

## Overview

The following is an excerpt from our October newsletter: “Even during the current difficult political and business climate in Europe, the dollar will remain in the \$1.16-\$1.18 trading range for the next 30 days. After that if the Fed and the U.S. government do not change its monetary policies, we will see a deterioration in the exchange rate of the dollar to \$1.20-\$1.25 against the Euro.” Now we have an exchange rate of about \$1.21 per 1 Euro. It happened just as I forecast two months ago. Let’s analyze the reason for this continuous slide of the U.S. currency and future implications for the U.S. and world economy. Many economists today draw parallels between the time of the Reagan administration and Bush administration. The 1981 recession was more severe than the 2000-2003 recession, with soaring unemployment and plummeting output. Economic recovery, was quicker and in 1982-1984 America’s economy was booming. For instance, in 1981-1984 interest rates were high, instead of today’s low interest rates. In 1985, the strong dollar changed the mood in Washington and Congress was in a protectionist mood. Going forward, heavy intervention in the exchange rate market weakened the dollar to acceptable levels and forced Japanese industries to set up shop in the U.S. Between 1981 and 1990, Japan and Germany were attached to the of U.S. and the world economy. America’s situation now is quite different from that of the mid-1980s. The imbalance is bigger, and the international economic environment is more complex. New major trading partners such as China and India are having a major impact on the U.S. economy than Germany and Japan did in the 1980s. For example, in the 1980s the current account deficit was at its peak in 1987 with and reached 3.4% of

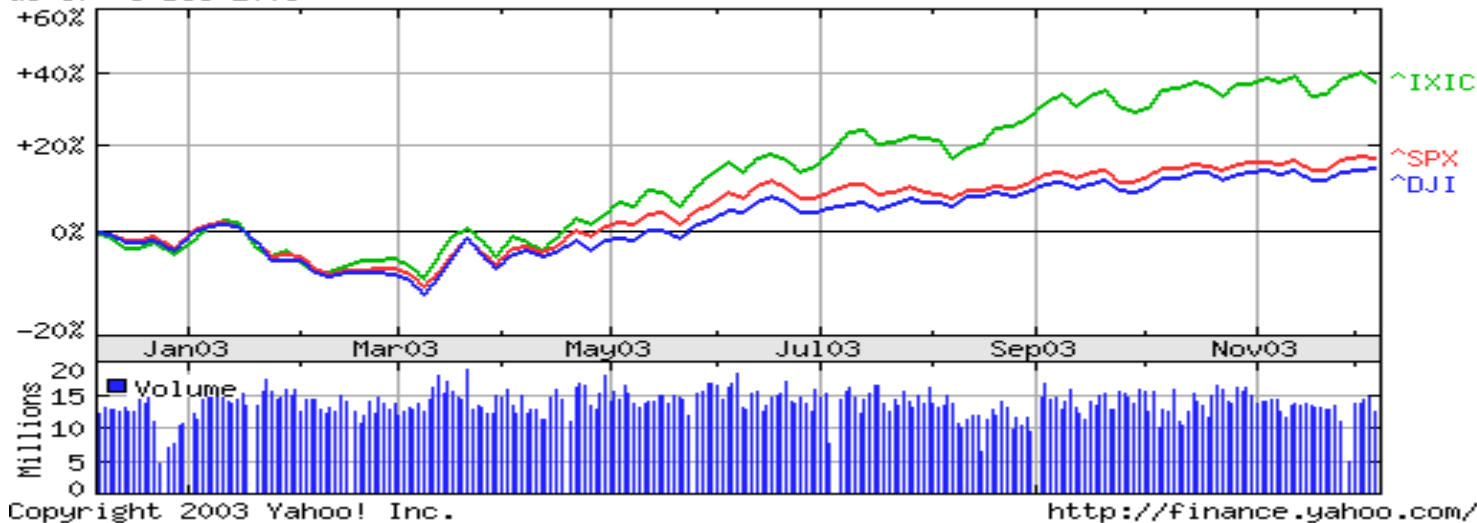
the GDP. Today’s deficit has been rising for over a decade, and it started in the mid-1990s with the investment boom in technology. The amount of the current trade deficit is still manageable, but I think that the main difference between today and the 1980s is that the economic environment has changed. It will be more difficult to maneuver the currency exchange rates as the G7 did in the 1980s. China refusal to open its currency market and to increase its exchange rates against the dollar is one of the examples of the problems we are facing with the globalized economy.

### Global Economy

If the dollar doesn’t stop the slide against the Euro there may be a global recession. In that event, stagnation and inflation of the world economy would be in the cards. I would say that at current levels the dollar and the global economy has a chance to recover. Moreover, increased sentiments of protectionism are occurring in the U.S. If these sentiments persist, it could have severe consequences. In addition, if the dollar goes above \$1.25-\$1.30 and remains at that level for more than six months, major levels of inflation and economic stagnation will start to appear in the industrialized countries, and the world economy will suffer for the next decade. In the best-case scenario, I hope that the dollar remains at an exchange rates acceptable to the Euro, which I think should be between \$1.10 and \$1.15. Ideally, the European Union will implement the needed reforms to accelerate growth, and China will increase slightly the value of the Yuan. A failure of the U.S., the E.U. and China to implement structural reforms and keep exchange rates in balance will bring the dollar down along with it the world economy.

