



“Go Global, Young Man!”

By **Barry Strudwick**

This newsletter was originally published on September 30, 2004 prior to the Presidential election, and as a service, is now being released to the general public.

It's no longer “Go West, Young Man,” to find new frontiers and opportunities, going Global is the name of the game today. Even with the world spinning faster everyday, we're very pleased to report that once again our “globalization” strategies have excelled. Most accounts are **up** for the first nine months of the year. Not too bad, considering that the **S&P 500 was 0.2%**, the average of all equity mutual fund managers was **down 2.9%**, and the average of all those exclusive hedge fund managers was up a paltry 0.6%.

So, what do we know that a fleet of BMW lessees doesn't? It's time to be positioned for a world set to challenge the U.S.'s dominant position in trade and business. With a rapidly globalizing world, we've simply opened our eyes to the obvious opportunities and avoided the conventional wisdom. Common sense tells us that

booming world wide demand commodity prices will boom. It also tells us the “recovery” in the United States is fueled by the empty calories of home equity re-fi's, and will soon flame out. So, we're light on U.S. stocks and heavy on natural resources and emerging market equities.

Our last newsletter's prediction of a Kerry victory evidently struck a nerve. While we don't see a major impact in the U.S. markets either way, we do see disturbing signs of deterioration in the U.S. financial markets. But, ever the optimists, we also see a Bull market internationally. From what we're hearing, half the country will be taking the Berlitz course to join us in Costa Rica if JFK II wins, and the other half will be packing their bags if George pulls it out. Either way, we'll win. And here we were thinking we had until Hillary's run in '08 to pack our bags and go “ex-pat”. Regardless, it should be close. Even though the GOP ran an almost perfect convention in New York (You gotta love the theatre of Arnold's “economic girlie-men”), after watching George stumble through the debates it's obvious, a master communicator he's not. We kept finding ourselves saying “I know what he means, if he'd only say it *this way* instead...”



On the road to Starbucks!

Announcing The Gathering!!!!

Stop Procrastinating ! And join us for a long weekend get-away this winter! Get rid of those winter blues with this fun event!

January 27-30

Join Barry and our extended family of friends at this fun filled international event to explore international business opportunities while enjoying the unique pleasures of Costa Rica.

Who: Friends and Followers of Del Pacifico, Strudwick Wealth Strategies and Costa Reit and the Costa Curious!

What: A four day “long” Get-together to discuss Globalization and New Investment Opportunities while meeting new friends and learning about Costa Rica!

Where : On the Central Pacific Coast of Costa Rica near Jaco Beach

Activities: A great mix of business and pleasure. We’ll combine speakers on investment opportunities with plenty of relaxation and outdoor activities. Choose from rainforest tours, massages, yoga and even aerial photography.

How:

Please contact Annie for the agendas and details. awoods@noload.com

We’re sympathetic to George’s communications issues. For the past several years we’ve tried distilling into simple, understandable terms, the incredible economic changes racing through the world’s economies right now. And of course, the new investment opportunities being created...outside the U.S. For the average American, watching reruns of “*Survivor*” is what molds our opinion of life outside the Continental 48. Life in Latin

America is a palm shaded siesta under a sombrero, right? Nothing could be farther from the truth. The global wireless telecom revolution is allowing the emerging markets to leap frog the U.S. and Europe. Several weeks ago, I was amazed to watch four separate deals being cut via cell phone... while on horseback... in the rainforest! The latent entrepreneurism of millions wanting to improve their lives has been unlocked by the cell phone and the internet. When you combine education and ambition, you unleash a powerful force. No nap time under a sombrero here! But how do you communicate these changes? And the investment implications? Or opportunities?

Recently, over lunch with a magazine editor, I realized maybe my communications skills conveying these ideas weren’t quite as razor sharp as I thought. After my poor (and polite) guest had endured a lengthy, and impassioned discussion (ok, monologue), on the new opportunities being created by “deflation and demographic shifts”, he paused me to ask, “Is this deflation thing the same thing as “globalization”?” I stuttered for a moment, and likely harrumphed something like “Well, not exactly ...” But later I realized, he was telling me he liked the logic but didn’t like the label! A classic branding issue! Isn’t “Cod Liver Oil” the same thing as “Omega 3 Fish Oil”? But one makes you gag, and the other is indispensable to every Boomer’s healthy heart. *Deflation* sounds so ominous and negative, while *globalization* is full of opportunities. Since our message is one of opportunity, and not despair, going forward we’ll be exploring new “globalization” opportunities, rather than pontificating on the impact of the dreaded “D – word”.

