



“Innovation Equals Opportunity”



Katrina the Catalyst or Hillary Ascendant?

By Barry Strudwick

This Newsletter was originally published September 30, 2005 to the clients of Strudwick Wealth Strategies as our “fourth 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.

In this stormy environment, we'd like to share with you some good news! While most of the major stock indices are underwater, our globalization strategies have not only weathered the storms, but also posted another strong quarter. Most accounts are now up for the first 9 months of the year. As a point of reference, over the same time period, the Dow Jones Industrial Average and the NASDAQ were both under water for the year, posting losses of 2% and 1.5% respectively.

While our particular “world view” remains outside the comfy confines of

consensus on Wall Street, it's just plain common sense. Our newly interconnected world economic system has ***tilted the crucial balance of supply and demand***. The world is simply making more “stuff” than we need. Our secret strategy is simply investing ***ahead of the ripple effects*** of this simple observation. Almost all advisors have the intellect to acknowledge how globalization is changing the world, yet very few have shown the ability to break from the pack and invest opportunistically. We'll save the discussion of the “why” of these curious phenomena for another day.

While the United States is still the greatest country in the world, as investors we must always remind ourselves not to confuse patriotism with profits. Instead, we need to be opportunistic capitalists seeking and seizing advantages when and wherever they arise.

Announcing

“The Mid-Winter Gathering”

Join us in sunny Costa Rica for our next “Gathering” of the members of the Del Pacifico community.

Events and activities include The Del Pacifico Rodeo, Rainforest tours, Beach BBQ, the camaraderie of some very interesting people and William's legendary Dirt Tour!

Click [here](#) for the “Gathering” Itinerary.
* Special pricing on our just released condos for attendees.

Contact [Leslie](#) for details and availability.

410-727-6444 or 1-866-4NOLOAD

For the past 7 plus years we've been convinced the U.S. stock markets were going to under-perform because newly created manufacturing capacity around the world has created a glut on the supply of almost everything relative to the demand. This typically is an environment for price wars and lower bottom line profits. For many, this has created a confusing paradox or "disconnect" as we've experienced a strong economy yet this has not been reflected in a rising stock market.

In past newsletters we've outlined the reasons for this and also why Washington's policy of attempting to unilaterally rebalance supply and demand by hyper-stimulating our consumer spending with cheap credit is doomed to be a very flawed strategy. Even if Middle America spends itself into oblivion, this will only aggravate the underlying condition by encouraging yet more "stuff" from abroad. And there will still not be profits on Wall Street.



That's not a castle, it's a new single family home at Del Pacifico

This isn't likely to be a short-term "news cycle" story but a much longer 15 to 20 year realignment of the world's economic powers. We've been

right on target for the past 6 years. Since the end of 1999 the DJIA was at about 10,500. Today it's at about the same level even though the U.S. economy has grown by greater than 20% over the same period. Isn't the impact of Globalization the obvious reason for the disconnect between a booming economy and sluggish stock market here? Several years ago we pointed this out and positioned our strategies to capture opportunities elsewhere.

Will the disconnect with the U.S. markets continue? The short answer is "yes". The global economy should continue to boom and the U.S. stock market will continue to have a muted response to this growth. We also see more ***downward pressure*** on the dollar, as the reconstruction spending from the two-headed hydra of Katrina and Rita won't be good for our currency. We see nothing to shift our strategies over the next 3, 6 or even 18 months for that matter.

The \$200 billion ***wild card*** before us right now is the ultimate impact of Katrina and Rita. The human tragedy and political finger pointing aside, we are beginning to suspect that the real impact of KatRita might well be as a ***catalyst*** to set off a political power shift in the United States. ***Our quick take*** is the political fallout of KatRita might also serve as a catalyst to accelerate the already simmering inevitabilities of Globalization. The massive reconstruction of the Gulf Coast will force political and economic decisions.

With the Democratic Party newly invigorated, the **2008 Elections** could mark a shift in U.S. policy away from globalization, as the Democratic Party becomes more isolationist and anti-global free trade. This shift could be dramatic. Perhaps as importantly, **“topical storm” Hillary is ascendant and could emerge to be the next hurricane to rile the markets.** We’ll reserve our personal opinions for the ballot box in three years, but the **global bond and currency markets** will vote their approval or disapproval well in advance of the actual elections. The markets are already making their assessments. **Now, not then, is when** to start making pro-active positioning decisions with your investments.