The Bush administration needs to recognize that it must force the world to understand the need to adjust exchange rates and implement reforms. If America does not lead in global economic policy, no one else will. I forecast an exchange rate of \$1.19 to \$1.25 in the next 30 days. After that, if the economic picture remains the same as it is today, I predict the dollar will reach \$1.30 to \$1.45 against the Euro by the beginning of summer 2004. I am slightly inclined to believe the exchange rates in the next 90 days will remain between \$1.18 and \$1.25, and after that it would decline to \$1.15.

NAS/NMS COMPOSITE (NASDAQ STOCK  
as of 5-Dec-2003



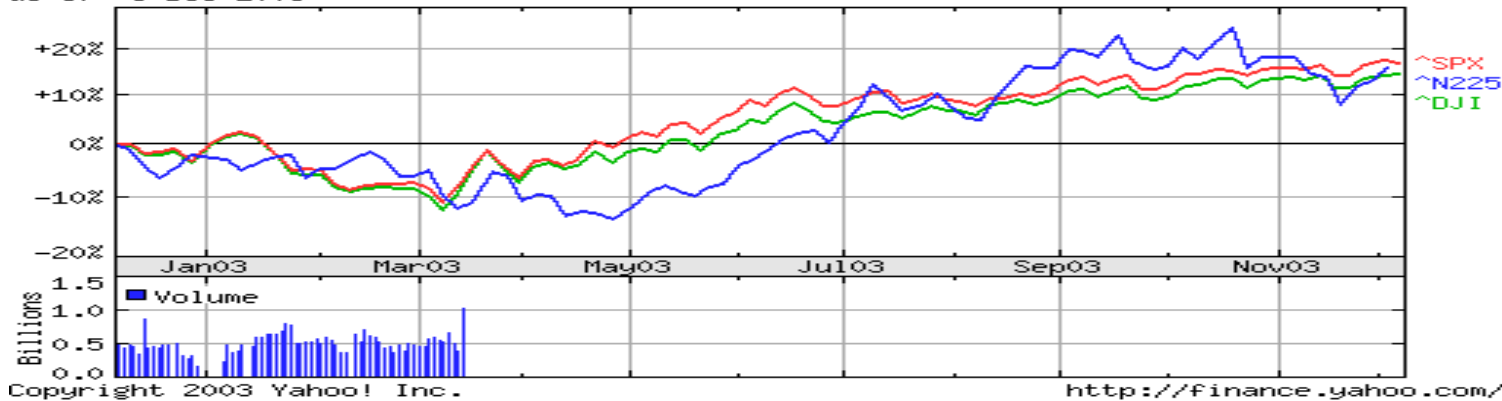
NASDAQ Index (IXIC) – S&P500 (SPX) – Dow Jones Industrial (DJI)

## The stock market

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The S&P 500 is up about 16% YTD, the NASDAQ increased about 38%, and the DJI about 16%. The substantial difference between technology stocks and non-tech stocks is that tech stocks suffered major declines between March 2000, and March 2003, compared to the DJ and the S&P500. Going forward I think because 2004 is an election year, the stock market should do well, or at least there will be no major setbacks. At this moment I do not find many stocks in the market that are undervalued, or with attractive prices. It is still possible to find attractive stocks, but most are already full priced. Due to the fact that the population is aging in all major industrialized countries, I remain bullish on life sciences stocks. In some cases, we just buy and sell exchanged trade shares, or iShares. As written in previous newsletters, I remain bullish on Japan and I bought iShares (EWJ). Japan has the largest foreign exchange reserve in the world, with about 550 billion dollars, and China is second with about 320 billion dollars. This of course doesn't bode well with the U.S. that is the largest debtor nation the world. I list below some of the companies we invest in on a regular basis. This is NOT a buy or sell recommendation. Bear in mind that we routinely employ specific strategies with options on single stocks. Writing covered calls is one of the most attractive investment strategies to increase cash flow and reduce volatility risk.

DJ INDU AVERAGE (DOW JONES & CO  
as of 5-Dec-2003



#### List of favored stocks

**Life Sciences:** ABC\*, ABT\*, AXCA, ARDM, ARQL, ASTM, AVE\*, BEC\*, BIO\* BRL\*, CEGE\*, CHIR\*, DNA\*, DVSA\*, DSCO, EWJ, GSK\*, GILD\*, IVX\*, KG\*, MCK\*, MLNM\*, MEDI\*, NTY\*, NicOX, NBIX\*, NRM.TO, PRCS, PPD1\*, SRA\*, SCLN, SYT\*, and WPI\*.

**REIT's:** GLB, KIM, ASN, HMT, LTC, O, and VNO. Only preferred convertible shares.

#### Our preferred list of mutual funds:

**BGRFX, OAKGX, RYSEX, VGENX, VSEQX, VGSTX.**

\* Shares with options.

**Indexes:** DJI 9863 - NASDAQ 1938- S&P500 1061- Russell2000 539- Amex BTK 471  
10-Year Treasury Bond 42.60- U.K. FTSE 100 4367 - U.S. dollar-Euro 1.21

**We at Siena Financial WISHING HAPPY HOLIDAYS TO YOU**

*Dario A. Bianchi*

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