



“Innovation Equals Opportunity”



As the World Turns ... From West to East

By Barry Strudwick

This Newsletter was originally published June 30, 2005 to the clients of Strudwick Wealth Strategies as our “third quarter report”. After a 30 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 stock market has been stuck in the summer doldrums, we are pleased to announce our globalization strategies have turned in another gravity defying performance! Most of our client’s portfolios have gained for the first six months of the year while the bell-weather S&P 500 was down about 1.5% for the same time frame. Our secret strategy? Simply avoid the risks of the U.S. stock and bond markets and focus on the sectors that should benefit from galloping freight train of Globalization.

Admittedly, when we first had our revelations about the impact of Globalization on personal investment strategies, most people understood our logic, but were hopeful the “dot.com” crash was just a speed bump on the superhighway to U.S. Internet imperialism. The funny thing is that while most folks are still waiting for the Wall Street money machine to rev back up, the rest of the world has suddenly leapfrogging us with good ole ruthless capitalist competition. Prior to the dot.com bust, it looked like a new era of U.S. global dominance. But as Tom Friedman says in his “must read” book, *The World is Flat*, the unexpected aftermath of the tel-com meltdown several years ago is a newly leveled global playing field. Armed with cell phones, web browsers and credit cards, millions of aspiring entrepreneurs can now compete with the old vertically integrated multi-nationals. Consider my personal experiences in Central America, where I frequently use my cell phone to call the Baltimore office ...while on horseback ...in the rainforest! The cost? About 15 cents a minute! The world is suddenly a much smaller place.



World Problem Solving 101 at “The Gathering”

Your competition can be a virtual company hosted on a website and staffed by a young, hungry entrepreneur with a cell phone...in India...using UPS for shipping and Visa or PayPal to complete the transaction.

As an investor, how does this impact you? At one level, global flattening is already impacting the competitive position and profitability of large multinational stocks. At another level, it has caused U.S. interest rates to drop as low cost labor has allowed rapid economic growth while containing inflation. While we correctly predicted this, the failure of our media elite to appreciate the impact of globalization has led them to predict the exact opposite to occur for the past 7 or 8 years.

Our Next Trip to Costa Rica?

*Mark your calendar for
October 13-17, 2005*

*To make your reservations please
call Leslie at 1-866-466-5623
or email leslie@noload.com*

We started to sense the investment implication of Globalization in 1997. The "**Ah, Hah!** Moment" came when we distilled the net impact of NAFTA, GATT, the Fall of the Berlin Wall, the Internet and the telecomm bandwidth explosion down to a sudden shift in the global balance of "**supply / demand**" balance. Our conclusion was an **increase in supply** without an

offsetting increase in demand would cause prices, profits and interest rates to fall. As investors, we also knew the collective decision making "knowledge base" was predicated on the past 75 years of experience when "**Demand**" was dominant. A new era of suddenly *increased Supply* could break the linkages in our decision-making rules rendering the personal experience of virtually all investment professionals irrelevant. In other words, a new framework would be needed for a world where Supply was dominant. This requires re-thinking the relationships between variables. For example, growth in the U.S. economy would no longer have as strong a linkage to a growth in profits for U.S. stocks. For the next 5 years we chronicled the development of our new investment framework in our "*Thoughts for the New Age*" series which soon totaled over 150 observations on investing in a tele-connected world suddenly awash with low cost goods and services. While we won't recount the entire litany of our logic here, perhaps a brief recount could be helpful.

The world is suddenly a different place since NAFTA, GATT, the Internet and the telecomm explosion. Fierce price competition has erupted in virtually every industry, as suddenly the *Supply* of just about everything is slightly greater than the *Demand*. This is not just cars and computers. Its engineers, software and in the next decade even those two sectors most protected by geography: education and medical care. The *New York Times* recently lamented the "*Denim Tsunami*" as a glut of blue jeans is driving down

prices. Examples in other industries are everywhere. Even though the world's economies are booming with top line GDP growth, increased competition has created razor thin margins and bottom line weak profits. Since recognizing this, we shifted our investment emphasis to the areas that would logically benefit from the new era of excess global capacity. Over the past 5 years we positioned ourselves for a weak stock market, falling interest rates, higher commodity prices, a weaker dollar and much lower than expected inflation. By and large, our investment strategies have been right on target. Bonds rallied on falling rates, commodity and energy prices spiked as global demand squeezed supplies and international real estate has boomed as more jobs were outsourced.

