



The Zillow Zinger

By Barry Strudwick

These thoughts were originally shared with the private clients of Strudwick Wealth Strategies in early July 2007. They are now being shared, unedited, 60 days later to stimulate thoughts on these issues. These thoughts are considered general in nature and not specific investment advice. Please feel free to share your comments with us at www.globalistmonthlybulletin.com

At the half way point of 2007, we're pleased to say that returns have exceeded our own modest expectations for the first six months of the year. Please review the attached reports for your actual performance. With the S&P 500 up about 6.5%, we're slightly ahead of the broader stock market indices, however how we got our return was much different. While the U.S. stock market was exceptionally strong in the past 90 days, we have remained cautious as we see the consumer-buying binge petering out. Instead, we have emphasized *Alternative Energy (up 22 %)*, *International Real Estate (up 11%)* and *Latin America (up 21%)* to supply our horsepower. We're also positioned for continued weakness in the dollar by heavily tilting towards "hard assets" and away from "paper assets". Let's face it, in an environment of a slowing national economy, rising interest rates and a

falling currency it's hard to get pumped up about either U.S. stocks or bonds.

Over the past several years, global investors, floating on a sea of liquidity, have been lulled into a sense of complacency. As recently as early June, the risk premiums for even the most volatile of investments have been the lowest in history. We sense this tide is about to shift in the very near future as several negative currents are starting to converge. Several weeks ago a very loud warning bell clanged out around the world when the "bellwether" 10 year Treasury Bill suddenly spiked up a huge 6/10's of 1 % in less than a week. The term, whose derivation comes from the lead lamb in a flock that wears a bell on the way to the slaughter houses, proved apt as massive losses were incurred all over the world. For long term investors, it was a bad week, but for Wall Street's new generations of hedge fund speculators, it may prove disastrous. With cheap borrowed money, Hedge funds often leverage their equity 10 times or more. An interest rate increase of this magnitude can wipe out a firm's equity overnight. As proof, three large hedge funds have imploded in the last 3 weeks. The question is how far will the ripples carry? Judging by the way things are setting up, this might be a bit beyond just your typical summer storm consisting of a couple of thunderclaps and 30 minutes of rain. The answer

largely depends on whether interest rates in Japan remain low. However, we've also got several other economic and political high pressure systems that are lining up to converge very soon.



*Perfect start to your morning in the tropics?
Yoga by the pool.*

Why did the global bond markets suddenly decide the U.S. in particular was suddenly much riskier than the week or month before? A whole host of reasons have contributed. For the past 3 months, we've been dealing with the U.S. real estate bubble unwinding. Despite weekly pronouncements from various homebuilders associations, this more than the passing cyclical squall of a soft housing market. Not only is it the first time housing prices have actually fallen in 75 years, foreclosures are just starting to really escalate in the past 30 days. Add to this weakening consumer spending as 85% of retailers missed their numbers in

April. What happens to both the foreclosure rates and consumer spending if we actually start to see rising unemployment? Certainly the risk in the U.S. residential real estate markets appears to be rising and not abating.

While real estate has historically been seen as a separate asset class from stocks and bonds, real estate is now directly linked to the capital markets because Wall Street has created over a trillion dollars worth of "securitized" mortgages and loans in just the past several years. If the credit conditions underlying the bonds deteriorate forcing a bond rating downgrade to below "investment grade", the investment charters of many mutual funds and pension plans will force them to be removed from their portfolios. To date, there have not been major rating changes, but the rumblings are many are warranted. Need to collect back thru foreclosures. With downgrades could shock the bond markets, actual foreclosures are also proving to be a very thorny problem for Wall Street. Already a new cottage industry has sprung up: consumerist lawyers protecting Main Street's widows and orphans from the red suspender-ed Ogres of Wall Street evicting them from their homes. Wall Street is discovering, much to its dismay, collecting on a foreclosure is not as simple as taking the keys. Ideal for election year TV populist, wait for the politicians to come to the rescue.

