

# The Strategic Global Investors Newsletter™

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## Overview

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The spread of SARS in Asia has mostly affected China, Taiwan, and Singapore. Even though the Canadian government declared that the spread of SARS has been contained, business in Ontario is down by comparison to the beginning of this year. This effect is now affecting companies worldwide. For example, the effect of SARS on Asia's important travel and tourism industries has been dramatic. More than 40% of scheduled flights into Hong Kong were cancelled. Singapore Airlines has cut capacity to just 29% of normal levels. Tourist arrivals in Singapore are down by more than two-thirds. Taiwan announced the postponement of this year's Computex—the world's third-largest computer-trade show—until later in the year. International companies such as Estée Lauder, Bulgari, Gucci, McDonald's fast-food king, airlines companies such as United and American Airlines, Lufthansa, British Airways, travel agents worldwide, hotels, and computer companies, said that sales this year will be dented by SARS. Airbus, a maker of commercial jets, has warned that its target of delivering 300 planes this year now carries "a higher degree of risk." The decline in travel has already had a detrimental effect on demand for fuel. The Organization of the Petroleum Exporting Countries (OPEC), the oil-producers' cartel, estimates that SARS has reduced Asian oil demand by 300,000 barrels per day. Philips and Ericsson, two European consumer-electronics companies, have also announced a decline in sales. European firms that sell to other businesses are being hurt too. SARS has created an effect that it is difficult to quantify.

### United States

Recent U.S. government data shows that unemployment is now at 6%. April data shows

that new home construction and remodeling is holding at healthy levels. In some areas of the country, prices of residential homes have bottomed, and I believe that we will have a small decline in prices by the third quarter of this year. This will not affect the economy but it will help to stabilize home prices that have had a strong increase in the last three years. Short-term interest rates will stay about the same with a slight increase at the end of this year. I also believe that long-term interest rates will come down between 25 and 50 basis points by the end of 2003.

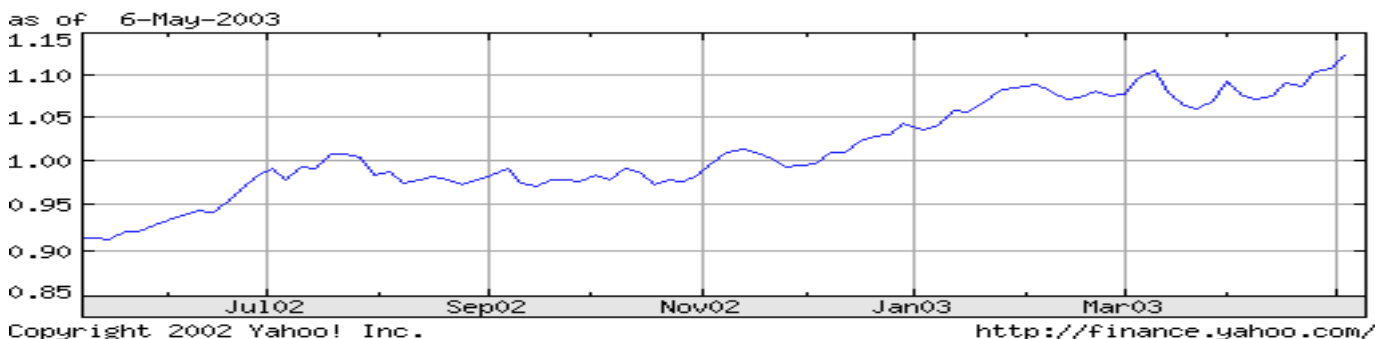
Real estate. For the past two years, many economists have warned that home prices may be increasing too rapidly, in the same way that stocks were going through the roof in the late 1990s. The risk is another asset bubble. The explosion in home prices may be distorting the spending decisions of millions of Americans who have been cashing out at a record pace. The Fed estimates \$200 billion in refinancing was processed last year and home equity loans totaled \$130 billion. Americans spent half of that refinancing money on consumer goods, which has supported the economy. In addition, most home mortgage refinancing has been made with a down payment of 10% or less. This in turn has made banks more vulnerable to losses caused by real estate prices downturn.

### Europe

Many European companies are now feeling the sting of the Euro's rise against the dollar. As the chart below shows, the dollar lost almost 25% since May 2002. This in turn will reflect a better balance sheet for U.S. companies that export in Europe, or subsidiaries of U.S. companies with manufacturing or distribution in the E.U. On the other hand, exportation of agricultural products

