



*Currency Concerns  
And  
Deflating Boomers Expectations*

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This Newsletter was originally published in January, 2005 to the active clients of Strudwick Wealth Strategies as our “year-end report”. After a 60 day delay, it is now being distributed as a service to our readers. Please feel free to contact Barry directly if you would like an update on our analysis or inquire about our advisory services.

Particularly significant is that we accomplished this with only a 25% allocation to the U.S. stock market. What did we know that the whole herd of Wall Street mousse-heads didn't? Our guiding signposts of globalization strategies pointed us away from the U.S. last year warning us to protect against a falling dollar. The coming year? We don't see anything in the recent election that will shift these prevailing currents.

*The Oracle of Eager Street.....*

In January all us card carrying swamis are required by the Loyal Brotherhood of Prognosticators to huff, puff and make predictions for the next year, despite a relatively strong economy. Pulling the veil off our crystal ball, we foresee a gloomy landscape for the U.S. markets next year. As the home equity re-fi engine winds down, a slower economy and considerable global pressure will pommel the stock market. Add to this pressure for higher interest rates and a falling dollar, bonds hardly look attractive either. Finally there is the real estate bubble everyone seems to ignore. Talk about denial! A crack here could be very bad news as the net worth of leveraged households could get wiped out. Because of the combined potential impact of these factors, we want to limit our direct connection to both the gravitational pull of both the S&P 500 and also higher interest rates.

We left the U.S. real estate party over a year ago and won't be tempted to return anytime soon. Valuations are crazy and only start to make sense if you figure that the 33% decline in the dollar would equate to a 50% rise in real estate values (think about this one for a minute)! But fortunately, for the past several years we've been subscribing to the new global satellite network for our Oracle service which offers more upbeat programming than the domestic melodramas. In particular we are attracted to “non dollar denominated hard assets” with global real estate and commodities leading the way. We also still like emerging market stocks with an emphasis on South American and India over China.

Now with the broader markets covered, our Oracle would like to share with you some other cryptic musings: ***We predict that in 2005 America will start getting concerned about currencies.*** This year America will wise up to the great parlor illusion long perpetrated by

**Random Thought # 100**

***The Tail Wags the Dog .....***

**Why can a government worker retire  
at 55  
when social security for the rest of us  
starts at  
62?**

Wall Street and Washington where wealth is not lost if the “market is up”.

In a globalized economy, things are no longer this simple!

If over the same period of time, the dollar has fallen by more than what the markets have gained, haven't you actually **lost wealth** even if the numbers tell you that you “made money?” The “money” you have is now worth less! Focus on this!

This isn't just academic! Does the average American whose 401(k) plan is 100% invested in “blue chip” stocks and U.S. government bonds realize that over the past several years the dollar has plunged by 30% to 40% against other currencies?



**“World Problem Solving 101” at The Gathering in Costa Rica**

Can they grasp that even if their 401(k) was up 8% but the dollar fell by 10%.... they might not have “lost money,” but, more importantly, they **lost wealth!** Is a good portion of those amazing housing price “gains” simply a reflection of the plunging purchasing power of the dollar? Not an increase in wealth! Just wait until the new property tax

assessments start coming thru after this recent binge and you are taxed on your “gains”!  
**Oooochhh!**

Being pro-active opportunists rather than pessimists, we see strategic moves to profit in this environment. As we have been laying out for the past 5 years, what we are seeing is simply the very logical result of globalization. For the past 5 years, we've been working thru a period where **“global supply is greater than demand”**.

This means fierce price wars worldwide and falling profit margins. Because it is a “global” problem, it also means that domestic tax cuts and low interest rates won't fix it. This is wishful thinking. Regardless, it's a brutal environment for stocks especially in the U.S. and Europe because of higher labor costs.

***Come and join us for a long weekend get-away in Costa Rica!***

**May 5<sup>th</sup> – May 9<sup>th</sup>**

**June 23<sup>rd</sup> – June 27<sup>th</sup>**

Please contact Leslie for the details on each of these trips. She can be reached at (410) 727-6444 or [Leslie@noload.com](mailto:Leslie@noload.com)

Prospering in this environment requires **investing intelligently in other parts of the world.** As jobs are moved from the U.S., new wealth is being created somewhere else in the

world. In an effort to protect from a falling dollar and a shaky U.S. stock market, we've already shifted over 50% of our assets away from direct exposure to the U.S. stock and bond markets. Good opportunities abound, they just aren't where most people have been trained to look for them.