We are now entering the next phase of globalization. ***The deck is no longer stacked in favor of the West and capital and opportunity will start flowing to the East at an increasing pace.*** On the positive side of things, this is likely a 15 or 20-year cycle, so by our reckoning there is still plenty of time left to play. ***This is a very important concept to understand and embrace.***

Globalization Redux

Globalization has unleashed incredible competitive forces on all the world's economies. Most importantly they have shifted the all-important balance of global supply and demand. When supply is greater than demand, prices fall. This starts a dangerous spiral effect, which causes companies to *cut*

costs to preserve profits (think about out-sourcing and off-shoring). But in six months, when nothing has changed to alter the underlying fact that supply is still greater than demand, a second round of price cuts occurs. Since costs can't be lowered again, profits drop. When profits drops, stock prices will follow suit. ***The only way out of this spiral is for either Demand to increase or Supply to drop.*** (As an investor, the important revelation here is to accept that ***none of the factors impacting the supply /demand imbalance can/will be reversed anytime in the next 6 to 12 months.***)



Morning Yoga at "The Gathering"

The Internet, global telecom and a dozen other factors are now facts of life. Washington and Wall Street's wishful thinking aside, is anything going to stop the momentum of China's manufacturing growth? How about the growth of India? Brazil? Korea? Mexico? India alone is cranking out *hundreds of thousands* of new engineers annually willing to work at ¼ the cost of a U.S. engineer. Isn't ***the only rational conclusion*** to accept Globalization and project the

impact? ***Our conclusion?*** An extended period of weak profits until / unless something occurs to rebalance Supply & Demand. What could do this? Political backlash to reduce imports (Keep an eye on Chuck Schumer). Or more likely, the gradual emergence of a middle class of retail consumers in India and China. No question that this is already happening ***but*** at a slower pace than their top line economic growth. Our investment strategy has been to ride these gale force currents and not to be directly in their destructive path. For example, we've emphasized natural resources and commodities because rapidly growing economies will need these. But we have avoided U.S. large caps, which will be competing head on with these countries. So far, so good! ***Our newest observation?*** *The forces of globalization are moving much faster than what we projected even last year and are accelerating.*



Another Zipline Survivor from "The Gathering"

The genie of capitalism has been unleashed. And people all over the world want their piece of the pie. The Internet/ telecom tsunami has broken down the geographic barriers that held

wealth captive in the West for so many years. With capital now flowing freely around the world, it will find opportunities. ***The U.S. does not possess a genetic lock on creativity and entrepreneurial spirit.***

Freddie the Four Wheeler

I see this every time I travel to Costa Rica. Last month we were scouting out a potential golf course location on a very hilly ranch without access by roads. We took off with our landscape architects on horseback about 8:00 AM to survey the property. Joining us was our surveyor Freddie on his Honda Quad ATV. Several years ago, getting a topographic survey would have taken weeks and cost over \$10,000. Yet, we had a full topographic survey of the 200 acres by noon the same day! How? The ever-resourceful Freddie has a GPS system mounted on his four wheel ATV. While we rode the ridgelines by horse, Freddie "four wheeled" along with us and with a combination of laser beams plus GPS mapped the site. The results were downloaded and printed out in our office and emailed to our land planning architects in the States. We accomplished in a morning what would have taken weeks just a few years ago.

Those with ambition, education and entrepreneurial spirit in the emerging markets are using technology to leapfrog our preconceived perceptions of their capabilities. Low cost telecom and the Internet have unlocked their talents to the rest of the world. This

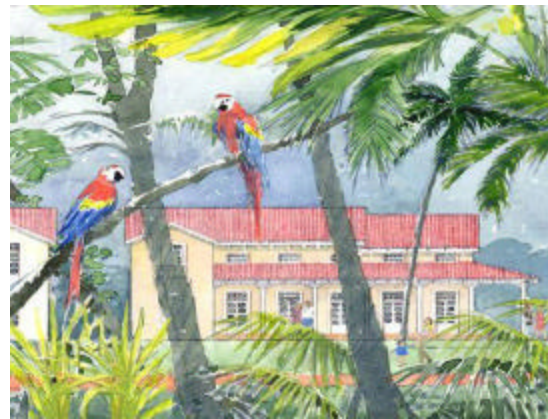
underestimation of talents and technology is what I sometimes call “the information arbitrage”. Ultimately, capital is apolitical and will always flow to the highest after tax rate of return. The early adapter will capture the economic benefit of the current market inefficiency.