Thoughts for the New Age # 135

Don't confuse commodity price rises with general inflation.

Remember a falling dollar will cause commodity prices to “rise”, but the Global Glut of labor and goods will keep inflation in check. Hard assets are where you want to be. But unlike inflation cycles in the past, avoid leverage to acquire them!

The Alarmist versus the Opportunist

It's been 5 years since the market monsoon swamped Wall Street's seemingly invincible mutual fund flotilla. Remember the glorious days of '98 and '99, when everybody was an expert, and the prevailing logic in the popular press was stocks would always go up because “there wasn't anyplace else to invest your money!” Looking back, it's hard to believe that virtually an entire nation bought into that sort of circular logic. Even harder to believe is that even today, millions are still hanging onto the wreckage of their “blue chip” portfolios. Talk about denial, even after last year's 25% gain, the S&P 500 is still down over 10%, over the past 5 years! And that was before Merck blew up! Adding insult to injury, there has been an *invisible loss* of another 40%, as the Dollar has plunged in value. With every aging Boomer now yet another year closer to retirement, the reality of all of this will start setting in.

With the first Boomers hitting the “early retirement” age of 58 this year, you can bet the *Alarmists* will start yelping pretty soon. On the political front, look for a “protectionist” movement to start calling for trade quota and tariffs and legislation to “save our jobs”, and of course some sort of

Federal handout for retirement. The *Opportunist*, on the other hand, will see the global landscape, and seek to capitalize on the dynamics of a changing environment. It's not really that hard. You simply have to recognize the prevailing currents, and then calculate where they will carry us. For example, rather than fret about the loss of jobs from “*outsourcing*”, (*anticipate this trend continuing*), and invest ahead of the wave. How? By recognizing new jobs in India and Latin America will create a “wealth effect” in these regions. You can place your wager by playing either the emerging market stock indices, or the international real estate market.



Director/Actor David Heavener scouting locations on Del Pacifico for an upcoming TV pilot

The emerging market stocks will be easier to invest, but less direct. Real estate will have a greater upside, and is backed by hard assets, but will be more difficult to invest. The same logic prevails with the prospects for a falling dollar. Let's face it,

with our ballooning deficit, it's gonna happen. Accept that reality and diversify some of your assets into non dollar investments *NOW!* Sure, we might like a strong dollar, but ignoring the reality isn't going to change the outcome. So when the Alarmist Choir starts howling about outsourcing, tariffs, and quotas later this year, you should already be invested. The genie of globalization is not going back into the bottle. As pro-active Opportunists, we should recognize the changing environment, invest accordingly and... profit. It's not unpatriotic, it's pragmatic.

For the "time compressed," here is our current take on the world of investments distilled down to a simple...

"Our investment Spotlight"

J.S. Stock Market	Bearish
J.S. Real Estate	
J.S. Dollar	
European Stocks	

J.S. Corporate Bonds	Caution
International Bonds	
Emerging Market Bonds	

Commodities & Metals	Bullish
Natural Resources	
International Real Estate	
Emerging Market Stocks	

Can you believe that we're coming up on our 5th anniversary since re-hoisting our own flag as ***Strudwick Wealth Strategies***?! Our mission starting out was to create some innovative new services, and we've certainly far exceeded our goals in



"Air Del Pacifico" care for a little aerial photography

that arena. And most important we've had a lot of fun at the same time.

This of course always raises the age old question of ***"what exactly is it that you do?"*** A great many people have the misperception that "you're the guys that pick mutual funds". That label was appropriate 20 years ago when we started out, but our strategies have evolved considerably since then. In fact, it's fair to say that in the past 5 years we've transformed from a local planning firm, into an internationally oriented firm, focused on global strategies. In the parlance du jour, the box that fits best our particular strategy is to call us a ***"global macro"*** advisor, meaning we try to look at the major economic currents taking place around the world, and position ourselves to get carried by the wave.