*The completed Villas at Del Pacifico*

### ***Ready, Set, Go!***

January 2005 marks the official start of the Baby Boomers moving into the retirement zone as the first of the “*Me Generation*” officially turn 58 and are eligible for “early retirement”. While you would think that this long presaged event would already be discounted in the markets, we don't think so. We are sensing a subtle shift in the psyche of America right now, which Wall Street and the Media have not yet detected. This is the emotional realization that the proverbial hourglass is now “half empty” and no longer “half full”. ***Do not underestimate the importance of this seemingly simple utterance.*** It has very far reaching investment implications and also helps to explain some of the anomalies of this past year. With the growing awareness that time is finite and health is fleeting, the pendulum is starting to swing from the Me-Generation's legendary materialism to more ***experiential pursuits and interests.***



*The Gathering – “Don Barry” giving a tour of Del Pacifico*

We see Boomers shifting from self indulgence to personal fulfillment. Perhaps a non-religious spiritual awakening of sorts. Aging Boomers are reflecting more on what is personally important and how to achieve this. This will shift consumer behavior and is already causing disruptions in the previously highly predictable buying patterns. Examples are everywhere. Think about the \$350 million miscalculation that Hollywood pundits made on Mel Gibson's “*The Passion of the Christ*” or the 2.5 million unexpected voter margin in the recent election that somehow wasn't picked up by the pollsters. How about the sudden yoga boom? And this isn't just the Birkenstock set; it's the aging Reagan Republicans as well. There are dozens of similar examples all around us. The Pepsi Generation is no longer playing volleyball on the beach, they are starting to pursue more reflective activities. Start thinking about when you see this among your friends and patterns will start to emerge.

***Our call*** is that this year the “awakening” of the Baby Boomers will accelerate and become more visible. Look for more affluent boomers to step back from their careers and reassess what they want to do the next 25 years. More so than with past generations, we anticipate that a larger number will opt to leave their primary careers and seek other activities which are more fulfilling or satisfying. For some this will mean returning to school to pursue an unrequited passion. For others it will mean greater social and community involvement. For still others, it

will mean taking the skills acquired in the first 25 years of employment and pursuing new entrepreneurial ventures globally. This is what we call the Aging Boomers “**New Three R’s .... Reflect, Recharge and Rewire**”.

*Boomers will reflect on what they want to do for the next 15 or 20 years, and then take some time off before launching a second global career with their skills. (Our interest in international real estate in part stems from this movement.)*

### **The Boomery Math**

On the other hand, the less affluent boomers will start hitting the panic button on retirement. Let’s do the math. Suppose in 2000 Peter Pepsi was 55 and had \$250,000 in the good ole IRA account. Looking to retire in 10 years, Peter compounded this out at 15% a year (wasn’t this the minimum rate of return we all expected as reasonable?), and determined he would be a paper millionaire with an IRA account valued at \$1.1 million at 65. Keep in mind, this is even after accounting for the market fall the prior year in 1999. Add to this Peter’s ballooning home equity and maybe a little slice of \$15 K a year or so from Social Security and it was easy to pencil in a six figure annual retirement income. The power of compound interest and other clichés .... Life was good! ... until the market crash continued for 4 more years.

Now for the reality check... Fast Forward five years and now Peter has only 5 years left to retirement. Peter is 60 years old and wakes up to evaluate his retirement prospects. Even after the rallies the last two years, the S&P 500 has still averaged over a 5% annual LOSS for the last 5 years, so his IRA account is now just worth \$200,000! And this is before we factor in the loss of the purchasing power of the dollar over the past several years that will lop off at last another 20% off your already meager loaf. ***So with \$160,000 left in 2000 dollars, just how is the Silent Majority going to retire???*** ***With this you couldn’t finance a double wide in Arkansas.*** ***And, in all seriousness this is real and exactly where we are today in the United States.***



*A walk along the beach and cliffs of The Grottos in Costa Rica*

Now tell me, what the prevalent trends are that could move this one way or the other? Can the stock market rally? On what earnings? Even 20% a year for the next 5 years only moves him to less than \$500,000 or 50% of what was projected. Will the dollar reverse trend and rally? Wouldn’t this decrease exports and hurt sales? Would we need higher interest rates to make the dollar more attractive to foreign investors? What happens to residential real estate values if interest rates rise? Will even the piddly \$15 k of Social Security be there?

