



***"Innovation Equals Opportunity"***



## ***Global Gluttony***

***By Barry Strudwick***

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***This Newsletter was originally published March 31, 2005 to the clients of Strudwick Wealth Strategies as our "first quarter 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.***

While *The New York Times* recently lamented the past 90 days as "*The quarter when nothing worked*", we're quite pleased with our results here on Eager Street! Our globalization strategies have again proven to be right on track with most accounts up for the first 90 days of 2005.

Since it's *The Year of the Rooster*, excuse our crowing but it's not that "nothing worked" this year but rather "what worked" was outside of the pre-packaged boxes Wall Street peddles. Globalization has changed both the rules of the game and also what will in fact work. Playing ostrich will result in

economic Darwinism as Main Street America's wealth is silently frittered away by home equity re-fi's and a plunging dollar.

So how is it that we outperformed the swashbuckling Wizards of Wall Street yet again? To be sure, it isn't because we have a secret black box which spits out the names of hot stocks. No, the root of our success is far simpler. We have learned how to ignore Wall Street's mumbo jumbo and simply observe what's going on and think for ourselves. With the forces of globalization disrupting the old status quo, it should be apparent that as new opportunities are created outside the United States, new wealth will follow...outside the United States. Hey folks, this isn't rocket science; still the Old Guard chooses to ignore the obvious and chant the mantra that "the good ole days will return if you wait long enough". We believe that waiting for Wall Street to rally and holding your money in green backs is clearly hazardous to your wealth. ***As we've said before, don't confuse patriotism with profits.***



***The New Del Pacifico Square***

Recently, we've noticed some of The Herd starting to pay lip service to the impact of Globalization. Better late than never, even Uncle Al Greenspan has finally given a nod in the direction of our long held positions when he recently said:

*“Globalization, the extension of the division of labor and specialization beyond traditional borders, is patently a key to understanding our recent economic history.”*

Since Al, that jovial old cryptic quipster, is as obtuse as the legendary Oracle of Delphi, a little parsing of his missive is necessary to get to his true meaning. First, Al is telling us “don't expect to see inflation anytime soon.” Why? Because Globalization has unlocked vast labor pools around the world and this huge supply will hold wages down. Taking this a step further, since labor is a much larger component of total production costs than raw materials, the impact of lower labor costs will more than offset the spike in oil and other commodity prices.

Looked at another way, Wall Street has trained us to anticipate “inflation” (and higher interest rates) whenever the economy has an extended period of growth. However, Al is telling us that Globalization has broken this linkage. Like Pavlov's dogs, it's hard for The Herd to adapt to a new set of stimuli and instead keep looking for inflation. Need evidence? Just 10 days later a headline in the *Wall Street Journal* read ‘*The Downward*

*Drift of Interest Rates Confounds Experts.”* You'll recall that last year we were the lone voice in the wilderness saying the net effect of Globalization would be *lower not higher* interest rates. *Going forward the full impact of the ripple effects of Globalization is just starting to be felt.*

***10% return for 3 years!  
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Dan Somerville a call for details.  
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The second thing Uncle Al is telling us is that the U.S. is no longer a closed economic system and simply stoking up the U.S. economy will not automatically create new jobs at home. With global markets and free trade, the consumer appetite for cars, microwaves and cheap clothes can readily be satiated by goods from China or elsewhere. This means the age old economic elixir of tax cuts and lower interest rates will have a blunted effect in creating new jobs in America. As importantly, Washington does not have the tools to control the global supply side of the equation. *So, try as they may, attempting to bring global supply/demand in balance by hyper-stimulating domestic demand is a strategy doomed to failure. This is a very important point to grasp and understand.*

To understand this, let's take a minute to look at the balance of Supply and Demand in a global economy. It's a pretty simple equation:

$$\text{Domestic Demand} + \text{Global Demand} = \text{Domestic Supply} + \text{Global Supply}$$

If Demand is greater than Supply, prices rise. If Supply is greater than Demand, prices fall and we have weaker profits. It's this latter scenario that explains why everything is "on sale" all the time these days.