So what is this wave that we're riding? In a nutshell, the forces of globalization, technology, and telecommunications unleashed in the mid 90's have radically changed the economic landscape worldwide... ***forever***. For the next 10 years, worldwide supply of just about everything will exceed demand.

Why? Because in 18 months we can build a new plant in China, but it takes 18 years to create a new consumer organically. Add to this the **retiring Aging Baby Boom** will shift productive capacity. And where will these Boomers retire? While it's taken several years for some of these trends to grow large enough to have measurable impact, without question, these waves of change are gaining in force and not subsiding. ***Now is the time to be an Opportunist not an Alarmist!***

Better yet, you don't need a pith helmet or even a passport to ride these waves. Our strategies using a combination of the very cost efficient, "exchange traded index funds" (ETFs), some mutual funds, and even a few stocks can capture the major current. For investors wanting a more directed and concentrated exposure, we have put together a program of **direct equity investments**. If you would like to know more about these, please contact either **Dan Somerville** or **myself directly**.

Our private land banking partnership in Central America, called **Costa Reit**, has had a successful launch. If you would like more information please contact us directly.

On the lighter side, another private equity partnership, our first feature film... **"The Curse of the Maya"** has completed filming and was released this fall. Starring Todd Bridges and David Heavener, "Curse" is certain to become a cult classic in such major Mayan-Zombie markets as Guatemala, Belize and Honduras. **Email us** and let us know if you'll want to attend our world premiere later this fall, or need a DVD for your collection. In all seriousness, we'll be forming our second film partnership after the American Film Market in

November. This will likely be a pilot for a cable TV series. Think *Magnum P.I.* meets *Baywatch* in Costa Rica! **Please contact Barry directly if you'd like the scoop!**

Thoughts for the New Age #136

The Bull Market for Global Real Estate will accelerate...

Q. What do you get when you combine soon to be retired baby-boomers, overpriced domestic real estate and a falling dollar? **A Bull Market in Global Resort Real Estate!** The smart money is already investing in hard assets outside the U.S.!

Private equity deals are the best way to get "Close to the dirt". **Contact us about how to do this.**

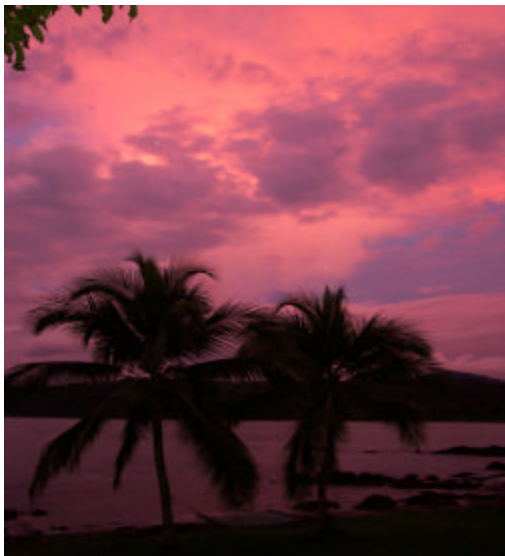
Below is a more detailed look on what we see driving the markets right now. As has become our custom, we put the more

Our Globalization Strategy (Deflation Redux)

1) The big gains in our portfolio have been the result of our anticipating the combination of Washington's policies stoking up consumer demand, and driving down the value of the dollar, would drive up commodity prices. The **Oppenheimer Real Asset Fund (QRAAX)** is up 32% for the first 9 months of the year.

2) A further hedge on a falling dollar has been our global real estate holdings (**Alpine Global Real Estate -EGLRX**) are up 13% so far this year. We anticipate that this will be a longer term trend as real estate will boom before the stock markets in these emerging markets.