***Here’s the problem as we see it: There is a fuse burning and it’s already half way gone. Time is not in our favor and the magic of compound interest won’t change this. Honestly, if I were a politician I wouldn’t see an easy solution from this entanglement. However, as I count my blessings that as a dyed in the wool free market capitalist, and not a politician, there are logical and cogent ways to invest in these trends and in fact profit from them.***

Last quarter we let forth with the rallying cry of “Go Global, Young Man!” and this holds the key to wealth preservation over the next decade. At the risk of sounding like the lunatic fringe “bomb shelter” crowd of prior generations, ***it is imperative for U.S. investors to shed the cocoon of investment isolationism and develop an international perspective.*** Failure to do so right now will have a brutal impact on your true net worth.

**What can you do?** Convert a portion of your net worth into “non-dollar denominated assets” or “hard assets” which are not sensitive to the U.S. interest rate cycles. What does this mean in English? When you actually start looking into this deeper, you have a number of options. At the simplest level you convert dollars into another currency such as Euros or Swiss Francs. You might even look into a Swiss annuity or a stock brokerage account with a European bank.

Another way might be to put a portion of your investments into industrial commodities or as we say “the stuff that stuff is made out of”. This hedges against a falling dollar because if the greenback stumbles, the price of your bushel of corn goes up. You can get similar protection by investing in precious metals like gold, silver and platinum. It’s now possible to add these positions to your portfolio using marketable securities that are backed by the physical commodity in a vault.

**Performance of Emerging Market Stocks**

	2004
Morgan Stanley Emerging Market IShare (EEM)	22 %
Brazil Fund (BZF)	42%
India Fund (IFN)	18%
Latin America	43%
Discovery Fund (LDF)	

However, most of these investments are simple hedges and lack any significant true wealth enhancement ability. Most investors want to enhance total purchasing power not just preserve it. This requires an investment that is not only “non-dollar denominated” but is also ***in the path of increasing demand. This has led us to the conclusion that international real estate has the potential to be one of the most powerful investments of the next decade. Please contact me to discuss this directly.***

**Other Stuff!!**

Just to keep you up to date on a couple of other things. Another part of our philosophy is that it’s just as easy to have fun while making money as it is to be a drudge. We had a successful launch of our first movie “***The Curse of the Maya***” starring Todd Bridges of “***Different Strokes***” fame. With one successful launch under our belts, we’ll be forming a second small partnership in March for another movie which will be the pilot for an adult action detective series, think *Magnum PI* meets *Baywatch* in Costa Rica and you’ve got the picture. It will be called “***Costa Chica***” and should be a lot of fun. *Please contact me if you’d like to learn more about participating.*

We also want to celebrate with you our 5<sup>th</sup> anniversary of hoisting the flag of ***Strudwick Wealth Strategies!*** We’ve continued to grow and want to ***thank you for your referrals!*** This is the way that we’ve grown because as you know, we don’t have any salesmen. *If you have a friend or family member that you think might like to talk to us, please don’t be bashful, we really appreciate it.*

Now here’s some more detail on the year that was and some insights on the year yet to come. As always, somewhat in order of general interest, so you can stop reading when your eyes get tired.

**Recommendations and Observations:**

- 1) Last year our overall strategy called for 25% U.S. stocks, 15% U.S. bonds, 10% international bonds, 35% market neutral investments, and 15% emerging market equities. This was considerably different than the Wall Street consensus. The broad diversification here allowed us to smooth out some bumps last year and also benefit from some strong surges in a couple of sectors. As noted above, most accounts were up between 15% & 18%. We will largely hold to this broad

allocation but will be doing some shifting within these allocations.

- 2) **Domestic equities** rallied very strongly in the last 45 days of the year but we suspect that this has more to do with re-election economic engine stoking than it does with any real improvement. While this saved the bacon for most U.S. fund managers, it was an election year anomaly and won't carry on. Count us among the Bears. We'll stay at our 25% domestic equity allocation. *We will continue to avoid the large cap sectors and favor the mid caps and energy/resource sectors.*

### **Random Thought # 101**

#### ***Is Oil a bubble like Tech in '98?!***

We don't think so.  
The answer is that a good chunk of the increase is due to the falling dollar and the balance is due to increased demand from China and the emerging markets.