A Few More Words of Caution on Real Estate ...

In addition, with our investments we've also tried to avoid some potholes that appear to be in our path. In particular, the hyper-hot U.S. real estate market is an accident waiting to happen. Certainly all the warning signs such as “condoflip.com” and other get rich “quick” schemes are there. Allowing small investors to leverage bets 20 to 1, a new cyber casino has opened on Main Street letting people speculate in real estate. And it's all legalized gambling because buying real estate doesn't require a license and the SEC doesn't regulate housing. All you need is to put your 5% down and spin the wheel! Watching the T.V. advertisements for mortgages, it's almost like a carnival barker working the crowd at a state fair... *Step right up! Put your 5% down on that pretty little condo and let lady luck spin the wheel of fortuneeverybody's a winner here! ... Odds are it will be worth more next week! It doesn't matter if you're never going to live there. And*

if it's not? If the bubble burst, just turn the keys over to the frowning man in the Brooks Brothers suit. He's your banker after all they don't call it “non-recourse” financing for nothin'! Step right up! Hurry! Hurry!! Hurry!!!

Some consider this mania an unintentional side effect of the Uncle Al's easy credit monetary policy in the wake of 9-11. But there is also a Globalization angle here. First, a portion of the nominal “gains” in real estate value are not gains in the sense of profits, but simply reflect the lose of purchasing power due to a plunging dollar. If the dollar has fallen by 25%, a pallet of bricks worth \$1,000 last year now costs \$1,250 today. The bricks haven't “gained” any value at all but as a “hard asset” they have simply preserved your purchasing power.



The Rio Cottages have 2 bedrooms and start at \$275,000. For more information call Harry on 410-727-6444.

A **second factor** impacting housing prices (as opposed to value) is the fall of mortgage interest rates from 8% five years ago to the current level of about 5%. Think of the value of a house as fluctuating like the market value of a U.S. government bond. If

interest rates rise, the market value of the bond will fall (or more in the opposite direction) and not rise. What many people don't fully grasp is that the magnitude of the shift is not a 1 to 1 relationship, but is a multiple of the interest rate movement. What determines the magnitude of the shift is length of maturity of the bond. (**A 30-year bond moves about 13% in value for every 1% shift in interest rates**).



Our Posse in pursuit of New Opportunities

If nationwide mortgage rates were to **FALL by 1%**, we'd expect housing prices to **RISE by about 13%**. AND vice versa. So over the past several years, haven't we seen mortgage rates drop by 2% to 3%? And wouldn't this imply a 30% to 45% increase in the **"market price"** (again not "value") of *the entire nation's housing supply!* Combined with the 20% plus shift caused by the purchasing power effect due to the fall of the dollar with just some rough back of the envelope calculations come up with housing price increases of 50% or more!

First I'll ask you **the easy question**. Has either of these factors actually increased the intrinsic value the entire nation's housing stock? Or will the

"wealth effect" turn out to be illusory, as the cost of substitute assets has also inflated? **The second part is the hard question:** And what happens to the 50% increase in market price if either interest rates or the dollar rise?

Now for the \$1 Trillion dollar question: Will the real estate market crash?

Good question. True Believers drinking from the Fount of Greenspan say low rates are here forever making the wealth effect in real estate "permanent". We ain't drinking that Kool-Aid. We'll go as far as to say a good chunk of the gains are from a fall in the value of the dollar and a good portion of the interest rate gains might be longer term. But we don't see these as "permanent". **So does an investor have a play here?** We think so for the aggressive investor with predictable cash flow there are potential plays. Consider locking in on a low cost of capital by re-financing your mortgage and reinvesting in other hard assets outside of the housing market. This could be precious metals, international real estate or a number of other alternatives. If inflation rears its ugly head, you'll be locked into a favorable low interest long-term mortgage. *Give me a call if you would like to discuss this further.*

On a lighter note, it looks like we caught another trend early ...with zombie movies! Have you noticed the resurgence of horror movies and in particular zombie movies? We've seen at least half dozen, large articles on George Romero's new movie... "*Dawn*

of the Dead". Well, our own addition to the zombie catalogue, "**The Curse of the Maya**" has now been released and is doing pretty well. Talk about globalization! We've sold the DVD rights to *Indonesia, Thailand, Brazil, Italy and the U.K* so far. We also have a front row seat to watch the *video on demand* and *cell phone video clip* markets emerge. It's an amazing process.

in the convergence of globalization and the aging boomer phenomena. Feel free to call me directly if you want to learn more.

