable currencies and don't want currencies rising or falling. So logically we can expect Washington to fight this trend by lowering interest rates, stimulating domestic consumption and printing more money. All of which serve to "fight deflation". Which is exactly what is occurring right now.



For those who recognize this trend, this creates *investment opportunities*, which anticipate a *falling dollar* in the short to intermediate term. Right now our strategies are focused on the short / intermediate impacts of the falling dollar trend. But we're keeping an eye on what our next logical step would be, should these trends worsen. Regaining balance between global supply and demand could easily be a *10 to 20 year cycle* not six-month phenomena, as the media seems to indicate. Revisionist historians will likely mark the start of the cycle as

1999, which puts us already 4 years into a cycle Wall Street refuses to acknowledge, has even started.



Speaking of 4 years, can you believe it's already been 4 years since we returned to our roots and hoisted the banner of *Strudwick Wealth Strategies*? While this has been arguable the roughest period in the stock market in over 75 years, we're proud to say we've not only weathered the storm but have experienced considerable growth. Certainly, our early recognition of these global economic trends and hard work to find *alternative investments* has contributed to our growth. But the key to success here is not only recognizing the trend, but also breaking from the herd and seeking compatible alternative investments. Going forward, *we anticipate deflationary pressures to increase not diminish* and have adjusted our investment holdings pro-actively.

### ***"Four More Years?"***

Can you afford another four years of not having your wealth grow? If you've been reading. If you agree with our analysis and would like us to direct your personal investments, now is a great time because of important shifts we see in the second half of this year. Take control of your future and contact us now!

“Deflation” is neither “good” nor “bad”. It simply **IS**. Without an acceptance and fundamental understanding of the power of this prevailing economic current, it will be impossible for an investor to chart a rational investment strategy. Profits can and will be found in a globalized world economy experiencing deflation just as opportunities existed in the prior 75 years of inflation. However, the opportunities and logic will be different. It has been in actively seeking out opportunities for our clients that we have become involved in our **Costa Rican real estate projects**. This year our plans call for increased involvement in these areas. ***If you would like to discuss these on a personal basis, please give me a call directly.***

As usual, we’ll get to the big points and action oriented ideas first and then digresses onto some of the evidence and related ideas we see unfolding as we go forward. If your eyes start to glaze over part way down, we understand, the important stuff comes first! But some of the “deeper thoughts” will help you to see what going on around us ***right now!***



1) We had an excellent year with ***most accounts up between 22% and 30%*** for the year. But the important point here was how we achieved these super results while reducing our

asset allocation to the ***U.S. stock market to only 30% at year-end.***

2) With respect to the U.S. stock market we made ***two calls last year*** that have already proven themselves to be correct and a third which we think will prove itself in the near future. The first call was maintaining our stock exposure during the Iraqi War slump when the market was down over 20% in the first 3 months of the year. During this period the market the 9-11 market lows and pessimism was rampant and it was not the time to sell despite many clients desire to throw in the towel. ***Staying the course proved to be the right action.***

***Radio Thought #94***

Special Report from the Front Lines: The Great Toys Wars of 2003. A buying binge does not a stock market recovery make!

From the [Mutual Perspectives Broadcast](#) November 29, 2003 on [WYPR 88.1](#)

3) Second, going into 2003 we continued to avoid the large cap stocks of the S&P 500 and were ***heavily over-weighted to small and mid cap stocks*** which ended the year up approximately 35% to 50% versus about 25% for the S&P 500. To the extent that we need U.S. market exposure, we’d prefer to have it here then with the large caps.

4) Our third call was to reduce our stock market exposure ***during the summer and fall.*** We took profits in the red hot U.S ***real estate sector*** (Cohen & Steers Realty Majors –

ICF up 30%) and also in our biotech holdings thru the *NASDAQ Biotech* which skyrocketed Index (IBB- up 48%). Note both of these are exchange traded fund (ETF's) indexes and not "mutual funds" and accordingly have lower fees and no conflicts of interests.

5) While, it is too early to see whether the reductions were well timed, the eerie lack of profits of this "jobless recovery" augurs a more conservative domestic equity allocation. Remember: *Washington* and *Wall Street* have different agendas. Washington wants "*Top Line*" *economic growth* but ultimately Wall Street is all about "*Bottom Line*" *corporate profits*. Highly stimulating economic policy from Washington often creates a wave of economic enthusiasm, which can carry along the stock market. But a nasty correction will ensue if the profit numbers don't come thru. This market rally looks like wishful thinking, as we simply have not seen profits that remotely equate to the level of economic stimulus already pumped into the system. We have moved to *protect your capital* by reducing our holdings of U.S. stocks.

