The Strategic Global Investors Newsletter™

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Intelligence Report

Let's review what we are expecting from the world economy. The U.S. trade deficit fell sharply in March to $54.99 billion, the lowest level in six months, as U.S. exports climbed to an all-time high. U.S. trade deficit is running at about $696 billion on an annual basis, which is about 12% higher than in 2004. The recent news about General Motors' junk bond status and the judgment for the reorganization of United Airline's pension plan shows how precarious the global economy is. The economic shift toward Asia is accentuating the industrial decline of the U.S. and Europe. Japan is better equipped to deal with the "Chinese Syndrome." Japanese industry is strong and getting stronger, while the U.S. manufacturing sector lost millions of jobs and (with the exception of the biopharmaceutical sector) continues losing jobs. The E.U. is debating what to do with Chinese imports. Unemployment is on the rise in Europe with the exception of the newly joined Eastern countries. Even Germany, one of the largest successful exporter countries in the world, has seen record increases in unemployment levels.

Small is beautiful

In the U.S., from Maurice Greenberg of AIG, to Freddy Mac, J. P. Morgan, Morgan Stanley and Credit Swiss First Boston, the list of fired executives is getting longer and longer. What links all these companies is that their credibility has been damaged. There is doubt about their reported earnings, their products, the way they sell and the complexity of their structure. In past newsletters, The Strategic Global Investor always defended small and medium-sized companies in comparison to big companies, and in doing so we were right. Over the past five years this became more evident, evidenced by scandals involving Enron, World Com and others to date which have fallen from their pedestals where arrogant executives sought to increase profits by merging with other companies and slashing jobs. This is a not how true entrepreneurs and visionaries operate. The U.S. and all other countries in the world need to keep their small and creative pools of companies successful. This is where government fails. Government has always supported big companies more than small ones because big companies have more resources to lobby politicians. In today's very competitive environment the game has changed and will change constantly, due to technological advances and global shifts. Small companies are like cells in a human body. All working and competing to keep the body healthy. Some big companies are very useful to small companies, but all these consolidations are not desirable in today's economic environment.

Oil and Country

Do you know who the largest oil companies in the world are? Of course you think of Exxon, Mobil, or

BP, but it may surprise you to learn that according *Petroleum Intelligence Weekly* the five biggest oil companies are the following, listed in order:

1. Saudi Aramco of Saudi Arabia
2. NTOC of Iran
3. INOC of Iraq
4. KPC of Kuwait
5. PDV of Venezuela

Exxon is number 12 down the list.
Now let's figure out what could happen in the foreseeable future in the oil business. Since this old line business is directly related to all the economic activity we have in the world today, it seems that the time for change in the way we use and produce energy is now. Unfortunately, with few exceptions, it seems that we are doing exactly the opposite of what we should do. Alternative sources of energy, such as solar, are not fully developed and by comparison to the potential of this source, worldwide investments in R&D are minimal. Wind and other alternatives are increasingly used but the impact is minimal due to lack of major funding for R&D, and incentives to developing countries including China and India. Private as well as country owned oil companies are not investing a significant sum of money in alternatives. According to experts, world-wide oil reserve, being a non-renewable source will last only a maximum of 35 more years. Sometime in the year 2040 we will have no oil, no matter how much we drill around the planet. Of course folks now are talking of increasing nuclear energy. Even politicians that favor nuclear power cannot explain why we are still designing and buying cars that run on gasoline. Gas guzzling is a way of life. We have now the technology to, at minimum, double the mileage of cars. Moreover, we have a 70-year-old technology that could produce cars that run on natural gas. I know this is an old story that we heard back in the 70s and 80s. No matter what the politicians tell us, the day of reckoning is coming and every one in industrialized countries will pay the price of "zero energy policy."

Bullish on Food and Renewable Energy

So far, the U.S. and other countries such as Canada, Argentina, Brazil, and the European Union, Australia, and other major food and forest producers have not fully used their "currency" to deal with energy crises. Were these countries to create a cartel such as OPEC, it would be such that no one on the planet could ignore. These countries have the resources and the technology to beat the oil cartel into the corner. Unfortunately, they lack the political will. But the world is not better off continuing its run toward the depletion of oil resources.

The Real Estate Market

According to the Mortgage Bankers Association in the second half of 2004 interest-only mortgages accounted of 17% of loans, and 46% of all mortgage were adjustable-rate loans. According to the *Wall Street Journal* in 2004 in California, interest-only loans accounted to 47.1% of all loans. In the first two months of 2005, about 61% of mortgages are interest-only loans. Only 18% of Californians could afford to buy a home today. Of course this is an unsustainable market and a Real Estate bubble on the West and East Coast of the U.S., and that it will burst soon or later. My feeling is that this bubble will burst this year starting in the third quarter.

The Stock Market

The market has been bearish since January 1, is bearish now, and everyone knows it but folks at Wall Street pretends it will turn around. Of course it will eventually turn around, but it will be next year or the year after. In the past four years the old economy and, in particular real estate, has sustained the economic recovery in the U.S. and elsewhere in the world. Now we are coming to terms with negative interest rates and high debt. The winds of change are blowing and interest rates are going up. The two largest buyers of U.S. treasury bonds, China and Japan, will diversify their reserves in Euro and other minor currencies. Japan is already doing so. What will be the impact of slow real estate spending on the stock market? Bearish. Some small and medium-sized companies offer interesting prices. I prefer health care, energy, selective Real Estate Investment Trusts that invest in senior housing and health care buildings, and some gold companies. I personally like medium-sized companies with traded options. In this market it is not advisable to invest with the buy and hold strategy. I think one good strategy today is to diversify into some hard assets in countries where the prices have not skyrocketed.

Currencies

In my previous January newsletter I wrote: *I believe that in the short-term, the dollar will go around $1.20 to $1.25 against the Euro.* In effect today the Euro is trading around $1.2545-$1.2575. My forecast was right on. Since then the Euro has its own problems namely Italy is in recession, and France and Germany have high unemployment. In addition the French will soon vote for the new European constitution, which is not a sure thing. In any event, I think by the end of 2005 the Dollar will trade between $1.30 and $1.40. In the mean time within the next two weeks watch the currency trading. If the dollar goes below $1.24 it will go quickly, in a matter of days to $1.20 against the Euro. Our model portfolio is now about 60% in US dollars, and about 20% in Euro and the remaining 20% in Canadian Dollars and Australian Dollars.

Preferred stock list

Life Sciences: ABC*, ABT*, ABGX*, ADS.TO, AXCA, ARQL, ASTM, BEC*,BDY*, BIO* BIPH.OB, BMET* BRL*, BSTE*, CEGE*, CRL*, CYT.TO, FLML*, DVSA*, DSCO, IDBE, HAE*, MCK*, MLNM*, MYL* NTY*, NicOX (Nuveau Marche' France), NBIX*, NRMX*, NTEC, NVO, NVS* OCR*, PSYS*, PPDI*, QLTI*, RMD*, SHPGY* SYT*, USNA* WPI* XRAY*.
REIT: ARE, EQR, GLB, HCP, IGR, 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, GLD, RYSEX, TAREX, VGENX, VHGEX, VSEQX, VGSTX, XLE.
* Shares with options.

Indexes: DJI 10485 - NASDAQ 2045.50 - S&P500 1,190.14 - Amex BTK 547.47 - Russell2000 609.40 - 10-Year Treasury Bond 41.26– U.K. FTSE100 4,971.80
$-Euro 1.255– $–Yen 108.20- $-CAN 79.00- $ - AUD 75.55

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