3) Last quarter we took advantage of the bad news in **Russia, India and China** to add to our emerging market positions, which rebounded smartly in the quarter. These markets will continue to prosper from the outsourcing trend. Our core holding here, the **Morgan Stanley Emerging Market Index** (EEM) was up 6.7% for the quarter, while the **India fund** (IFN) was up 9.5% and 51% over the past 12 months. In aggregate, these positions currently are about 15% of our total allocations. While we may increase these allocations in the future, this is already a very healthy allocation.



Just another sunset in Costa Rica

4) Ever the contrarians, you'll recall we reduced our U.S. stock holding earlier this year when the Wall Street wags said an election year Bull Market was in the bag. We're glad we did. The Dow was down 2.5% for the first 9 months. Our current position to the U.S. stock market is only 25%. This contrasts strongly with the typical Wall Street portfolio which is about 65% to 75% directly exposed to the gravitational

pull of the S&P. We'll continue to maintain this minimal exposure by favoring the small and mid cap sectors, and also avoiding the large cap stocks. Do we need to say anything beyond **Merck & Fannie Mae** to rest our case for the illusion of blue chip security?

5) We've largely avoided **China** as we see a major international shoving match coming down the road as the long sleeping dragon starts to flex its muscles. Look for many battles over the value of the Yuan relative to the dollar, intellectual property and piracy, and also ruthless competition at the expense of other emerging markets in areas like textiles. While I'm certain we could make some money in China, I'm not comfortable with the politics here.

6) Does Emerging Market still mean 3rd World and low quality? Not on your life! Did you see the most recent auto quality ratings? **Hyundai** was rated #2 behind Lexus and ahead of Mercedes, BMW, Infinity, Acura and Volvo. Does this tell you something about emerging markets? By the way, Cadillac was the only American brand to crack the top 10.

7) While we like the Emerging market stocks, the Emerging market bonds are looking very fully priced at this time and could disappoint late arrivals to the party. These also have a fair amount of U.S. dollar exposure as well.

8) It goes without saying; avoid junk bonds at this time if you're seeking higher yields. An economic slowdown can really hurt these kings of leverage.

Thoughts for the New Age #137

Don't confuse GDP growth with Wall Street Profits!

Unlike past economic expansions, stroking up the consumer spending engine will not produce sustainable growth this time around. Why? Because in a period of a Global Supply Glut people may spend, but manufacturers will still have to cut prices and... profit margins.

9) A few words about ***interest rates***. If you recall our position earlier in the year, you'll recall we said the short term impact on interest rates was upward, but the longer term trend was down. Have you noticed that despite the Fed increasing rates 3 times in the past several months that mortgage rates have actually dropped, and are lower than this time last year? Confusing perhaps, but ***entirely consistent*** with our global economic scenario. U.S. government policy will tend to increase interest rates, but as imbedded assumptions about inflation shrink, the longer term pressure on rates is still downward.

10) In fact, by our estimate, it's already close to zero, to even negative. Currently, the CPI is listed at 1.6%, but some economists believe the outdated methods of calculating this overstates the actual number by as much as 2%, which would result in a negative number! Which, by definition, gives us the dreaded "D word"?

11) This isn't just an academic curiosity, as it impacts what our government policies are. The Fed could be putting one foot on the accelerator while Congress is putting the

other foot on the brake. And how could this impact you? Read on ...

12) We remain very concerned about the U.S. real-estate market. This one is getting set up for disappointment "Big Time". Inflated values right now are a direct function of low interest rates and a flight from the shenanigans of Wall Street. The problem is that many properties (both residential and commercial) have been bid up well beyond their true economic value. Evidence? The largest REITs are reported a sharp 10% to 15% decrease on the renewal rates for expiring leases. Any increase in interest rates could pop this bubble very quickly. The herd is already panicky. Could the growing scandal at Fannie Mae provide the spark? ***Please be very careful in purchasing real estate right now.***

Important Announcement!

We will be limiting new investment clients we will be accepting over the next 12 months.

If you have been procrastinating about contacting us to manage your personal portfolio, NOW is the time for action. Our advisory services start at \$250,000. Please give us a call to talk about your objectives.

Q: If the stock market is up 10% but the dollar is down 20%, how much have you lost?

A: Call us! 410-727-6444

Thoughts for the New Age #138

Will the Bush Boom be good for Big Business? Don't be fooled.