Check out the new "electives" we are offering at our Costa Rica Symposium:

- ❖ *Sunrise Yoga* classes daily on the beach.
- ❖ *Massage and Spa* treatments in a beautiful tropical setting.
- ❖ Piloted *Ultra-Lite flights* over the Rainforest.
- ❖ *Horseback riding* at sunset by the waves.
- ❖ Succulent "*Pig Roast*" Costa Rican style on the beach.
- ❖ *Sport Fishing* and fantastic *Surfing* off the spectacular Costa Rican coast.
- ❖ Then join us for late night "*World Problem Solving*" at Poolside!

The all inclusive cost of the seminar and your electives, tour, hotel, all meals, local transportation and late night libations is \$2,500 (*exclusive of your airfare to Costa Rica*). As an added incentive to enjoy the delights of Costa Rica, the second person is only \$1,000.

Contact [Stephanie](#) for information or to sign up for the symposium.



6) The seeming *conundrum* of a rapidly expanding national economy and shrinking corporate profits is *entirely consistent* with a period of global deflation. In deflation, it is very dangerous to make the automatic assumption that a growing economy translates into a stronger stock market. Why? Because Washington's policy to fight

deflation will be to stimulate consumer demand thru tax cuts and low interest rates. We saw this with the 8.2% GDP numbers this past fall. Stimulating demand is their only course of action since they cannot control the supply side of the equation without imposing tariffs. (A definite “no-no” in a globalized world.) BUT since supply is global and cannot be kept out, foreign manufacturers are out to grab a piece of the U.S. consumer-spending spree. In fact, during global deflation, manufacturers will *sell below cost* in the fight for market share. Witness the *Great Toy Wars of 2003* as an example. *Even in the new math, selling below cost to not add to profits.*



- 7) ***“But the news says profits are growing”*** ...Even if profits spike up for a quarter or two, this will not be sustainable as lower taxes will encourage more plant building domestically and higher U.S. demand will encourage more capacity globally as well. Once the economic empty calories of home re-fi’s wears off, we have concerns about whether demand will slump, exaggerating the imbalance between supply and demand. Think about the auto industry which has “sold forward’ future demand with rebates

and zero interest for the past 2 years since 9-11-2001.

- 8) ***Real Evidence*** ...As noted above, the two areas we used to reduce our domestic equity holdings last year were to exit our long standing holdings in REITs in late summer when they were up 49% for the year and also to take some serious profits in our biotech holdings which soared in the first half of the year. Our concern on REITS is that the combination of small investors chasing yields has pushed valuations to high. ***There is plenty of anecdotal evidence the real estate boom is fueled more by low interest rates and money seeking a home outside the stock market than by a surge in demand for offices, warehouses or factories.*** Any reverse in interest rates or the consensus perception of a slowing economy could let some air out of this balloon quickly. With Biotech (NASDAQ Biotech Index – IBB), it’s simply that whole sector simply surged ahead too far too fast. While we love the sector long term, its boom and bust history suggested taking some chips off the table.

- 9) However, as we decrease our U.S. stocks, ***we are slowly increasing our positions in emerging market stocks.*** The logic here is very simple: a lot of stuff is getting made and sold. It’s just that a larger percentage is being ***made and consumed*** outside of the United States and Europe. When IBM moves 4,200 programming jobs to India next year, new wealth will be created in the Indian economy. Do we wring our hands over the loss of jobs? Or, should we invest where the new

opportunities are arising? *We say seize the opportunity and invest* while the *New York Times* stokes up the angst and the politicians figure out what to do. We figure we can always wring our hands after our wagers on the board. This year we have increased holding MSCI Emerging Markets Index (EMI- up xx %) as well as tilting this core holding with specific country exposure such as India, Brazil, and Russia. Currently these types of holding are approximately 10% of total allocations. However, we are also investing with dedicated Emerging market portfolios as well. Please let me know if you would like to explore this opportunity.

**Radio Thought # 91**

It's time to get hooked on the "hard stuff"! As in hard assets like global real estate and commodities

From the [Mutual Perspectives Broadcast](#) November 15, 2003 on [WYPR 88.1](#)

10) Our *domestic bond positions* did well this year with returns of about 9%. But these above average returns don't reflect a simple buy and hold strategy, but rather a shifting of strategies thru the year as we have reduced our U.S. treasury security holdings to reduce sensitivity to pure interest rate moves. As we reduced our government bond holdings, we increased our corporate bond holdings (**Loomis Sayles Bond- up 20%**). Even though "risk free" interest rates were the lowest in over 45 years, the "risk premium" or credit risk spread in corporate bonds was about the highest in 75 years!