Now, back to the business at hand, and how we're trying to put these factors to work in a practical sense. As always, I've listed the more important action-oriented points near the top, so you can read until you get tired.



*The Flats at Esterillos starting at \$175,000.
Call Harry on 410-727-6444 for details.*

We're also still very active in our **Central American real estate** ventures. To date we've assembled close to 2,500 acres of land on the central Pacific coast and our first condos and single-family houses are already completed. We've just released the new master plan at our 1,000-acre beach and golf resort and Billy Casper Golf has been retained to coordinate the golf course construction. For someone looking to own a condo, now is a great time to get in on the ground floor with the **new Flats at Esterillos** and the **Rio Cottages**.

There are also still opportunities to participate in our **land banking operations** where we are buying up ocean front cattle ranches to sell to other developers once the baby boom retirement wave starts to crest. This is a fascinating way to participate directly

- 1) Our **Globalization Strategy** has put together yet another strong quarter with most accounts *up* between 3% and 6% for the first 6 months of the year. We don't see any fundamental factors' changing except the pace of globalization is *accelerating*.
- 2) Essentially all of our gains for the quarter came from the combination of our *Alternative Assets* and our *Emerging Market* holdings. Together these comprise 60% of our strategy.
- 3) **Alternative Asset** now comprises about 35% to 40% of the total with the majority of this being held in **commodities** and **international**

real estate. Our goal here is to have positions that move independently of the gravitational pull of the U.S. stock and bond markets.

- 4) The basic rationale here is: 1) With treasury rates at 4%, the easy money to be made from falling interest rates is over and 2) Continued global price competition cannot be good for stock prices. Finally, 3) Not even “cash” is a reasonable safe harbor given the volatility of the dollar. When the dollar can lose 15% in a year, a money market account is hardly a safe harbor. **Our conclusion: investors need to find “alternatives” to the traditional holdings of stocks bonds and cash.**



A “Tipico” seafood lunch at “The Gathering”

- 5) The key components of our **Alternative Assets** strategy are industrial commodities, international real estate and some holdings in market neutral hedge funds. Far and away the biggest gainers here have been our commodities (gains of 16.7 % YTD and 23% trailing 12 months) and international real estate (gains of 7.7% YTD and 38.9% trailing 12 months).
- 6) This quarter we will be rising our **Alternative Asset** exposure an additional 2.5% with an emphasis on **precious metals** such as gold and silver. Please note that we will not be purchasing the stocks of gold mining companies, but will focus on the physical commodity.
- 7) By process of elimination, you can deduce we are still very **bearish on the U.S. stock and bond markets.** The only thing that makes them look good is the European markets which have the same competitive pressures but also less flexibility. We will maintain our very low level exposure to all of these markets. We just can’t get excited about putting money at risk as the consumer spending from the re-fi boom tapers off and the global competition continues to increase.
- 8) Was it just 90 days ago when the *Wall Street Journal* warned us that \$50 oil wasn’t sustainable? And the commodities bull market was over? Well, with **oil** having now broken \$62 a barrel, where are they now? In the old math, that’s a 24% price increase. Do you think that if there had been a comparable run in the stock market in 90 days, would our ears still be ringing from the trumpets?
- 9) **Sustainable? Why not??** Is it rational to think the economies of

China, India, Brazil and a dozen others will slow down in the next 3 to 6 months? More accurately, how do you put the **Genie of Capitalism** back in the bottle? *The answer is: you don't!* Look for continued massive consumption of commodities and energy. Until Supply can catch up with Demand, the pressure on prices is upward. **To think otherwise is simply denial.**

10) How we see **playing the Globalization trend:**

Commodities will lead the advance; followed closely by international real estate; and then finally the emerging market stocks.

11) **Why this order?** Commodity prices will tend to spike first because it can take 5 to 10 years for the huge capital investments to bring new sources of supply on stream. Look at the shipping bottlenecks in Australia right now. Even if they can mine the coal, it will take years to get the transportation infrastructure worked out. When demand rises faster than supply, market prices rise. Commodities are also a direct hedge against a falling dollar.

