

The Strategic Global Investors Newsletter™

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Intelligence Report

The Perfect Storm.

Everyone knows that the perfect storm of financial markets is approaching. When it will happen is anyone's guesses. The U.S. is now the largest debtor nation on earth, and Asia holds U.S. paper that, if converted to stock investment, could buy all the companies listed in the Dow Jones index. That is scary! In addition, no one knows exactly how much debt there is. Conflicting numbers are coming out every month. Let's assume that the national debt is now about \$25,000 per person in the U.S., which means about \$100,000 per family. If this is the case, since the majority of people are already in debt, the only way out is through inflation and devaluation of the currency. This has been done by each government constantly through history. If you do not believe me check the European monetary history of the 19th and 20th centuries. So now what? In addition, the continuous high leverage of hedge funds in the international market, international banks, and major mortgage banks such as Fannie Mae, soon or later will bring the financial system to a collapse. Now we have to find a way to protect our investments and to be successful in preventing what is brewing. I believe that a future financial earthquake could destroy our way of life. When doing so, we should activate our non-linear thinking and bring to the market new ideas on how to invest.

Europe

I have written extensively about the Euro and Europe. Ultimately, the European Union institutions as we know them today are a result of France and Germany's efforts to transform the countries of Europe into a platform by which the Franco-German vision and philosophies could rule and from which it could project power. France has always wanted to be able to punch above its weight in the international arena, and Germany was and is now the "locomotive" of Europe. Now the locomotive is running in low gear and France is marred by its internal problems (from the recent Muslims rebellion to the no vote to the EU constitution). Since the beginning of the formation of the Euro, I was never bullish in the currency as well as the economic outlook of the continent. The recent politic development in France is one example of what to expect in the future. Unemployment is either growing or is stable in most countries. I do not think that the economic outlook will improve dramatically in 2006. Germany's "grosse koalition" of CDU-CSU and SPD set up a program of government that is an awkward compromise and may fail to revive Europe's largest economy. To try to reduce the government's budget deficit to 3% of GDP or less—as laid down in the widely flouted rules for countries in the euro currency area—there will be increases in both the value-added sales tax (VAT) and in income taxes. The VAT rate will rise

from 16% to 19%, while (at the SPD's insistence) the top rate of income tax, for those earning over €250,000 (\$290,000) a year, will rise from 42% to 45%. In a few words: more taxes and red tape. This is the wrong economic recipe, and I will follow closely what happens with Germany in the coming months.

Real Estate

As we know, prices in the real estate market have increased substantially over the past five years. Since long-term interest rates remain low, but short-term rates are high and going higher, the results of the market are mixed. I believe that in 2006 a modest decrease in real estate prices will occur. My guess is between 5% and 7%. If this happens, we will have a soft landing and therefore not a major shock to the economy. If prices decline above 7%, it could be a signal of more trouble ahead. In this event, due to high actual borrowing by consumers, with a major real estate market price drop in consumer confidence, consumer spending will drop, thus causing a recession.

I believe that buying in a country where the cost of purchasing land is low and there are many opportunities such as in Argentina, it could be an investment opportunity to consider.

Also due to the volatility of home and commercial buildings construction stocks, you should consider to buy and sell options of major construction companies.

Currencies

Everyone is asking why the dollar is gaining strength against all major currencies. There are many answers to this question. First, interest rates in the U.S. are higher than the Euro and the Yen and other currencies, with the exception of the AUS dollar. Second, the economy is growing at a better rate than in Europe, and third,

there is a temporary scarcity of dollars. How long this strength will last is another story. I think the dollar will go around \$1.10 to \$1.15 per Euro within a short period of time. After that, I believe the dollar will reverse and return to around \$1.25 to \$1.30 against the Euro. I predict that the Japanese Yen will go to 120-125 yen per dollar and then it will reverse to 110 yen per dollar. The timing should be between this year's end to the end of March 2006. The Canadian dollar has been the strongest currency in the world in 2005. Our model portfolio this year did well because we never went below 50% in U.S. dollars, and we invested mostly in CAN dollars and AUS dollars that fared well against the greenback. I am not positive about the Euro, therefore, our position is now around only 16% of the portfolio. We increased the CAN dollar and AUS dollar at about 18% in each of our model portfolios. We will increase both currencies going forward. We also intend to diversify into Indian Rupee and Chinese Yuan soon.

Gold

Since every western government is bashing its currency, and investors are frustrated over this, gold has hit a new high at \$505 per ounce. I predicted in my January 2005 newsletter that gold would reach \$500 per ounce at the end of 2005. I think that now we are in an upswing for gold prices that could bring gold prices to \$550 per ounce by year's end 2006. I would not be surprised if by 2007 gold reaches \$600 per ounce. Commercial demand is increasing in Asia and from investors all over the world. We keep our global portfolio at about 7% to 9% in gold, gold ETF, and gold stocks.

The stock market

Have a Merry little Christmas until you can. I believe we are at the beginning

of the years' end rally. The reason is because the economy did better than expected in the third quarter, and the October statistics on unemployment and other economic data are favorable to stock investing. This rally it will not last, therefore you should take profits on some stocks and edge the market with options if you go long. Japan's Nikkei share's average rose above 15,400 for the first time in five years today. Volume hit a record of 3.61 trillion yen (\$29.96 billion) at the Tokyo Stock Exchange's (TSE). Also the Seoul composite hit a new high over the last 12 months. These Asian indexes are in contrast with the Shanghai composite (China) that is near the low of the year. Our model portfolio favors life sciences companies, gold stocks and energy stocks.

Preferred stock list

Life Sciences: ABC*, ABT*, ABGX*, ADS (Adaltis is listed on the Toronto Stock Exchange), AXCA, ARQL, ASTM, BAY*, BEC*,BDY*, BIO* BIPH.OB, BMET* BRL*, CEGE*, CRL*, CYT.TO, FLML*, DVSA*, DSCO, FLML*, IDBE, HAE*, KND*, MCK*, MLNM*, NTY*, NicOX (Nuveau Marche' France), NBIX*, NTEC, NTB (Neptune is listed on the Toronto Venture Exchange) NUTR*, NVO, NVS* OCR*, PSYS*, PPD1*, QLT1*, RMD*, SHPGY* SYT*, USNA* WPI* XRAY*.

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

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

Energy & Others

ATG*, CHK*, CMI*, COP*, MOT*, TAP*, TSO*, MMM*, MKC*.

Our preferred list of ETF, open and closed funds:

BGRFX, EMF, EWJ, GLD, PBW, RYSEX, TAREX, VGENX, VHGX, VSEQX, VGSTX, XLE, XLU.

* Shares with options.

Indexes: DJI 10,877.51 - NASDAQ 2,273.37- S&P500 1,265.08- Amex BTK 676.93- Russell2000 690.57 - 10-Year Treasury Bond 45.19- U.K. FTSE100 5,528.10 - Philadelphia Gold 116.23
\$-Euro 1.1709- \$-Yen 120.43- \$-CAN 86.09- \$ - AUD 74.86

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Merry Christmas and Happy Holidays to You

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