You can already predict the next spiral in this media TV circus when the new White Hat in Town sues all the Wall Street firms for deceptive sales practices. Could Fred Thompson be cast as the new Elliot Spitzer?

It's The 80's Show and Michael Milken redux. After all, aren't "sub prime loans," CDO's and CLO's just junk bonds dressed up by Wall Street for a new generation of saps? While the U.S. real estate markets are somewhat self contained from the broader global markets, the potential of this rippling into other market sectors is clearly present. Last quarter we discussed the private equity boom as a major market factor. With \$750 billion of deals already in pipeline in the first 6 months, 2007 stands to be the third consecutive year the aggregate capitalization of our stock markets has contracted.

But there is a potential crack in the foundation here we need to watch carefully. A private equity buy out is a two step process. First, the Private Equity firm buys out the public stockholders using it's own cash and money borrowed from a consortium of investment banks. The second step is to float a junk bond offering which is used to repay the initial acquisition loan from the banks. And typically, the Private Equity firms also try to recapture all the cash they put up at this time as well. The Investment bankers are happy because they have been paid twice, for arranging both

the initial acquisition and the junk bond issue. However, what happens if the mutual funds and pension plans who typically buy the junk bonds suddenly require higher returns than initially projected? We'll find out this summer! Already several investment banks have been unable to sell the junk bonds as initially priced and have been forced to "Hold them for their own account." This means until they can "off the bonds" onto their unsuspecting retail clients. Sorry to be so cynical, but expect a deluge of junk to be dumped onto retail investors shortly. This is already happening.

The wild card is whether this also signals an end to the global liquidity flood which has been floating everyone's boat for the past several years. A dearth of mad money likely means the darlings of the emerging markets, India and China will get clobbered. With both markets now selling north of 40 times earnings, a 50% sell off isn't hard to factor in as a possible scenario. The key barometer for global liquidity short run will be which way Japan's interest rates go. Even a relatively small increase here can have massive repercussions worldwide.

Now all of the above are really just possible *markets manias*. What if we add a *real global economic recession* to the mix? Without question, the world's economic engine is humming along fine right now. But, don't discount the potential impact of the

growing clout of the neo-isolationists. Without question, protectionism can lead to a global recession. What happens to the world's excess production if the U.S. consumer is cut off from credit? More importantly, what happens to profit margins and by extension to stock prices? Do we need to mention that Oil is again above \$70 a barrel again; the fifty buck fill up is a fact of life. Regardless of what happens to interest rates, both of these will slow consumer spending. Then there is that nagging problem about the monster trade deficit and its impact on the eroding value of the dollar. Over the past several years haven't we warned about what would happen if China, the Arabs and others didn't want to take back U.S. treasury bills from us? The \$3 billion Chinese direct investment in private equity king Blackstone is a manifestation of this. As this trend escalates, it will force interest rates higher on U.S. treasury bills. Speaking of deteriorating foreign relations, has anyone been watching Putin and Russia's increasingly antagonistic energy and military policies? It could be a cold winter ahead in Europe. Do we need to add the slow motion train wreck of the Bush Administration and the looming shadow of the 2008 presidential election? The older and now ailing Pepsi Generation now pays more visits to doctors than to the beach. With 75 million pre-retirement broke boomers now emerging as a "special interest group", which

politician won't pander to the special needs? Who wants to wager against higher taxes to pay for the retirement and medical bills of the Greying boomers? Hey, and we haven't even gotten to the "what if" a terrorist event actually impacted our energy supply. And Iraq and Afghanistan don't even factor onto my list of bad news convergences...



New house at Del Pacifico in the morning light.

If we distill this down, the net impact this international congress of boogymen should have the next year is : 1) Despite continued global deflationary pressures, U.S. long term interest rates will rise; 2) the U.S. economy will slow 3) the U.S dollar will continue to fall 4) U.S. real estate will continue to fall .