*Come and join us for  
THE MID-SUMMER  
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June 23<sup>rd</sup> – June 27<sup>th</sup>

Join us for:

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**Now consider this:** If Washington wants to bring supply and demand back into balance, the tools at Washington's disposal (such as tax cuts and lower interest rates) only impact the **Domestic Demand** side of the equation. They cannot increase Global Demand and they won't decrease Global Supply side. *In fact,*

*the exact opposite will happen as higher demand in the United States will encourage more supply to be created outside our borders.* When looked at this way, can the recent re-fi boom and the resulting housing bubble be seen as just a short sighted attempt to have the U.S. consumer attempt to spend our way out of a worldwide economic imbalance? Is this even remotely rational? Or when you stop to think about it...Is it just plain crazy?

***This is the fatal flaw of our current government's policy.***

To be fair, given that George W inherited a collapsing stock market, a recently globalized world economy and the whole 9-11 shock, there may not have been any other short term alternatives. However, as investors, we have to look beyond the best wishes of Washington and position ourselves based on our assessment of the probable consequences. While Wall Street & Washington spin a web of denial, we instead choose to take advantage of the window of opportunity this perception gap has created.

As evidence supporting this position mounts, we have been steadily moving away from the U.S. stock market. Globalization has also broken the old tried and true linkage between an expanding domestic economy and a rising stock market. If over-supply causes price cuts, this leads to erosion of profit margins and ultimately lower stock prices.



Can you see why we call our new beach front  
"The Oasis"?

While we have been beating this drum for several years, it seems our thinking is slipping into the popular press as Gretchen Morgenson recently opined in the *Sunday New York Times*:

***"The Result: while stock market valuations may not be as high as they were before the bubble burst, the quality of earnings appears to be worse"***

Gretchen Morgenson,  
*The New York Times*,  
Sunday March 20, 2005

As importantly, the good witch Gretchen's comments were supporting the position of Merrill Lynch's Chief U.S. stock strategist Richard Bernstein on the deteriorating quality of reported profits. So if both *The Times* & *Mother Merrill* are telling us to be careful, it's time to take heed. The Herd is getting ready to move!

Here are our current assessments for various Asset classes:

U.S Large Cap Stocks  
U.S. Short Term Bonds **Bearish**  
U.S. Government Bonds  
International Large Cap Stocks  
Russia  
Emerging Market Bonds  
High Yield Bonds

U.S. Corporate Bonds  
International Government Bonds **Caution**  
U.S. Mid Cap Stocks  
U.S. Small Cap Stocks  
Natural Resource Stocks  
China  
Energy Sector

Diversified Commodities  
Emerging Market Equity **Bullish**  
International Small Cap  
International Real Estate  
Biotech Sector  
Telecomm Sector  
Precious Metals  
International Currencies  
Private Equity  
Latin America  
Korea

Rather than stand on the sidelines and become part of *the "Coulda, Woulda, Shoulda Club"*, we have been pro-active with where we have chosen to invest your money. Over the past several years we have already decreased our exposure to the U.S. stock market by 50%. We will carefully consider additional reductions as we go along as we can see the thundering herd finally

catching on to what we have now been saying for the past 7 years.

Sometimes people are surprised to learn we don't spend hours every day staring at a Bloomberg or a Quotron.

Watching numbers scroll by on a computer screen is as mindless and worthless activity as my kids watching *Sponge Bob Squarepants*. Instead a daily stack of newspapers and an open mind to the world around us supplies most of the clues we need. Anybody could do it. It's simple observation.



*Our Costa Rican property called "The Forest".*

Frankly, it has always mystified me why otherwise seemingly intelligent, college educated people can spend an entire working lifetime staring at squiggly lines and deluding themselves that they are somehow adding value to society. If brainpower is one of this country's greatest natural resources, the time and energy spent picking and selling stocks to Main Street is one of our greatest misallocations of assets. Just imagine if all the brainpower of the best and brightest on Wall Street

were turned loose on actually producing something of economic value rather than shuffling dollars within it? ***Our advice, think independently.***

As has become our pattern, here are our latest observations. As usual, I've tried to place the most significant items with respect to your accounts' performance up at the top and work our down to thoughts and observations that I believe are worth keeping an eye on. So read as far as you like and stop when you please.

