

Overview

In America, where household debt amounts to about 115% of disposable income, capitalism is often about spending rather than investing and savings. In recent months, American consumers have appeared hesitant: the confidence index fell last month. But as Americans acquire new spending habits, the French are shedding some of theirs. France's spending on manufactured goods surged by 4.2% in June (the biggest leap since the mid-1990s) and their savings rate dropped. According to figures released on August 12, 2004, French GDP grew by an annual rate of about 3.2% in the second quarter. America's grew by just 3% over the same period. However, France's performance was not matched by other members from the Euro area. In the United Kingdom, consumer borrowing is at all time high of 140% of disposable income, and it continues to grow. In Germany, in which the GDP grew by an annual 2% last quarter, household spending has been flat for a year or more; Italy is slowing; Dutch output actually shrank. The Euro area as a whole grew by 2%, slower than in the first quarter. The long-awaited European recovery may have peaked before anyone really even noticed it had arrived. By contrast the unemployment rate in the U.S. is around 5.4%, one of the lowest rates over the last 20 years. This is the European dream. But it will not occur until the EU governments decide to cut the flood of red tape under they are sinking their economies.

Japan's recovery, of course, has been much more noteworthy. But it, too, may have peaked. According to figures released on Friday, the world's second-largest economy grew at an annual rate of just 1.7% in the second quarter, after posting growth of 6.6% in the first. The yen value of Japan's output actually fell, thanks to falling prices. Again, Japan's consumers may be partly to blame. Their spending, which grew by 4.2% (at an annualized pace) in the first quarter, slowed to 2.5% in the second.

In the U.S., the borrowing and spending philosophy is the new measurement in reading the economy. In the U.S. we have 23 trillion dollars (\$23,000 billion) borrowed in one form or another. These numbers surpass any money supply readings by the Federal Reserve. From the beginning of 2001 to the end of 2003, the economy added \$1.317 trillion in gross domestic product and \$4.2 trillion in debt. The nation debt is becoming my favored leading indicator, along with real estate and new construction indicators in the past three years. The U.S. economy in the past three years managed to stay afloat via business activities thanks to the real estate market and military spending. Of course, this situation could not last. Sooner or later the "debt economy" will catch up. In the past, governments used the printing press to stimulate the economy and create inflation. Today the government and the private sector as well are borrowing at a record pace. It is the same coin

printed on each side with two different designs. I believe that sooner or later this will cause major financial turmoil worldwide, and major inflation. I am inclined to believe that as has traditionally happened in the past 1,000 years, the government (any government) is inflating its way out. With oil prices around \$45 per barrel and no hope for reduction in prices, I think that this year's real inflation (consumer price increase) is around 7%. What the government is telling about inflation to us is not realistic. Look at home purchase prices and home rent prices – this combined with food and energy prices eats up about 75% of disposable income.

Currency.

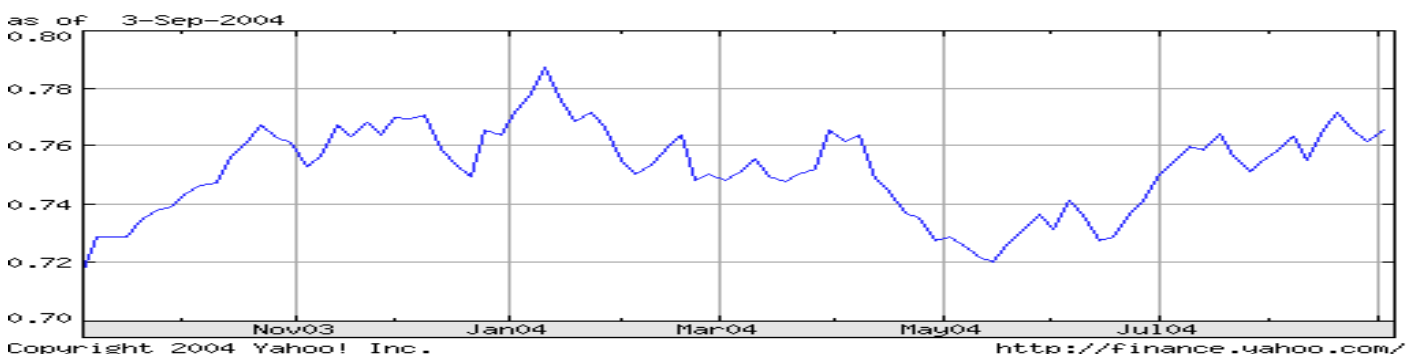
The U.S. currency having been bashed by the Federal Reserve and the U.S. government is supposed to sink below the Euro. The governments of Europe are managing their economy with increasing red tape due to the "welfare economy." Every government is trying to survive without making the radical changes needed to make the economy grow. Cutting taxes is not on any government's agenda. Reducing entitlements would be suicidal for any politician. In addition, with the inclusion of the new member states, the confusion and red tape will only increase. Because of these and other factors that have to do with Asia, I think that the dollar will increase in value against the Euro by year's end. I predict an exchange rate of \$1.10 by January, 2005.