- 3) We also see the empty calories consumed in the huge home equity re-fi bonanza wearing off and a sudden realization that the consumption orgy is over. This should not be pleasant news for the stock market in the second half of the year when our consumer led recovery peters out. At the risk of repeating ourselves, *stimulating domestic spending is not the correct solution for a global supply glut.*
- 4) Our **market neutral sector** is currently about 35% in most accounts with our global real estate (**EGLRX - up 30 %**) And commodities (**QRAAX - up 20%**) positions being the star performers. These investments not only offset the falling dollar but also created new wealth. We

will be increasing this allocation slightly to 40%.

- 5) Our **commodities** positions were up as much as 45% at some points in the year as oil prices were squeezed prior to the elections. Towards year end oil prices fell and our commodity positions ended the year up about 20%. While we still like energy long term and would like to add to these positions, we might wait a couple of months before increasing here. We see these positions as a nice *hedge* against a *falling dollar* and also a play on the growth of the emerging markets. We'll hold steady here now and will consider an increase later in the year.
- 6) When emerging countries under go rapid development, the **international real estate** markets boom before the securities markets. Look at **Ireland** in the '90s. New factories and offices have to be built, and then new suburbs sprout up as the higher wages encourage better housing. And once we have suburbs, can shopping malls be far behind? Right now there are over 200 shopping malls being constructed in India. We had 35% returns in this sector last year and don't see an end to this trend. We will continue to play this sector and likely increase exposure here.
- 7) A variation on this theme is the boom in **international resort real estate** which feeds more off the aging of the Baby boomer trend, the over-priced U.S. resort market and the quantum leaps that communications have made in the past 5 years. We see Central America as a major beneficiary here particularly **Costa Rica, Panama and Nicaragua**. Since there are no marketable securities to capture this play, the best way to participate in these markets is thru a **real estate land banking partnership**. *If you have an interest in this, please contact*

*me directly.* What impact will this have on stock prices?

- 8) This coming year, about once a month, we will be hosting small groups of friends and clients to our resort in Costa Rica for a long weekend. If you think you might want to join us and visit, *please give Barry, Dan or Stephanie a call.* It's a lot of fun and at night we solve all the world's problems.
- 9) Our **domestic bond** positions remain a difficult call. While on a purely economic basis we see falling rates long term which is favorable for bond values. BUT ...we also see political and popular perception pressures which could increase rates over the short run causing bond values to fall. Because of this uncertainty and the stealth wealth eroder of a falling dollar, it's hard to view U.S. bonds as a "conservative" position right now. Although our holdings have done well (**Loomis Sayles- up 11 %**) *we will be decreasing our domestic bonds holdings.*
- 10) One of our best calls last year was to "double down" on our **emerging markets** positions in the wake of the their plunge in the late spring as China, Russia and India all dropped 25% or more in a matter of a couple of weeks. We stayed the course and actually increased our exposure with the result of most portfolios getting 20% to 30% gains from this sector. Star performers include **Latin America** (up 43%) and our **Indian** positions which ended up north of 18% despite being down 25% at one point.
- 11) We are still cautious-negative on **China** and **Russia** and have very little exposure to these markets. Don't look for us to follow the crowd here. The decidedly non-free market moves of Putin could very easily be matched by aging political elite
- in China. The trend in Russia is very disturbing.
- 12) While we expect to hear the rallying cries of "Buy American" to start up again, **never make the mistake of confusing patriotism with preserving your wealth.** It's important to have a growing portion of your wealth in non dollar assets. And this doesn't just mean squirreling gold coins under the mattress. There are any number of other options.
- 13) While we don't have any **U.S. real estate** exposure currently as we sold our U.S real estate market securities in late 2003, we'd be remiss if we didn't comment on the size of the bubble right now. I don't care that Uncle Al says everything is OK. It ain't. As residential real estate values rise and fall in value much like bonds, any rise in interest rates will have a very ugly impact on the value of housing.
- 14) **Aggressive investors** with stable cash flow can consider capturing the **phantom real estate equity** by pulling out the equity from your house (only with a fixed rate loan!) and reinvesting in other investments which won't be sensitive to the U.S. real estate or interest rate cycles. A 5.2% fixed rate loan is a very low price to escape a 10% loss in the purchasing power of the dollar, especially if you also get gains. Please feel free to call me to discuss this.
- 15) The forces of globalization will continue to be the dominate factor to watch on your personal finances for the next decade as Adam Smith's invisible hand slowly brings supply and demand back into balance.
- 16) Will this balance be re-established thru an increase in Demand or a decrease in