1) The key to our success this quarter again came from our "***market neutral***" sector which is now about 35% of most accounts. Our star performer was our diversified ***commodities*** position which produced an eye popping 20% gain for the first quarter. As the economies of China and India continue their torrid growth, look for further increases in commodity prices.

2) A 20% gain in 90 days raises the question of "rebalancing." Our response to this is "rebalance into what?" We don't want to fall into the automatically rebalance trap which is Wall Street shorthand for "I don't know what's going on, so I'll take money form our best ideas and put it into our worst idea."

3) ***International real estate***, another core holding in our market neutral sector, also did very well this quarter with a 4.5% gain. Our logic remains the same here, for every job lost in

America another job is created somewhere else in the world. This impacts the global real estate market two ways. First, new factories will be built. Soon to follow this will be new housing and new malls for the new wage earner. Second, the new middle class will want improved housing, we believe that this real estate wave precedes a rally in the local stock markets by at least 5 years.

4) Investing in international real estate also has two other major attractions. First, these are investments which also hedge against a falling dollar. Quite simply ***Dirt is the ultimate hard asset.*** When the dollar falls by 10%, the price of dirt will go up by a corresponding amount. It's also an alternative to the massive bubble in the U.S. real estate market right now. And a spike in interest rates could be the thorn bush we're floating perilously close to. We continue to advice against putting more assets into U.S. real estate and recommend reduction where possible.

5) Why? Because the huge amount of cheap credit here in the United States has inflated the price (*but not the value*) of U.S. real estate. However, in many countries around the world, the real estate is not leveraged by a massive mortgage market and real estate sells for a cash price. A crash in the U.S. real estate market will not likely have a direct impact on real estate in other countries. Buying your dirt outside the United States can serve to preserve your wealth as

the dollar falls in value and/or the U.S. real estate bubble gets pricked.

Over the years many people have asked us what exactly do you do? A simple question.



**Strudwick Wealth Strategies:**

For over 20 years, manages stock and bond portfolios for private individuals. Minimum accounts are \$250,000.



**Del Pacifico** is a 1,000 acre Beach and golf resort founded by Barry Strudwick and William Ramirez. The Project has been master planned by internationally renowned Dhuru Thadani (Seaside & Windsor in Florida). Billy Casper Golf is developing the golf course. Building lots, condos and houses are currently available.



Barry Strudwick is also the founder and managing partner of **Costa Reit Partners**, a real estate land banking company which holds over 1,500 acres in Costa Rica and other Central American countries.

**Other projects** have included various media related ventures. Barry was host of the radio show Mutual Perspectives for 13 years and he wrote a monthly column on personal finance for 10 years. More recently Barry has been the executive producer of 2 films – **Curse of the Maya** (David Heavener / Todd Bridges) and most recently **“Costa Chica”**.

For more information on any of these activities, please give us a call at 410-727-6444 or email [info@noload.com](mailto:info@noload.com)

6) How do you invest in real estate in foreign countries? Your two basic options are condos/rental properties or private equity land banking partnerships. For the pure investor, the private equity partnerships are likely less hassle and make more sense. However, for those looking for a second home and a lifestyle investment, owning a house or a condo with rental potential can make sense. *Please give me a call directly to discuss ideas here if you are interested.*

7) As an “investment” avoid fractional ownership or time share deals. With these you are basically pre-paying for your vacation time (which can be attractive). However, don’t fool yourself and call it an investment. If tempted, read the fine print!



*Touring of Del Pacifico*

8) During the quarter we ***again reduced our holdings in the U.S. stock market.*** Since our holdings were already very low by historic norms, this was a measured incremental reduction and not a radical move. In most accounts our holding of U.S. stocks are between

25% and 35% with a heavy emphasis on natural resources, energy and small & mid cap stocks. We continue to avoid large cap stocks.