Since both of these markets were likely over extended and likely to swing back to the middle, the logical conclusion was to increase holding in corporate bonds and to decrease holding of Governments.

11) As the fat spreads in corporate bonds have been trimmed and fears of inflation rising, the question becomes, where is the next move? This summer we started increasing our holdings of *international bonds* for the first time in almost 10 years. *The rationale here is a falling dollar means other currencies will appreciate relative to the dollar.* Also with foreign interest rates higher than in the U.S. means potential increases in bond values should their rates fall... We've been using the fund offered by the Swiss Bank **Julius Baer** to play this trend (BJBGX up 4%).



12) However, bond investing this year will be less attractive than last year. As an alternative, we have increased holdings of both hard assets such as *global commodity pools and international real estate, which should benefit from a weaker dollar and the currents of fighting deflation.* In most accounts these will collectively total up to 25% of

our allocations at year end up from approximately 15% at the beginning of the year. Don't fall for the "head fake" that "Washington favors a strong dollar." They might "favor" it, but it's not going to be the actual policy they're going to pursue. Why? Because driving the Dollar down is one of the few tools that Washington has to fight deflation! As Milton Friedman said ..."Fighting deflation is pretty simple, you just print money!" And this is exactly what the Treasury department is doing and our supply is up over 15 % in the past 12 months. If the dollar is driven down 10%, a bushel of corn or an ingot of steel will increase in "price" (not value) by the same amount. The same holds with an acre of land whether this is in *Costa Rica or Switzerland*. We are currently using the *Oppenheimer Real Asset Fund* (QRAAX – up 20%) The *Rogers Raw Materials Index* (RICI – up 31.93%), The *Alpine Global Real Estate Fund* (EGLRX – up 49%) as well as some emerging market bond funds as our "deflation resistant" elixir.

**Radio Thought # 96**

**From Woks to Microwaves .....**  
Make no Mistake the awakening of the consumer giants of China and India will be driving commodity Prices for the next decade.

From the [Mutual Perspectives Broadcast](#)  
October 27, 2003 on [WYPR 88.1](#)

13) ***This distinction of "price" versus "value" is an important one.*** When global monetary policy is to drive down the value of the dollar, and the price of the bushel of corn or the pound of rubber increases, the underlying commodity hasn't gotten more valuable; its price has simply risen. By converting your wealth out of the fiat currency of the dollar into a hard asset, you've protected the purchasing power of your wealth... ***This is a "good defense", but global hard assets can also be a good offensive play in a period of deflation.***



14) ***Look for Commodity Prices to rise higher.*** Wealth is created when assets become more precious or scarce, which is a classic "supply / demand issue". As noted above, Washington's quickest tool to fight deflation is to stimulate consumer demand which will in turn increase the demand for basic commodities. The stage is now set for a major long-term surge in the demand for basic commodities. We see this trend lasting for the next ***ten years***, as China and India become major consumers of not just oil and energy but all of "the Stuff that stuff is made out of". We recently interviewed Clyde Harrison of the Rogers Raw Materials index. If you would like a

CD of this interview please give us a call.

- 15) ***Don't confuse our expectation of "commodity price inflation" with "consumer price inflation". Look for Consumer prices to fall while commodity prices rise.*** Commodities are only one of the "Three factors of production". The others being labor and capital. ***Labor is a far more significant factor*** in total production cost and the vast supplies of cheap labor unleashed by globalization will keep this cost low. In addition, with interest rates at 50-year lows, the cost of capital is the lowest it has been in our working life times. In other words, over the next several years, we expect to not only protect purchasing power from a "falling dollar" thru rising commodity prices but also to profit and create wealth as the demand for commodities outstrips supply...

***Del Pacifico at Monterey Update!***

Want to see why we're so excited about Costa Rica? Visit [www.delpacifico.net](http://www.delpacifico.net) and tour our 350 acre project. Condos and single family lots are now available.