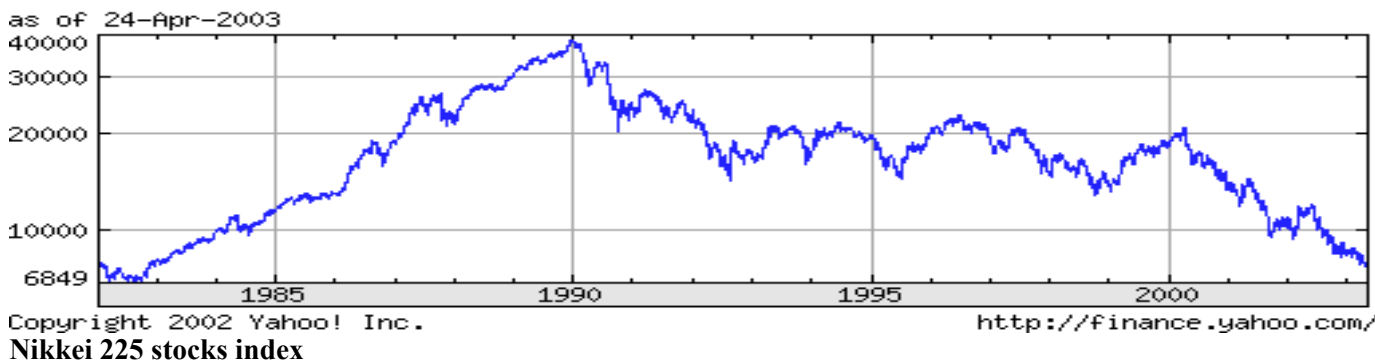
to the E.U. will create more trading problems between the U.S. and Europe. As forecast in my previous newsletter, the exchange with the Euro hit today \$1.15. I believe that now the dollar has run its downturn and I am expecting that the dollar returns to a more realistic exchange rate of \$1 to \$1.05 per Euro. This could take up to one year.

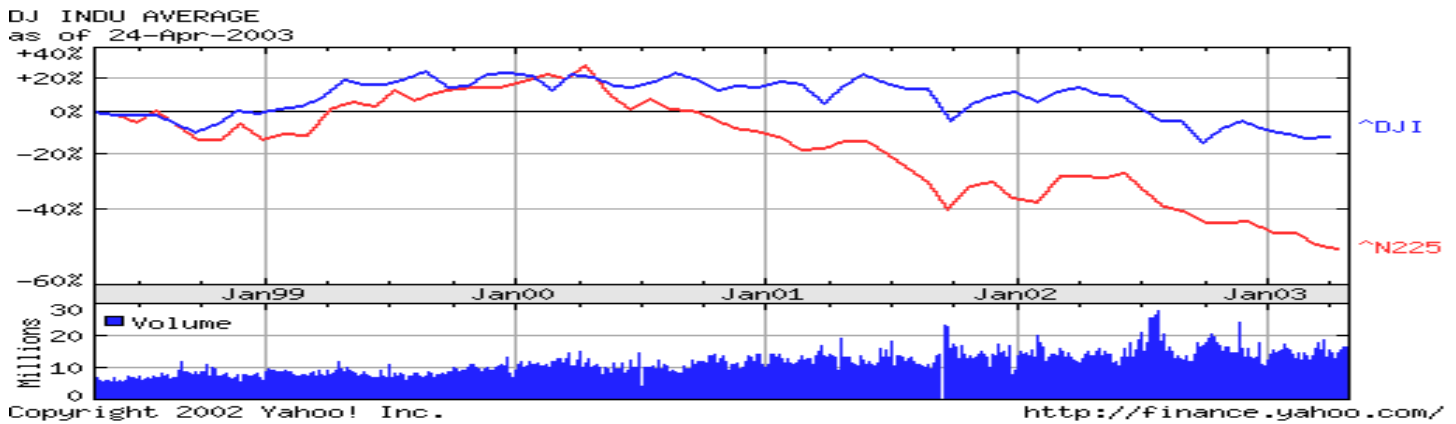
*Exchange rates of Euro and U.S. dollar*



## The Stock Market

In the past I wrote several times about the need for investors to be market timers. I know this is difficult, but not impossible. The indications are very clear when we analyze charts of the Nikkei index versus the Dow Jones Industrial Index, and the NASDAQ Composite Index. We observe that if you are not a market timer, you can lose your shirt. In fact if you look at the Nikkei index, you understand that if you invested in the Japanese stock market between 1990 and 1995 you lost money. This is a five-year period, therefore, the pundit that keeps advising investors to hold on for the long run should conduct more analysis before advising investors on how to invest in the market. Even in the last three years, the Nikkei lost ground against U.S. stock markets. Even more interesting is the comparison of European markets. We did a study and discovered that the European market performed worse than the U.S. markets in the last two years, with the exception of the United Kingdom and Switzerland. The worst stock markets performances in the European Union have been the French and German markets. No wonder they are redirecting their internal economic problems toward anything that creates a distraction to their French and German internal problems. Moreover, because of their problems it is easy to blame U.S. foreign policy, instead of resolving structural economic problems at home.





## Nikkei versus DJI

### Preferred stocks list:

**Life Sciences: AAA, ABT\*, AXCA, ARQL, ASTM, AVE\*, BEC\*, BIO\* CEGE\*, DVSA\*, CEPH\*, CHIR\*, GDT\*, GSK\*, GILD\*, IVX\*, KG\*, MATK\*, MEDI\*, NBTY\*, NicOX (Nouveau Marche' France), MLNM\*, NBIX\*, NRM.TO, PRCS, PPDI\*, SCLN, SYT\*, and WPI\*.**  
**REIT's: GLB preferred shares, KIM preferred shares and SHU preferred.**

### Our preferred list of mutual funds:

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

\* Shares with options.

Indexes: **DJI 8491.22 - NASDAQ 1489.69- S&P500 920.27- Russell2000 407.68- Amex BTK 370.40**  
**10-Year Treasury Bond 36.71- U.K. FTSE 100 3928.90- Euro-U.S. dollar 1.15**

*Dario A. Bianchi*

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