9) While we are very concerned about the U.S. stock market, we see that ***the U.S. bond market is now even more dangerous*** and is certainly not a safe haven for investors. Bonds have two significant risks right now. The obvious one is the risk of rising interest rates. The second covert risk is the loss of purchasing power due to a falling dollar. Our holding of U.S. bonds is down to about 15% of total assets.

10) With increasing frequency we’re seeing the bobble heads on the evening news preach to us about the ***Oil Bubble*** and why not to invest in commodities. The basic opinion is “oil at \$50 a barrel is not sustainable.” And we ask the question, ***“Why Not?”*** Two factors have driven up the price of oil. First has been a boom in global economic activity which creates the inevitable supply/demand price increase as more “stuff” is made and consumed around the world, not just here. Look at the stats: China’s GDP is growing at 9.5%, Hong Kong at 7%, India at 6.6%, Russia at 6.7% and Brazil at 4.9%. That’s a lotta stuff getting made which requires energy and other natural resources. Why should we expect this to turn on a dime? The world’s economies are in high gear and are very thirsty for oil.

What over the next 90 days do you see this changing? Do you see China

and India decreasing their consumption of oil over the next 5 or 10 years? Simple supply and demand, my friends!

11) The second factor is perhaps of equal importance and less obvious to the average American. This quite simply is that very suddenly and silently the value *of the greenback* has plunged by 25% since 2000. So, because dollars buy less, oil is more expensive. As we all know, it takes a 33% gain to make up for a 25% loss. So, for discussion's sake, if Oil was at \$30 a barrel in 2000, the 33% price increase necessary to make up for the 25% currency devaluation would push the price of oil to \$45 a barrel (\$30 times 1.33). Now with this as our floor price for oil, is a \$10 a barrel spike caused by the boom in China, Russia and Brazil that unreasonable?

12) *Our conclusion* here is that for the *Oil Bubble* to burst, we would need to see two things happen. First, the dollar would have to suddenly and dramatically strengthen. Or the global economic engine would have to stall out. Do you see either of these happening in the next 90 days.....or 365 days for that matter?

13) If either or both of these events were to occur, we would have far greater problems than simply whether we missed an opportunity to pull our profits from our oil stocks off the table. Why?

14) For the dollar to suddenly appreciate in value would likely require or imply a sudden spike up in U.S. interest rates which would prick the bubble of the U.S. real estate market. A rise in the U.S. dollar would also choke off our exports causing our economy to slow and our deficit to further grow, which puts more upward pressure on interest rates.

***Costa Rica Vacation?***

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and private villas for rent at  
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15) *Stay away* from U.S. Government bonds. They have two risks right now. First, they are a pure interest rate play, meaning if rates go up, they go down at a ratio of 7 to 1 for a 10 year bond. Even if interest rates don't move upward, your other risk is the loss of global purchasing power if the dollar continues to fall. So if you get paid a 5% yield but the dollar loses 10% of its value, owners of "risk free" Treasury Bonds will have silently lost 6% of their wealth ...but, to add insult to injury, you can't write this loss off on your tax return!

16) Relative to last year, have you noticed that the number of announcements of "outsourcing" has declined? Irascible contrarians that

we are, we suspect this is bad news for stock prices. Why? Because it means that Corporate America has run out of cost cutting moves or “productivity gains” that can be squeezed from slashing labor costs. If global excess supply overhang continues, the price wars will continue and profits will be hit hard. For this and other reasons, we’ll remain at our historic low holding of U.S. stocks and those that we hold will be heavily weighted towards mid and small cap stocks as well as natural resource related holdings.