- 16) The industrialization of China will have a greater impact on global commodity prices than the reconstruction of Europe after World War II. So far this year nickel prices are up 72%, lead is up 54% and nickel and tin are up 32%. Just think about this one for a minute. It' the

old "from woks to microwaves", but now its coming of age! Now add to China, the new consumers in India, Thailand, Malaysia and we haven't even gotten to Central and South America. ***The table is set for a major bull market in commodities.***

- 17) ***International Real Estate is a growing part of our investment strategies.*** When the internet first came on stream as an investment theme in 1997/98 we recommended investing in ***Ireland*** as an intuitive play because Ireland had a highly educated, English speaking workforce which was landlocked...at least until the internet and telecommunications wave unlocked their under priced resource. While we made money with the Irish stock market (The New Ireland Fund – NYSE IRL), more importantly we witnessed what the spectacular real estate boom which was created as the underemployed got better jobs and bought homes. What we learned from this was in emerging markets, the first wealth effect impacts real estate more than the stock market. To play this trend we have added positions in the ***Alpine Global Real Estate Fund*** (EGLRX- up 55.12%) which is managed by our old friend Sam Leiber. If you would like a CD copy of our radio interview with Sam Leiber, please send an email to Leslie at [invest@noload.com](mailto:invest@noload.com). In addition we have formed private equity partnerships to invest in Central America.

### Time for a Change?

In case you're considering a new direction ..... We're available to discuss your personal investment and planning needs. Relationships start at \$250,000. Call or [email Dan](mailto:Dan) to arrange a confidential initial consultation.

Now for some less action specific but still important thoughts and comments on the world around us:

18) This year's stock market rally and the jobless recovery are **entirely consistent** with our on-going thesis of "global deflation". Why? It's really very simple: Faced with a **worldwide glut** of just about everything, Washington has tried to balance the **global supply / demand** equation by hyper-stimulating **domestic demand** thru **tax cuts and lower interest rates**. Without question this has stoked up the consumer demand engine and has it running full bore as GDP running at an annualized 8.2% (or **twice** the rate of "**strong growth**"!). Naïve expectations fostered by Wall Street that strong "top line" economic growth always automatically translates into "bottom line" profits have boosted the stock market.

19) But in a global deflationary environment, "growth" does not translate to profits as fierce price wars, which mean lower profits despite higher sales! Witness the soon to be legendary "**Toy Wars of**

**2003**" where competition was so brutal this holiday season, major retailers were **selling below** wholesale in the battle for market share. The result: FAO Schwartz, KB Toys and Kids R US were driven to bankruptcy by Wal-Mart. This is the **classic conclusion of a deflationary spiral** in a single industry sub-group.



20) Mark our words: Legions of future MBA's at Harvard and Wharton will be drilled on this case study for decades in the future yet very few people understand what is happening around us right now!!!

21) Now **multiply this times several thousand** industry groups and you can start to see the magnitude of the global economic problem our government and in fact the world is facing.

22) We have said in the past and will repeat it once again: **our gravest concern** is that Washington simply lacks the tools and /or political willpower to deal with this brewing global economic crisis before it spirals too far...

23) We believe that the actions being taken quietly by Washington (cutting interest rates, stoking up domestic demand and printing boatloads of money) are consistent with the

logical preliminary moves to battle a serious deflationary threat. But this is an inherently flawed strategy.

24) Why? Remember the old episode of *I Love Lucy* where Lucy & Ethel were working in the candy factory? No matter how much candy they ate, it didn't reduce the amount that was being cranked out and put onto the conveyor belt. Stimulating domestic consumption will not decrease global supply! No matter how gluttonous the U.S. consumer is, it is silly to think we can correct global oversupply by simply consuming more!

25) It remains our position that the grip of global deflation appears to be tightening and we will continue to make systematic adjustments in our strategies as we see this emerge.

26) What will ultimately be necessary to correct this? While this might take 5 or 10 years to emerge, if we connect the current string of dots, the logical conclusion they point to is 1) a global currency and 2) a wave of bankruptcies as manufacturing / production is shifted to the lowest cost supplier.

27) However, this will not likely be a simple straight line, as political disruptions will occur as the economic pain becomes more acute. While we cannot predict these, we'll be on the lookout over the next several years for signs.

History tells us that revolutions occur

when political institutions can't keep pace with rapidly changing economic and industrial forces. While we're a long way from anything like this, the forces of globalization are challenging our national economic system. As investors, we can only invest logically and keep a careful eye on the situation as it emerges. In 10 years, the historians will tell us how obvious it was at the time.

*For more information, please call*

*410-727-6444 or email us:*

**[invest@noload.com](mailto:invest@noload.com)**

---

***ABOUT BARRY  
STRUDWICK...***

Barry Strudwick serves an international client base of individuals, investors and entrepreneurs designing and implementing wealth enhancement and protection strategies for over 25 years. *For private consultations Barry Strudwick & Dan Somerville are available to meet with you. Please contact them to arrange a meeting. We can be reached by calling*

*(410) 727-6444 or via e-mail at [invest@noload.com](mailto:invest@noload.com)*

---

© 2003 Barry Strudwick  
Contents of this special report may not be reproduced  
without the expressed written consent of Barry Strudwick.



**Happy Trails !**