In the short run the impact of the hurricanes will be somewhat easier to anticipate. Certainly, natural resource and **commodity prices will rise.** Since we already have very large commodity, energy and natural resource positions, we’re well positioned. These higher prices are not likely just a short run blip. The dual hurricane disruptions aside, **we believe energy prices have shifted to a long-term equilibrium at higher prices.**

We don’t see \$30, \$40 or even \$50 barrel oil prices anytime soon. While the **“supply shock”** of Katrina has contributed to setting the new equilibrium, **increasing demand** from the emerging markets of **China and India** is the real prime mover here. Do you think the two billion new consumers in India and China are

going to return to the farm and consume less energy and want less consumer goods any time soon? Doesn’t **common sense** tell us the emerging markets will continue to consume a bigger piece of the world’s energy pie? If this is so, won’t the U.S. and Europe either need to go on a diet and accept a smaller slice or pay a higher price to keep the same slice of the pie? To solve the energy riddle, **ask yourself this simple question:** *Do you see the U.S. and Europe changing their consumption patterns over the next 3 or 6 months?* Otherwise, look for the price of oil to remain high and even go higher. From our perch, lower energy prices are journalistic wishful thinking. If they do in fact occur in the short run, we’ll likely view them as potential buying opportunities to build even larger long-term commodity and natural resource positions.

Investment Services

If you’ve been sitting on the fence, isn’t it about time you took some action and contacted us about our investment services?

Accounts start at \$250,000 and in the next 12 months we will only add 12 new clients.

Please contact Dan Somerville at 410-727-6444 or dan@nolaod.com

Hollywood update! First an update on our first movie *“The Curse of the Maya”!* We are pleased to announce *“Curse”* was made an “official selection” of Scream Fest last month.

Our kudos to director David Heavener for not only correctly forecasting zombie movies are the “next big thing” but also doing a great job on the production. Hopefully this will drive up the price of our DVD rights!

Are you ready to be a movie mogul?

Our philosophy is that we might as well have **fun** while we’re investing! We also believe getting into Private Equity deals should be part of most sophisticated investors’ overall strategies. So how can you combine the two? The partnership for our next movie “**Costa Chica**” is now forming. Think “Magnum P.I.” meets “Baywatch” in Costa Rica. It’s a natural! Please give me a call if you would like to discuss this opportunity further.



The new Mangos restaurant is scheduled to start construction shortly at Del Pacifico

If you have any friends who you think would benefit from meeting with us, **please keep us in mind**. We really do believe that we offer something that is very hard to find today which are independent thinking and the ability to take action on our observations.

Below is our analysis of what we see going on. I’ve tried to put the more important “action oriented” ideas up near the top so you can get the main ideas early. Insomniacs and people with too much spare time can read onto the end.

1) Most of our accounts are up 12% to 15% for the first 9 months of the year versus the Dow & NASDAQ both losing money over the same period. We continue to believe the net impact of globalization will be negative for the U.S. securities markets for the foreseeable future. We’re in the early stages of a 10 to 20 year period of fierce global price competition due to excess supply. **Lower prices mean lower profits, which in turn mean lower stock prices. Period.** This is why our accounts are invested less than 25% in U.S. stocks.

2) The **second part** of our globalization thesis is Washington’s knee jerk response will be to hyper stimulate **domestic demand** to try to bring Supply and Demand back into balance. This will increase the demand for commodities and also weakening the dollar, both **factors will drive up prices of commodities up**. This is why, for the past several years, our accounts are over 1/3 in commodities. We will look at increasing positions further on weakness in prices.

3) The **third conclusion** we reach is any economic growth created by these policies will create **empty**

growth and in effect be an erosion of our national wealth. Fueling a national spending spree by low interest rates and encouraging spending of our home equity savings will create a nasty mess to clean up. ***This is why we have already exited from the U.S. real estate market.***

- 4) Since we don't like the prospects of the U.S. markets, we've tried to spare the gravitational pull of the S& P 500 with our "***market neutral***" and "***emerging market positions***". Together these comprise approximately 50% to 60% of most client accounts. In addition to commodities this includes positions in international real estate, precious metals, hedge funds and stocks in Asia and Latin America.
- 5) As a point of reference, a more traditional "Wall Street" asset allocation might have 5% allocated to "market neutral" and perhaps 2% or 3% to "emerging markets".
- 6) This strategy has paid off handsomely so far this year with both our "market neutral" and "emerging market" positions posting ***gains*** of 20% to 40% in most accounts.
- 7) The leading individual positions within these asset classes have fared exceptionally well with ***commodities up 35%*** and our positions in ***India up 43%*** and ***Latin America up 41%***. Our

global real estate positions are up about 15%

- 8) All this being said, we're still not cottoning up to investing in ***China***. This will be a big problem down the road. ***India is Hot!*** We've held equity positions in India for almost 10 years and actually long before most people even knew what a call center was. We also just saw a published report of an 8-acre parcel in Mumbai selling for \$100,000,000! Even in our weakened dollars that's still \$12,500,000 per acre or more expensive than oceanfront in the Hamptons!