In other words, this looks like all four primary U.S. asset classes (cash, stocks, bonds and real estate) are vulnerable to fall this year. Any drying up of global liquidity will accelerate and amplify these probabilities keeping an eye on Japan, not China, will be the key here to see if this gets worse than anticipated.

Now is a time for defensive positioning not opportunistic investing which will emerge later. Hard assets and global diversification are the keys here. But being global doesn't necessarily mean investing in the emerging markets.



When was the last time you traveled to get breakfast on horseback across the beach?

Alarmist? Not at all. Housing prices are already plunging faster and further than the evening news is letting on. A 10% or 15% reduction in home values will wipe out the entire net worth of most of Middle America. Need Antidotal confirmation? Check out a website called Zillow.com. George Orwell couldn't have concocted a crazier combination of Big Brother and Capitalism. Simply type in your home address and Zillow will zoom into a satellite photo of your house down to the cars in the driveway. Not only that, but Zillow will also estimate the current market value and all your neighbors as well. ...and It's free. Have you ever wondered what the Humboltz's paid for their house across the street? Zillow it!

Now here's the glum side of the equation: According to the Zillow valuation algorithm, which is heavily weighted to recent local comp sales, my house lost \$95,000 in market value or about 10% of its market value in 30 days! For many house flippers out there, a shift of this magnitude is almost enough to trigger bankruptcy or a retirement flipping burger at the Golden Arches.

A of simple back of the envelope example helps bring this into focus. Let's say that shortly after 9/11/ 2001, after watching a late night infomercial you decided to make your fortune in real estate and went out and bought a house for \$200,000 with 10% down or \$20,000 of equity. Five years later in 2006, the real estate market is afire and the house now valued at \$500,000. You decide to re-finance and pull out \$270,000 of "equity" leaving in 10% (\$50,000). Because of your "genius," both you and your wife quit your day jobs, figuring you can buy more houses and live off the re-fi "equity." Now comes 2007 and your floating rate mortgage spikes by 2%. Leaving the immediate cash flow issue aside of how to make the monthly payments, a 1% rise in mortgage interest rates can cause a 10% or greater drop in the market value of all houses. This is because houses respond to interest rates moves like a long term bond, values fall when interest rates rise. A 2 point rise in rates could cause a 20% drop in market value or a \$100,000 loss

which wipes out the \$50,000 in residual net equity. What happens if the market consensus is rates are at a new equilibrium and won't go back down? Under water and Unemployed, do you turn the keys back to the bank and walk away? It's estimated that over 25% of real estate sales last year were to speculators. This is a big problem which now that the market forces have been set into motion, will not be reversed. We're just in the early stages of a spiral that is radiating out to Middle America which doesn't appear to be a 6 month bump in the road.

To balance out the gloom, here is a very cool website to check out if you're tired of the 1,500 songs you've painfully downloaded to your Ipod and you miss discovering new music. It's called Pandora.com which is a music streaming site based on what they call "the music genome project." You simply list a sample of songs and bands that you like and they create a custom web radio station that actually predicts music that you might like! This isn't like the wimpy I-tunes music recommendation list. This really comes up with artists you might not have ever heard of before as well as many you might have forgotten. The webcast is free and you can also pay to download specific tunes that catch your fancy. Give this one a try, it take 5 minutes to set up. Wi-Fi enabled portable units will be available soon.

Here are our current assessments of the markets, in an approximate order of priority. We're made some shift in the last 90 days which we feel are contrary to the popular trends.