Supply? Our opinion is a decrease in Supply is the logical answer. When moved from the sanctity of the academic world, this is just another way of saying Supply will be reduced by *“bankruptcy.”* Such is the law of the jungle in a market economy. It’s survival of the fittest. But this readjustment period can be very difficult for the stock market. This is why we are under allocated to U.S. stocks.

- 17) Over the past 5 years we have repeatedly noted the fallacy of trying to solve this supply/demand problem by stimulating domestic demand thru lower interest rates and tax incentives. The reason here is simply, the supply imbalance is *global* while government policy can only impact *Domestic* demand within the United States. Even if the seemingly insatiable appetite of U.S. consumers to buy compulsively could even temporarily bring this equation back into balance, wouldn’t non U.S. suppliers simply increase their output even more?
- 18) The hangover created by this orgy of empty calories will likely be ugly. America has consumed a huge chunk of its national savings and has nothing to show for it except a new pickup truck and a bass boat sitting in the driveway. *Wealth is not created by squandering your national savings.*
- 19) In an environment where supply of just about everything is greater than demand, the only winners are companies that can *cut costs* faster than the market forces *price cuts*. Recognizing this, the best cost-cutters keep driving prices down to grab market share from competitors. But only one company can be the *lowest cost producer*. If Dell wins, Gateway, HP and IBM lose. If Southwest wins, Delta, Continental, and US Air lose. If Wal-Mart wins, Sears, Kmart and Target lose. Why? Because to stay in the game, everyone will

cut selling prices even if they haven’t been able to cut costs. In fact, they will operate at a loss. Witness the airline industry.

### ***Random Thought # 102***

#### ***Tired of going it alone?***

***If our straight forward logic makes sense and you’d like us to help with managing your investment or retirement portfolios, now is the time to call us.***

***Because of our growth, we will limit ourselves to just 12 new investment clients this year. Relationship minimums are \$500,000. Please drop an email or call Dan or Barry directly at (410) 727-6444***

- 20) There is nothing about the global supply & demand imbalance that the election changed. However, shortsighted policies to help tilt the re-election likely point to a slowing economy, higher rates and a falling dollar in 2005.
- 21) Recognizing this reality is half the battle. The second half is actually doing something about it. We talk to a lot of people who understand and agree with our logic but haven’t taken action. We will continue to research even more options to better invest in this environment.

### ***Conclusion:***

We had a great year last year and believe we’re correctly positioned for the current year. For the past 5 years we have simply been “connecting the dots” and at this point it’s very obvious where they are pointing. Strangely, 95% of the investing world keeps looking in the other direction. For us this means less competition for the best deals.

As always, please feel free to call with questions.

P.S. Did you notice I got thru an entire letter without once uttering the “D-word” ...? But it’s still why we’re doin’ what we’re doin’!

*For more information, please call*

*410-727-6444 or email us:*

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

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### ***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. They can be reached by calling

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



*“Don Barry” calling in from our Central American office*

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### ***Are you ready for your own Go-Getaway Weekend in Costa Rica?***



Come and join “Don Barry” at our next go-get away weekend **in Costa Rica** . The weekend will include:

- ◆ ***A tour of Del Pacifico at Esterillos.***
- ◆ ***Sun Rise Yoga*** daily on the beach.
- ◆ ***Massage and Spa*** treatments.
- ◆ ***Aerial photography*** over the Rainforest by piloted ultra-lite.
- ◆ ***Horseback riding*** at sunset on the beach.
- ◆ Succulent ***Costa Rican “Pig Roast”***
- ◆ Late night ***“World Problem Solving 101”*** Poolside!

***Everything*** is included in our packaged Go-Get Away weekend. Contact Stephanie for more details.

Call [Stephanie](#) to join the fun in either May or June...

Toll free at 866-466-5623 or 866-4-Noload!