The Gang's all here! A recent Hollins Girls weekend at Del Pacifico

- 9) As we have said in the past, we believe that the ***Emerging Market*** equities tend to become very "faddish" and will at times streak ahead of sustainable prices. We suspect that right now Wall Street is starting to jump on the emerging markets bandwagon and driving share prices up. Although it's early in this game and profits could continue to grow, we're going to ***take some short-term profits***

right now and reduce our positions by about 15%.

- 10) Part of our rationale here is **“too far, too fast”** and part is a recognition that higher energy prices will have a greater impact on the emerging markets than on the developed markets. While we haven't seen the oft rumored “slow down” yet in China and elsewhere, they will be impacted more than Europe and the U.S. by higher oil prices.
- 11) After removing a portion of our money from the emerging markets, the next question is: **“Where do you put it?”** As we're comfortable with our overall commodity exposure at this time and remain negative to neutral on the U.S. equity markets and negative on the U.S. bond markets, we **will increase our allocation to global real estate.**



Home cookin'! Some Costa Rican BBQ chefs at work.

- 12) Our holdings of **U.S. stocks** are still under 25% and we see no reason to increase this weighting at this time. We'll continue to favor

the small and mid cap sectors over the large caps except for the energy related giants. Did you see GM's bonk rating lowered again to 2 grades below “investment grade”? A full 50% of our airline capacity is now flying under bankruptcy protection and on and on. While the Katrina reconstruction might provide some short run stimulus, we'd view this as temporary.

- 13) Our long-term holdings in **alternative energy stocks** had a strong rebound after Katrina with our hydrogen fuel cell stocks such as **Ballard Energy** and **Energy Conversion Devices** up strongly. We expect a portion of these gains to retreat, but Katrina underscores in fluorescent red ink what we all already know ...we must reduce our dependence to oil.
- 14) We used to say that one impact of the digital age is that **people will pay for their passions.** With the amount of time Americans spend in their cars, a growing number of people are demonstrating a willingness to pay for commercial free music and escape the radio-advertising blitz. I finally broke down and purchased a satellite radio and am absolutely ecstatic! For the price of purchasing 1 audio CD a month, I now receive 150 channels of commercial free music and programming. You don't have to be a rocker to love this, there is even a channel that's “All Sinatra”! Satellite Radio is rapidly approaching the “tipping point” where enthusiastic early adapters

are spreading the word rapidly to the mainstream consumers. Look for subscription numbers to mushroom. **XM** and **Sirius** have comparable products and we've held hold both in portfolios for over 5 years. My personal TV viewing is down by 50% as well.

- 15) **Which way interest rates?** We keep maintaining our basic position that the ultimate impact of globalization is “**deflationary**” pressures, which argue for lower long-term interest rates. However, emotion and Katrina will cause short-term rates to rise. **Neither Cash nor Bonds are safe havens at this time.** The dual risks of volatile interest rates and a wobbly currency do not make for a favorable risk – return ratio.
- 16) We don't see any great reason to invest in U.S. bonds given the **risk of the currency** depreciating by at least as much. So if you get your 5% yield on a bond and the dollar drops by 7% you're still under water by 2%.... And have to pay taxes on your 5% “gains”. **Ouch!**
- 17) Since we're concerned about preserving **the real purchasing power** of our money, last quarter we started an initial position in **gold** for our accounts. Look for us to add to this slightly over time.
- 18) Our precious metals holdings are a reminder the U.S. is slowly inching towards a global monetary crisis. **Why?** When the world's economies were globalizing, we overlooked

creating a global currency. Here is a deep thought, but take a minute and ponder it: “**What is our global currency?**” If you said the dollar, think again. The Fed only has the tools to control our domestic monetary supply. At some point we will have to face the reality of needing **a global currency**, which will require cooperating with our dear friends, the French, the Russians and the Chinese. Can you see this happening **without** a crisis?



No, that's not Don Barry; it's a Three Toed Sloth checking out the action at the Del Pacifico Beach Club!

- 19) The erosion of the dollar is a **silent tax** that all are experiencing yet few are cognizant of the real pain. It's **imperative** to have a significant portion of your assets diversified into a **basket of non-dollar assets**. Commodities and emerging market equities are part of this equation. Real estate can be another component. The logic here is simply, if the dollar falls by 10%, a bushel of corn or a ton of steel or a barrel of oil will increase by a like amount. No wealth is created here, but purchasing power and your real wealth is preserved.

20) With the hurricanes now past, can we focus on another crisis moving at us on an even more predictable course? This coming January marks the official date the first Boomer's cross the threshold of Age 60! If the stock market has been stuck in the mud for the past 6 years, this also means Boomer's retirement accounts have also been stuck, and the day of reckoning are now 6 years closer. ***The "magic of compound interest" doesn't work when the markets don't move.*** Is the Pepsi Generation getting any younger? How are they going to retire?