- 1) While the stock market has had an especially strong second quarter with the S&P 500 up about 6.5% so far this year, we remain skeptics. Our accounts have maintained a low exposure to the U.S. markets of about 25%. We've continued to over weight the small and mid cap sectors which have outperformed the large caps.
- 2) With 2/3's of the U.S. economy is linked to consumer spending, the cooling of the re-fi engine cannot bode well for profits and stocks. Add to this the slow down in the construction and housing industries, which were the source of over half the job growth over the past 5 years and we just can't get excited. We don't believe the buying opportunity for real estate will emerge for 2 years. The silver lining here? By Christmas, the price for home improvements and repairs should drop below the going day rate for neurosurgery.
- 3) It looks like Main Street is finally joining our globalist

party, but we're leaving early. In April, 90% of all new mutual fund money was invested into international funds sector. While we've had excellent returns on our emerging market stocks (up about xx% YTD), we're already taken most of our chips off the table. Investment faddism has pushed the stocks of the BRIC's (Brazil, Russia, India and China) too far, too fast. A draining of global liquidity could hammer these overnight. For most accounts, we now have less than under 5% in the emerging markets versus the 15% to 25% level towards the end of 2005.



And this is just the stairs to the pool...

4) We have retained our Latin America positions which continue to be the top market sector for the year with YTD returns of over 20%. We recently saw the legendary Sam Zell speak, who says Latin America is the hottest market in the world right now, especially

in real estate. Last year he sold 50,000 homes in Mexico!

5) To put our cash to work, we've seeking out opportunities which could be resistant to a slowing U.S. economy. We've added to our Water Resources (up 22%) positions and also added to our Alternative Energy which has also had a very strong year.

6) Water is becoming more widely acknowledged as a looming crisis and it's still very early on as an investment theme. Did you know that only 3% of the world's water is pure and 2/3's of this is trapped in Ice Caps or underground, leaving only 1% to meet the daily needs of 9 trillion people. Add to this increasing daily demand from India and China, crumbling infrastructure and we see an industry with a long term uptrend which will not be impacted by an economic slowdown. Did you know that Lake Chad has shrunk by 90% over the past 20 years?

7) Another theme we're playing is the Private Equity boom. 9 of the 10 largest leveraged buyouts ever have occurred in the last 18 months. The real money here is investing in the companies who are setting up the deals, not the companies being acquired. This is a new

spin on an old investment theme that used to say, Invest in the stocks of the investment firm's manage mutual funds and not in mutual funds themselves. Firms like KKR, Leucadia National Apollo and Blackrock earn huge fees and also take a cut of the profits down the road. In theory, the value of these shares should be somewhat insulated from the broader movements of the stock market itself. In fact, a bear market could move more targets into the acquisition range. Over the past 10 years the returns on private equity firms has been over 20% annually or twice that the S&P 500. Returns this year have lagged at about 2.5%.



Friends at the gathering, ready for a treetop adventure!

8) With oil now over \$70 and ethanol doubling the price of corn over the past two years, our **Alternative Energy Positions** (up 22% YTD) have had an exceptional year. But we

believe the best is yet to come as Alt Energy is directly in the path of almost inevitable crisis solution mind set of Washington. We can already envision Congress throwing bushels of money at in the energy crisis after the next election. We're building our positions today, not after the election.

9) We know the temptation is great right now, but it's too early to play a turn around in the U.S. real estate and housing sectors quite yet. The down turn in these stocks is just starting, not ending. The worst is yet to come here and early bottom feeders are likely to learn first hand the meaning of the old Wall Street cliché of what it means to "catch a falling knife". There are more factors at work here than simply several months over hang on the supply of houses. With foreclosures rising rapidly, banks are just starting to choke off credit which will further lower demand and house prices. We see housing prices continuing to fall for 6 to 12 months further. If the economy ever actually slows, this will get even worse. For the housing market to rebound mortgage rates will need to drop and something will need to replace the easy credit

supplied by the sub prime market. We don't see this in the cards right now.

10) Perhaps the biggest harbinger of real estate woes was in early June when the 10-year U.S. Treasury rate suddenly spiked up from 4.6% to 5.3% in early June. This was a monster increase which not only signaled a sudden increase in the international assessment of risk, but will also trigger much higher interest mortgage rates in the States. Could this also be signaling an end to the international liquidity-spending spree, which is helping to support the stock markets?