12) **International real estate** will follow next as the infrastructure and housing in the newly emerging markets needs to get built out. We saw this in **Ireland** in the 90's and in **India, China and even Costa Rica** today. These markets are all having sustainable real estate booms because they are based on

new flows of wealth, not just currency and interest rate illusions like in the **United States.**

13) The more traditional way of investing in these newly **emerging markets** thru stocks and bonds will lag as new companies have to form, mature and then go public. In the short run, the financial markets can also get ahead of themselves if the herd decides to charge in. We'll be keeping an eye on this. While we'd like to increase our holdings longer term, it's likely we will take profits along the way should this become a trendy investment fashion. Right now we're at about 15% exposure here. A strong rally might argue for a decrease.



Back stage at the Del Pacifico Rodeo!

14) Our **international real estate** holdings are also doing very well with gains of 7.7 % for the first six months. We're still early in this trend especially in the emerging markets like India, Brazil and even China where there is a construction explosion under way.

15) For the more sophisticated investor, **private land banking**

and real estate partnerships specializing in international real estate are a more direct way to participate in this trend. You also receive the benefits of professional management and a well-diversified portfolio. In most instances, you need to be an “accredited” investor to participate and investment minimums are typically \$50,000. You should be prepared for at least a 5-year holding period on the investment.

16) If you're not able to make a long-term commitment, but want to **increase your fixed income yields**, you might want to examine some “**private loan**” programs. These frequently offer returns in the 10% to 12% range and usually backed by real estate for a 3 to 5 year commitment. Periodically, we see opportunities here. Please give me a call if you would like to discuss further.



New Construction at Del Pacifico

17) Globalization is rapidly becoming the dividing line between Democrats and Republicans. Somewhat ironically it is the Democrats who are increasingly being redefined as the isolationists

...protecting jobs...In 1994, 104 Democrats voted for NAFTA in 2005, Only 5 ... count 'em ... F-I-V-E ... total...Dem's voted for CAFTA ... Did you also see in April Chuck Schumer and Lindsay Graham presented a bill which would place a 27% tariff on Chinese imports unless China revalues its currency in 6 months. The senate voted 67-33 NOT to kill the bill. And I thought the Dems were all globalists!

[Come Visit our Costa Rica Blog and find out what the buzz is all about](#)

18) While speaking of the impact of globalism on our political system... Next up is the demise of the Unions Global competition is making it hard for them to maintain their tried and true negotiation tactics. Did you notice in early June ... 40% of the AFL-CIO split from the Union? And what about GM laying off 25% of their work force? Is this the same GM that just 12 months ago the Wall Street tout sheets were saying had re-engineered itself to compete with the global markets? Do you recall the little voice that said, “No way Jose!”?

19) Which gets to the next inevitable part of the process...now that we've laid off as many workers as possible ... look next for cost

cutting by slashing the employee benefits of retirees! Think about it, now that those jobs that can be have been outsourced, where is the next round of cuts going to come from? Is "The Grinch" now looking at those non-productive retirees? And especially their health insurance benefits? Already GM is looking at doing this, but locally the former Rouse Company employees have gotten this wake up call from their new corporate boss in Chicago. Look for this to create a furor nationally as this picks up steam.

20) Before you get **clipped by a hedge fund** ...consider the words of one wise man who recently said ... "today there are over 6,000 hedge funds and there aren't 6,000 smart people in the world." The barriers to entry of setting up a hedge fund are about as rigorous as setting up a lemonade stand.

21) **Oddball issues** ... we see an international monetary crisis slowly moving forward. This means now is an excellent time to set up your own **international bank account**. The strains that globalization are putting on our political and economic system make it a prudent choice to at least have a bucket set up to hold cash outside the U.S. I'm not saying to move your money offshore yet... simply to have an account set up in case you need it sometime in the future.

22) I finally broke down and got my **XM satellite radio** and love it.

Does subscription satellite radio spell the demise of that subsidized bastion of liberalism, NPR? For \$12.95 a month I've got 130 stations including Fox News with no commercials. How can NPR compete? All things are considered; the black turtleneck crowd will see a good portion of their core subscriber's defect to non-political commercial free radio. Viva la Free markets! Which will topple a government-subsidized monopoly?

As always, please feel free to give me a call to discuss any of these topics and any thoughts you might have on how to profit from the new trends emerging.

For more information, please call

410-727-6444 or email us:

info@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.

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

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