Despite the “Bush Mandate” the primary economic trends remain against the U.S. economy. Over the next 4 years, the best opportunities will remain outside the United States. Continue to steadily shift your asset allocation globally. Real Estate offers the best short term opportunity.

13) On the other hand, is there any way to capture the phantom equity in your homes? Let's face reality; even if you think the market value of your house is \$750,000 today, if it was worth \$350,000 five years ago when interest rates were 7%, it's likely that most of your gains will disappear if rates go north. Any residual “gains” would likely just reflect the 40% decline in the purchasing power of the dollar over the past several years. So, if you think rates might rise, or the real estate bubble might burst, is there anything you can do?

14) For aggressive investors, there might be a way of actually catching the ghost before it disappears! Consider drawing out the “equity” of your home (while locking into a long term fixed rate) and reinvesting, in either an investment which is not sensitive to the U.S. interest rate cycle, and ideally which is independent of a falling dollar. Assuming you have the cash flow to make the mortgage payments, the idea here is to lock in a long term 5% loan, and reinvest in hard assets which will appreciate if the dollar falls. If the real estate bubble

pops here in the United States, you've already cashed out of your phantom equity, and at least have a good shot of preserving it in the alternative investment. After getting your U.S. tax deduction, your breakeven point is about a 3% annual return.

15) Here are three ideas for alternative investments that might work out well here. ***Life Settlement insurance contract pools*** which typically are structured to return 15% annually, but are not vulnerable to rising interest rates. These require significant due diligence, but the idea here is your principal is not at risk due to rising rates in the bond markets. Similarly, we see some ***litigation finance pools*** which are priced to yield as much as 24% and again have no interest rate risk. A third option is ***foreign real estate*** which will appreciate if the dollar continues to fall. If you would like to discuss any of these advanced options, please give me a call directly.

16) Consider this example of the deflationary pressures of globalization: The average price of all goods at Wal-Mart has been dropping by 1% per year for the past 10 years. It's tough to maintain profit margins in this type of environment.

Thoughts for the New Age #139

Grey Ghost of Boomer spiritualism is beginning to creep across the country.

With the hour glass now half empty, Boomers are now more focused on quality of life issues than economics. This accounts for the morality votes in this election. It will also create a new investment theme as boomers seek fulfillment more than accumulation.

Please contact us directly if you would like to take a more proactive position to profit from these trends.

17) ***Inflation fears?*** Given the demographics of the workforce and globalization it would be very difficult to see inflation return today. Labor force dynamics are more important than presidential elections or the Fed over the long run. There are simply too many new workers coming on stream in China, India and elsewhere to create upward pressure. At the same time, the Baby Boomers are starting to retire.

18) The business model of the Internet boom (and bust) was to borrow money in order to grow as quickly as possible, and assume that profits would follow with “market share”. Isn’t this what the entire U.S. economy is doing right now? It failed then and will fail tomorrow.

19) In a recent article in *Barrons*, James Turk cited “*capital controls in the United States as a realistic possibility*”. In other words, in the event that the markets fall, and the foreigners decide not to finance our deficit anymore, look for Washington to restrict your ability to invest outside of the United States. Turk’s conclusion: “*Get out of the dollar while you can. Buy foreign assets while you still can. The dollar has more purchasing power now than it will in 2 or 3 years*”. Turk also suggests setting up an offshore brokerage account now before restrictions are imposed. You can always fund it later. Turk makes an interesting case, which is very consistent with our overall thinking. NOW is when!

Over the past 5 years, our admittedly unconventional world view has been very good in explaining and predicting the course of the markets. When we sit back and look objectively at the impacts of globalization,

the internet and the telecommunications revolution, it becomes pretty easy to connect the dots. These trends will continue and we will continue to seek out new and better ways of capitalizing on them.



“Don” Barry alias, “The Pale Rider” closing another deal, on the cell phone, in the rain forest.

For sophisticated investors, there are some fantastic opportunities to invest ahead of the wave. However, all investors should position their investment for a falling dollar and an economic boom outside the United States... Now is the time to act!

Barry Strudwick
September 30, 2004