11) You won't get an argument from us that international interest rates have been too low for some period of time and that bond investors weren't getting adequately paid for the amount of risk they were assuming. However, June 2007 will likely mark a turning point and borrowers will wistfully look back to the super easy credit of the past several years.

12) The spike in interest rates did not have a major impact on our accounts since we hold less than 15% in U.S. bonds, having been positioned for turmoil in the bond markets

for a period of time now. Our existing bond positions have been split roughly 1/2 in U.S. corporate bonds and 1/2 in global bonds.

13) We still believe political neglect will cause the Dollar to continue to fall in value over the next several years. It is important to maintain a hedge against this. Consider this : since 1999 the dollar has lost 50% of its purchasing power.



Don Barry himself, displaying the Master Plan

14) After attending the Wharton Real Estate Center annual meeting last month, we noted a sudden shift in the enthusiasm from 6 months ago. Industry luminaries such as Sam Zell and Peter Lineman see U.S. housing prices falling between 10% and 33% over the next 2 years. The media's reports that a 1.5% decline if forecast is simply wishful thinking. If house prices were up 100% over the past 10 years,

what is to prevent giving up 10%, 25% or even 100% of these gains? The numbers we're seeing sure seem to be calling for continued falls. Sales are down 18%, interest rates are up and prices are falling. The median sales price for a house sold in April was down 11% year over year, which was the greatest drop since 1970. These are not alarmists, but some of the savviest investors in the world. Don't forget that Zell unloaded \$28 billion in real estate several months ago. How's that for calling a market top!



15) We're not the only ones seeing this trend continuingUber- Bond market maven, Bill Gross of PIMCO estimates that house prices have another 20% to fall even *if interest rates don't rise* and stay the same ! Just to sustain the current price levels, Gross estimates that rates would have to drop by 1.2%. Unfortunately, we see interest rates moving the

opposite direction which could mean an additional 6% market price fall for each ½ of 1% increase in mortgage rates.

16) Global Real Estate has been a top performer for us (up 11% YTD), but has been showing some signs of weakness. With upwards of 100% gains over the past several years here, last month we recently took some profits here. While the fundamental of global economic expansion and a falling dollar remain intact, Global real estate is also experiencing a touch of faddism. The joke in India is "REIT" means "Real Estate Investment Tourist". Class A space in Mumbai is now leasing for \$55 a foot ...up 50% over the past year. This is happening all over the world. In Dubai, there is a new 169-story office tower going with an indoor ski – slope! This is the new Arab Riviera with dozens of free trade zones. However, even with these excesses, there are still excellent selected opportunities in international real estate. The boom is still on, but is starting to feel more like a fad at this point. We might trim positions further later this year.

17) Suburbs ...Exurbs
Cyburbs ! As Boomers are starting to drift out of the work force, many are taking their skills to new locales and new careers. There is a migration underway as folks downsize from the suburban empty nest to perhaps a home in the country or “on the water”. Several years ago we even talked about how the Ultimate Exurb for retiring ex-pats might be foreign real estate. Now we want you to consider the Cyburbs! Where you retire outside of the country and are linked via the broadband, cell phone, laptop and wi-fi back home. With this arsenal, does it really matter whether you are in Thailand, Tuscany, or Costa Rica when you zip off an email or make a phone call? The world is your Hot Spot and opportunities abound for people with acumen, expertise and a sense of adventure.

