

# The Strategic Global Investors Newsletter™

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## Intelligence report

In December, the Conference Board's index of consumer confidence jumped unexpectedly to 102.3 in December, up from 92.6 in November and well above analysts' forecasts. Consumers' assessment index improved in December, with the present situation surging to 105.9 from 96.3 in November and the expectations component rising to 99.9 from 90.2. Economic growth slowed a bit in the 3<sup>rd</sup> quarter of 2004, expanding at a respectable 3.1 percent pace. For all of last year, the economy growth was at its fastest since 1999, a compelling sign that the recovery is strong. The Commerce Department's latest gross domestic product figures showed the GDP increasing by 4.4 percent in 2004. That was up from 3 percent in 2003 and marked the best showing since 1999, when the economy grew by 4.5 percent. Brisk spending by consumers and businesses propelled economic growth last year.

Sales of existing homes rose to a record annual rate of 6.94 million units in November, up 2.7% from 6.76 million units in October, according to the National Association of Realtors. In December housing starts rose 10.9% which is their fastest rate since September 1997. Gains in both single and multifamily construction were strong. All regions of the U.S. saw increases. The record sales activity, which exceeded Wall Street's

expectations, was attributed to a combination of low mortgage interest rates, a strengthening labor market, and an improving economy. The increase in sales was concentrated primarily in the West, where sales were up 6.5%. The median existing-home price reached \$188,200 in November, 10.4% higher than a year ago, when the median price was \$170,500. This continuous increase in home prices in the coastal area of the United States, especially on the West Coast and East Coast, will bring a downfall in home prices sooner or later. It has yet to be seen how much prices will fall. Prices in California and New York are bottoming and from here on there will be no room from improvement, except in some parts of the Mid-West and in some areas of the South. The affordability index in the San Francisco/Bay Area and Southern California is at an all time low of about 16 to 17%, while the Central Valley is around 28%. It means that about 86% of the people cannot afford to buy a home near the coast, and about 72% cannot afford houses in the Central Valley. Nevada, Arizona, Colorado, Idaho, Utah and Washington states plus the North West States are affected by dramatically increase in prices in the past three years (2001-2004). It is time to sell? Some people will never sell because they do not need to sell, and others will not sell because they choose to remain where they are. I believe

that as long as mortgage interest rates remain between 5.5% and 6.5%, the real estate market for now will move along with a slight price reduction. The Federal Reserve is playing along these lines with the flattening of the yield curve between short-term and medium-term interest rates. I believe that by the end of 2005 Federal funds will approach 3.5%, while the interest rates on the 10-year Treasury bond will be around 4.75%. To understand where interest rates are heading we shall also take a look at the Chinese government strategy with its currency, the Yuan, which is at least 30% undervalued in respect to the US dollar.

#### The European Union

The U.K. is heading toward an increase in taxation. This is one of the few countries in the E.U. that kept taxation at reasonable levels during Margaret Thatcher's government. Now the rest of Europe is leaning toward higher taxation and more regulations. In addition Germany, France and Italy are pressuring the new Eastern E.U. states to increase their taxation. This is a sure way to straight jacket investors and entrepreneurs and create an even bigger welfare state in keeping slow economic growth such as happened in the E.U. in the past five years. Red tape is king.

#### The Stock and Bond Market

I think that before the end of 2005 gold will approach \$475 to \$500 per ounce. One way to invest in this market is to buy stocks such as Newmont Mining (NEM), Gold Fields, (GFI), Randgold (GOLD), Glamis Gold (GLG), Franc-Or (FOR at the Toronto Stock exchange), and Placer Dome (PDG). Or buy Perth Mint Gold Certificate, which are guaranteed by the Government of Western Australia. Or you can buy gold

coins. My suggestion is to invest no more than 7% of your asset in gold. If you want to hold bonds, I suggest you buy A or better rated bonds. On the health care sector, we think that you should be diversified with companies listed on our preferred list below.

#### Currencies

In the current economic scenario I suggest to keep no more than 60% in U.S. dollars and the rest in Euro, GBP, and AUD. If you have around 30% to 40% in U.S. dollars, you might increase your short-term holdings. I believe that in the short-term, the dollar will go around \$1.20 to \$1.25 against the Euro. In the long-term I will stick with my forecast of a dollar at 1.45 to 1.50 against the Euro by the end of 2005.

#### Health Care

Finally, we are entering the era of personalized medicine. After Merck's revelation of its problems with Vioxx and the exposure of problems with other pharmaceuticals, we learned that some drugs are detrimental to certain patients, but in many cases that they could be useful to others. What does this mean for all of us? It means that from now on doctors will need new diagnostic tools to decide if a patient is allergic to certain drugs, and if not what is the right dosage of a certain drug for the individual patient. In addition, the era of hyped dietary recommendations (fads) such as the Atkins Diet will come to an end. This will undoubtedly prove beneficial for all of us. New markets are flourishing with nutritional genomics, bioidentical hormones, multiple molecules nutraceutical, new drug delivery systems, and diagnostics. Nutritional genomics, only few years old, is a field long due to the health care industry to understand the U.S.,

where over 30 million people practice some form of yoga. The model for nutritional genomics has been already developed for the interaction of genes and drugs. For certain people a drug could be a lifesaver, and for another it could be the creation of major health problems. To develop a better understanding of human beings we also need to spend more time to understand certain symptoms that sometime could not be diagnosed only by instruments. In this case, doctors using modern instruments of diagnostic and a more personal approach together will develop a mind body approach to treating their patient, thus optimizing the outcome of a diagnosis. I believe that the popular surgical approach to diminish wrinkles on older people will be substituted by a more natural technique using DNA, MRI, and other type of diagnosis. Botox and other harsh chemicals may eventually disappear from the market. What to do with our investment in health care? Search out companies, public or private, that invest in this mega-trend and you will increase you prospects for earnings. Ask your investment advisor or find a new one that understands this field.

### **Preferred stock list**

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**Life Sciences: ABC\*, ABT\*, ABGX\*, AXCA, ARQL, ASTM, AVE\*, BEC\*, BIO\* BMET\* BRL\*, CYAN, CYT.TO, FLML\*, GCOR, DVSA\*, DSCO, IDBE, MCK\*, MLNM\*, MEDI\*, MYL\* NTY\*, NicOX (Nouveau Marche' France), NBIX\*, NRM.TO, NUS\* OCR\*, PPDI\*, QGENF\* QLTI\*, SCLN, SHPGY\* SYT\*, USNA\* and WPI\* XRAY\*.**

**REIT: ARE, EQR, GLB, HCP, HMT\*, KIM\*, PCL\*, O\*, TCO preferred, PSA.**

**Gold: GFI\*, GLG\*, GOLD\*, NEM\* FOR (Toronto Stock Exchange).**

#### **Energy**

**ATG\*, CHK\*.**

#### **Our preferred list of ETF, open and closed funds:**

**BGRFX, EMF, EWJ, RYSEX, TAREX, VGENX, VHGX, VSEQX, VGSTX.**

\* Shares with options.

**Indexes: DJI 10,427.20 NASDAQ 2,035.83- S&P500 1,171.36 Amex BTK 520  
Russell2000 613 - 10-Year Treasury Bond 41.38 – U.K. FTSE100 4,832.80  
\$-Euro 1.3051 – \$-Yen 102.74 - \$-CAN 80.72 - \$ - AUD 77.52**

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