Ground Floor Opportunity

Do you want to get in on a ground floor opportunity?

Contact [Harry McDonough](#) about special "pre-construction" prices on condos at Del Pacifico starting at \$175,000. Mention you are a newsletter reader!

Contact Harry at 410-727-6444 or harry@noload.com

Click [here](#) for pictures of our condos and flats.

21) Part of the fuel for the current real estate bubble has been ***Boomer's disillusionment*** with mutual funds and the stock market. Many people have shifted money out of the stock market and into the more

tangible asset for estate planning. While we see the local housing and small office sector as overheated, we see a ways to go with ***retirement and resort real estate.***

22) ***Want to invest ahead of the pack?*** We think a Hillary candidacy will spark a sudden increase in Boomer demand for ***retirement homes and investment properties outside the U.S.*** An easy way to do this is to purchase either a house or a condo in a resort, which handles your maintenance and rentals. This can even be done inside your IRA account! Again, ***Dan is the man*** to talk to about using IRA assets. ***Harry McDonough*** can talk to you about investment properties.

23) ***Here is a scary thought...*** If we're right in our predictions of an upcoming international currency crisis, look for ownership of assets outside the United States to be much more difficult especially if Hillary is elected. We wouldn't be surprised to movements to freeze assets in the United States. Recall if was under Slick Willy that we had a major restriction in the ability of Americans to move assets outside of the U.S. without paying taxes. Look for Hillary to restrict your freedom to move your assets ***period.*** ***Buying a small investment property now*** is a simple solution.

24) We're not extremists talking about leaving the country or anything like that. We just think it makes good

common sense to own some assets outside the United States banking system while still remaining a U.S. citizen and a U.S. resident. In fact, there is **no tax advantage** here. U.S. citizens are taxed on income earned outside the U.S. But holding assets outside the U.S. might give you more flexibility down the road as well as peace of mind today that not all your eggs are in one basket.

- 25) We still remain **very negative on the domestic real estate markets**. Even Uncle Al is beginning to agree with us. Borrowing against home equity added \$600 billion in spending last year. That's the equivalent of boosting disposable income by 7%. In 2000, before the plunge in interest rates, the amount was more like 3%. This bubble just is not sustainable. The condo market is absolutely crazy! A scary stat from the National Real Estate Investor says 20% of the condos being sold today are being sold "site unseen". I find this hard to believe, but if its true, things are worse than I thought! Websites like www.condoflip.com are sure signs of a bubble. We still say **now** is an excellent time to **lock into a 15 year fixed rate** mortgage.
- 26) **Aggressive investors** should consider taking advantage of this low cost source of funds to **diversify into other investments**, which are not tied to 1) the U.S. stock market 2) U.S. interest rate cycles and 3) the U.S. dollar. However, we would **NOT recommend** leveraging U.S. real

estate to purchase more U.S. real estate.

- 27) The real impact of Katrina may be as the catalyst to shift our political equilibrium from **globalist to isolationist**. Does Bush have the political capital necessary to sustain the expense of Afghanistan, Iraq and also rebuild the Gulf Coast? How will this impact Social Security reform? What about Medicaid? Will taxes rise? Is the estate tax back? Or what are some other political ripple effects? Do you see a successor to Bush emerging?
- 28) The amount of deficit spending from Washington we're about to see would make **Lyndon Baines Johnson** blush. The huge expenditure on "infrastructure" will create a lot of jobs rebuilding a lot of highways and houses. But, will the \$200,000,000,000 of expenditures improve our competitive position relative to China or India?"
- 29) If the answer is "No", we've likely about to add a mountain of debt for future generations to repay with no global competitive advantage.
- 30) And won't floating \$200 billion of bonds likely **raise interest rates**? And in the chain reaction process: Won't this new mountain of debt further **drive down the value of the dollar**?
- 31) Think about the economic equivalent of **Fast Food Nation**

with \$200 billion of **empty economic calories** about to be consumed. At the end of the day, our net global competitive positions won't be improved.

32) Could the Keynesian stimulus of Katrina be the catalyst to spark the financial markets from the last 6 years of malaise? We don't suspect so. It's more wishful thinking.

While we see problems with the U.S. markets, we are fortunate to be able to invest elsewhere where the glass is half full and filling! The hardest part of this process is not the intellectualization of the situation, it's actually being able to take a positive action and do the obvious. This goes both ways. We will be vigilant for the time when the U.S. markets again offer superior returns.

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.

Barry Strudwick
September 30, 2005

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

(410) 727-6444 or via e-mail at info@noload.com

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