18) An opportunity to consider: look at international resort real estate boom focused on Retiring Boomers. Focus on coastal properties with easy access to major U.S. airports and access to modern health care. You’ll be surprised how advanced health care is in other parts of the world. Even Blue Cross and Blue Shield are sometimes accepted outside the

U.S. The 9/11 tragedy dispelled the “safety “issue of retirement living in America argument. Katina and the Florida Hurricanes, many sun lovers questioning the quality of life/ cost /benefits of U.S. coastal living. 2006 was the first year Florida had a net migration out of the state. A recent Zogbey poll shows 70% of Florida residents saying they would consider leaving the Sunshine State. As health care costs skyrocket and access to care erodes, the pre-eminence of the U.S. health care system will erode. The possible election of Hillary will also factor into a bull market for international resort properties.



Surf behind. Green ahead.

19) Latin destinations are red-hot destinations. Mexico, Panama, and Costa Rica remain very interesting In recent months the opportunity is shifting from buying raw land to investing in finished houses and condos. Why? Because

while land is plentiful, finished condo at North American standards are scarce. Premium major flag resorts in the Caribbean and Central America are getting from \$750 a square foot to \$1,100 for finished condos. Here's the opportunity: buy a finished condo in a quality resort at \$200 to \$400 a foot and see if the gap closes. There is likely less downside than with the latest stock that was touted on CNBC.

- 20) Not all Latin countries are the same. Avoid Nicaragua, Guatemala, Ecuador, Peru and even Cuba. Political tensions, lack of infrastructure, and a host of other problems weight against these as plays for the retiring Boomer. Let the younger players with a 10 to 15 year horizon play pioneer here.



The sparkling new pool at Del Pacifico

- 21) We're also hearing more about Europe. Tuscany has been hot for several years with Boomers. More recently, we've

had chats with folks about beach resorts in Monte Negro and Albania! We'll have to let someone else sort this out for us.

- 22) The point here is we're entering the Golden Age of Globalization, but you have to participate to profit! Prosperity will not come to those who procrastinate. Consider this: in 2006, the world's economies expanded by 5.4% , but the Western economies only grew by 3.1% . The average of all the non-western economies was double that growth rate! Asia with a growth rate of 9.4% grew by 3 times the rate of the West! While Europe might be attractive for real estate, it's falling behind in the overall globalization race. We'll be avoiding the stock market here.

- 23) Our holding of domestic stocks stays at the same levels with an emphasis on the small and madcap value offerings. Most accounts are about 25% domestic equities. Sure, the Dow has breached new highs and has finally reached the point where it was 5 years ago in 2002, but there are a couple of fallacies here. First, is the dollar worth the same that it

was in 2002? Again, look at the movement of the commodities indices, which are up 100% since 2000. Second, what about the weak sister companies that has been moved out of the Dow over the past 7 years? For example, in the past 3 years, faded Blue Chips like Eastman Kodak, AT&T and International Paper were all removed. When you replace the weak sisters with new stronger companies, are you really comparing apples with apples?

24) Private Equity has been the King of Wall Street again this year with \$750 billion of transactions already announced. Few people actually have noticed that 2007 will be the third year in a row in which the public markets have actually shrunk. Part of the reason is that relatively low stock market value and even lower borrowing costs sets up an interesting proposition. At current prices, the S&P 500 is trading at a forward P/E ratio of 16, which implies a yield of 6.25%. Now if your hedge fund can borrow in Japan at 2.5% and take a public company private with earnings of 6.25% before you start slashing overhead, it makes sense to grab what you can.

25) The Private equity-buying spree will continue until either a) Stock prices rally, lowering the effective yield or b) Interest rates rise eliminating the arbitrage potential. Now which one to you want to bet will happen first? Our money is on rates rising.

26) Until then we'll put some money on the Private Equity players themselves like KKR, Apollo, Blackstone and Leucadia National via an index of publically traded private equity companies. This position is up about 2.5% YTD which perhaps reflects concerns about the direction of interest rates.

27) For the past 5 years, the anticipation of a falling dollar has been a central pillar of our investment strategy. Political neglect and the trade deficit are contributing to a massive currency depreciation which already undermining the financial health of all Americans. Since most Americans don't pay attention to currency valuations, allowing the greenback to fall is a more politically astute maneuver than asking for a tax increase to repay our massive foreign deficit.