*Casa Oso Rojo ... a blend of Asian and Spanish influences to create an inviting combination of outdoor living with privacy and tranquility.*

17) To recap our logic here, when there is a global excess of supply of virtually everything being manufactured, companies enter into price cutting to grab market share from competitors. In Round Two, in order to preserve profit margins, companies will cut costs to preserve profit margins. This leads to the outsourcing of jobs to lower cost markets. But you can only cut a job once. If your competitor matches your overhead cuts, another round of

product price cutting follows. While it might seem crazy, companies will actually sell goods at a loss to maintain market share. This is not good for stocks. Ultimately, this spiral ends when one company cries “Uncle” and shuts down. So a simple slow down in the outsourcing torrent doesn’t mean the storm is over!

18) Does this help to explain the recent headlines extolling the boom in the mergers and acquisitions markets? Is this good or bad? Certainly it’s the first step in alleviating the global supply/demand imbalance, but we suspect it’s way too early to see this as a rallying point for the stock market. This is again because the supply glut is global and we’re simply seeing consolidation on a local level. We can’t assume a level playing field and that companies in China are playing by the same rules. ***Government subsidies are likely to become a source of international strife in the near future. We’ll wait and see on this one.***

19) Another portfolio proxy for globalization has been our holding in ***XM*** and ***Sirius*** satellite radio. Our long term patience with these two major satellite radio providers Sirius and XM paid off with returns of over 200% last year. While we anticipate a lot of volatility in both these stocks, the concept appears to really have taken off at long last. This is a great example of a disruptive technology which will really have a significant impact long term.

20) As we have said many times in the past, ***“People will pay for their passions.”*** Subscription radio will ultimately topple the monopoly that NPR has held on the national airwaves. As the people willing to pay for their passions now have 100 plus stations of micro–niche programming for \$10 a month via satellite radio, look for Adam Smith’s invisible hand to shift these chips away from public radio as free market subscriptions siphoning off donations from NPR’s government-supported monopoly. Look for some howling when the black clad Birkenstock Set at NPR wakes up and realizes millions of dollars contributed annually by their core “donators” really were not proxies for leftist programming but simply the price required to escapg the bombast of commercial advertising on the radio. ***Viva La Free Markets!***

21) *“But my stock broker told me about his firm’s “Asset Allocation Model” ..... blah, blah, blah.....and a slick pitch with pretty pie charts which purportedly tell you where to invest your money. We’ve heard it all a thousand times. There should be a law against putting computers into the hands of uninformed idiots. One of the greatest travesties we see right now is Wall Street sending out its legions of brokers with flashy notebook computers and web-based software purporting to use advanced analysis to “protect your wealth” using something called “asset allocation.” While the basic academic foundations*

are sound, these ideas are being abused and people are being taken advantage of. ***Why?*** Remember the old computer acronym from the 60’s..... “GI-GO?” or ***“Garbage In, Garbage Out?”*** At the foundation of all the academics is a core assumption which requires that the “*inter-relationships*” between the asset classes remains “*stable.*” Globalization has rocked and twisted these interrelationships by shifting the balance of supply and demand. Think about it! If this balance shifts, the “*interrelationships*” of all asset classes can no longer remain stable. This means that the last 75 years of historic data on the “*interrelationships*” between stocks, bonds, real estate and other asset classes needs to get thrown out the window as new interrelationships based on a globalized economy are formed. And any canned software package which purports to “reduce risk” in an investment portfolio is irresponsible at best. Is Eliot Spitzer listening?



22) Is anyone watching the tension between China and Japan building? Keep an eye on this...

As we continue to connect the dots each quarter, we are confident our

Are you interested in joining us for  
*The mid-summer Gathering*  
**June 23-27, 2005?**



Our group at the Winter Gathering preparing for a zipline rainforest canopy tour

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strategies based on the impact of Globalization remain on target. We just hope our leaders recognize the pressures which are building up in this system.

*For more information, please call*

*410-727-6444 or email us:*

**[info@noload.com](mailto:info@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.

Barry is also a successful real estate developer in Central America. He is the founder of Del Pacifico the 1,000 acre Beach and Golf resort in Costa Rica and managing partner of Costa Reit, a private land banking partnership which holds over 1,500 acres in Central America.



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

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