The Stock Market

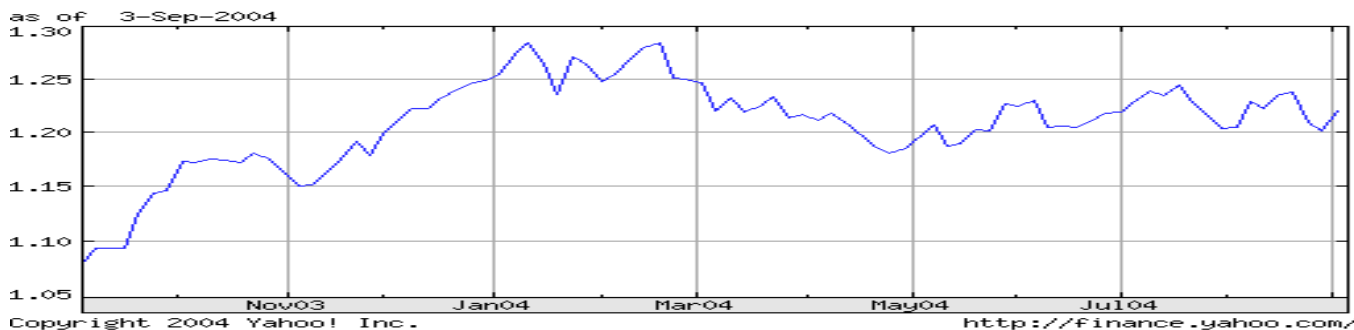
Recently, it seems the stock market has only gone down. This trend will last until election day. In any event, I forecast a Dow Jones Industrial Index at around 10,600, the S&P 500 at around 1,200, and the NASDAQ at around 2,000 by the end of year. I favor health care companies, energy companies, gold and silver mining companies, and REIT.

I keep my international portfolio model balanced with 50% in money market and short-term bonds. The remaining 50% is kept in the stock market. In addition I keep 50% in U.S. Dollars and the rest 15% in Australian Dollar, 20% Canadian Dollar, and 15% Euro.

CAN Dollar vs US Dollar



Euro Vs. US Dollar



Our preferred stock list

Life Sciences: ABC*, ABT*, ABGX*, AXCA, ARQL, ASTM, AVE*, BEC*, BIO* BRL*, CEGE*, FLML*, DVSA*, DSCO, CEPH*, CHIR*, GSK*, MCK*, MLNM*, MEDI*, MYL* NTY*, NicOX (Nuveau Marche' France), MLNM*, NBIX*, NRM.TO, PLI.TO, PPD1*, SCLN, SYT*, and WPI*.

REIT's: GLB preferred shares, HMT preferred, KIM preferred, PCL*, O*, and TCO preferred.

Gold: GFI*, GLG*, GOLD*, NEM*.

Our preferred list of mutual funds:

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

* Shares with options.

Indexes: DJI 10, 260.20 - NASDAQ 1844.48 - S&P500 1,113.63 - Amex BTK 503.08 - Russell2000 556.24 - 10-Year Treasury Bond 42.93 - U.K. FTSE100 4,5550.80 - \$-Euro 1.2054 - \$-Yen 110.30 - \$-CAN\$ 77.07

Dario A. Bianchi

Disclaimer

We strongly recommend that our readers do their own research into any type of investment to evaluate their risk or to consult with an investment advisor before investing. Information published in this newsletter is from sources deemed to be reliable. We are not, however, responsible for its accuracy and reliability. From time-to-time, Siena Financial receives compensation for services from a few companies in its preferred list of this newsletter. However, Siena Financial does not receive any compensation from the majority of companies recommended in its newsletter. Reader's use of this publication is entirely at its own risk. The Information is supplied on the condition that the reader or any other person receiving the Information will make his or her own determination as to its suitability for any purpose prior to any use of the Information. Nothing contained in this newsletter shall constitute an offer to sell, or the solicitation of an offer to buy securities. Our recommendations, if any, are subject to change without notice. Siena Financial and its principal may from time-to-time hold investments in the securities above discussed.

Copyright © 2004 • By Dario A. Bianchi • Siena Financial Services
Post Office Box 27736 • Fresno, CA 93729 - USA • Tel: (559) 431-6860 • info@sienafinancial.com
www.sienafinancial.com • www.capitalife.com