28) We are maintaining large holdings of commodities as a

natural hedge against a falling dollar. If the dollar is allowed to decline by 10%, the price of a bushel of corn will increase automatically by the same amount. How far has the silent tax stripped away our wealth? Consider this : The Economist Commodities Index was 100 on 1/1/2000, the start of the decade. Last month, the same basket of commodities cost \$ 200. It's your choice of calling this a 100% price increase or a 50% loss in purchasing power in the last 7 years! Our commodities positions are up about 4 % so far this year.



Tour of the Del Pacifico property

29) Are prices rising because of inflation from global expansion or from currency debasement from political neglect? Certainly, there has been an increase in worldwide demand for oil, ores, and corn, but the price of gold and

precious metals is up even more. The Economist Metals index is up over \$ 300 in the same time period. This potentially indicates a pending currency crisis. Our gold positions are up about xx% YTD. These amount for about 5% in most accounts.

30) One of the repercussions of a debasing currency is if China and OPEC stop financing our deficit by buying U.S. Treasury Bonds. As previously predicted, this trend has started in earnest in the past 6 months. Witness China's recent decision to invest \$3 billion directly into private equity kingpin Blackstone. Note this wasn't to have Blackstone serve as an advisor for China, but for China to actually own a chunk of the management company and thereby participate directly in the mega fees from doing private equity fees. Now would you rather have a 5% T-bill return or scarf up the fees on a \$10 billion takeover deal? This is a slippery slope and the days of foreign governments settling for 5% on depreciating T-Bills are fast disappearing. Abu Dhabi now owns 50% of Apollo Investments and Kuwait just announced it is de-coupling the Dinar from the dollar. The repercussions here are

important and they start with higher interest rates.

31) On the domestic side, another by-product of a falling real estate market will be a homeowner's property tax revolt as houses are reassessed upwards and market prices fall. As a political issue, this revolt will have more traction than global warming. Last year real estate values were flat while property taxes nationwide grew 7%. Florida's property tax assessments up 50% in the last 3 years. Think that's bad? Lake Tahoe's rates are up 135% in the last 4 years. Look for Florida to lead a national revolt. This could be the sleeper issue for 2008.

32) In addition, what about the higher gasoline prices which are effectively national economic taxes? In January 2000, gasoline was \$1.25 a gallon versus over \$3.25 today, a 2-buck increase. If the average household has two cars and drives a total of 30,000 miles a year or about 1,500 gallons per household or a \$3,000 "tax" increase. Add this to the higher mortgage payments and you had a devastating double whammy on Middle America. What's going to get crowded out of the spending equation?

33) Have you ever wondered what ever happened to the "peace dividend" after the end of the Cold War? For 50 year we struggled when our enemies were virtually destitute. Now both China and Russia's bank accounts are overflowing and they learning how to rattle sabers again. With the U.S. as the lone surviving superpower is getting drained playing global policeman. Somehow, it wasn't supposed to work out like this.



Getting the crowds warmed up for some Latin dancing!

34) The jackal pack mentality in Washington is diverting attention from very serious legislative problems, such as the trade deficit, such as the energy crisis, such as the stability of our currency, such as the healthcare crisis, such as the looming retirement crisis. While we can quip that

“gridlock makes good government”, most of these issues are no longer academic and have relatively finite time frames for action. The Baby Boom is retiring, oil reserves are running out and China is wising up. It is important for all investors to recognize Washington’s procrastination will result in crisis mode reactions, not pro-active responses, Just as it has always been, in election years, politicians will pander to the masses. These results will penalize the minorities who have accumulated wealth.



The new sales office at the Town Center

35) Here’s a parting thought from the pages of ***The Economist***: *“The civil war in Washington may well prove to be a tragedy for the rest of the world”*.

Barry Strudwick
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