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Do Great Investment Opportunities Knock on Your Door Only Once???

> It is much more easy to have sympathy with suffering than it is to have sympathy with thought. Accordingly, with admirable, though misdirected intentions, they very seriously and very sentimentally set themselves to the task of remedying the evils that they see. But their remedies do not cure the disease: they merely prolong it. Indeed, their remedies are part of the disease.

Oscar Wilde, The Soul of Man under Socialism *(1890)*

INTRODUCTION

As some of my readers may know, almost three years ago I moved my family to Chiangmai, where we have remodelled an old Thai house by the river that runs through the city. Now, my office building is also 99% completed (in Thailand, nothing is ever 100% finished) and this is the first newsletter I have written from this new office. (See the photo on my website, www.gloomboomdoom.com.) I still maintain a small office in Hong Kong, but since I wanted to concentrate on reading, studying and writing, I decided that, when not travelling, I would spend more time in the north of Thailand.

Chiangmai is Thailand's second-largest city and is famous for its beauty, since the old town is full of colourful temples. The old and picturesque city is located in a quadrant, whose sides are about a mile long and surrounded by a canal. Chiangmai has a far more pleasant climate than the south, since it is situated in the mountainous part of the country. In summer it is hot, but relatively dry and cool at night. (I never use air-conditioning.) From September until March the weather is similar to Southern California. Granted, Chiangmai is unlikely ever to displace Zurich, where I grew up, from the list of most livable cities. According to a survey conducted by Mercer Human Resources Consulting, Zurich has the world's highest quality of life, ahead of Vancouver and Vienna. In the US, San Francisco was the top-rated city (placed number 18), while New York was rated number 44 and Los Angeles 53. (African cities occupied 17 of the 20 bottom spots, with Congo's Brazzaville having the worst quality of life (though I am told that its nightlife holds some promise). I mention this in case some of our readers in the US have decided to move to another country that offers a better quality of life, lower living costs, more security, and, possibly, even a stronger currency (see below).

In terms of personal security, Luxemburg scored the highest in a related survey by Mercer, followed closely by Bern (the old capital of Switzerland where people are reputed to be extremely slow), Geneva, Helsinki, Singapore, and Zurich. Incidentally, Chiangmai seems to be rather safe as well, as long as one doesn't do any local business or have confrontations with one's business associates. Because food is so abundant and inexpensive in the north of Thailand, the people are all well-fed and rather comfortable, and probably too lazy to break into other people's homes. The danger in Thailand isn't violence, but poor driving. Most drivers in the north don't observe road rules, and few even have a driver's licence. Each year during Sonkran (the week-long Thai New Year's festival during which people throw water at each other, and which is actually a lot of fun in Chiangmai), around 600 people are killed in road accidents — more than the total number of SARS fatalities worldwide! I ride motorcycles, so it's rather dangerous to have a bucketful of water, complete with ice cubes, thrown in my face while riding my bike during the festival.

"So, why don't you drive a car?", some readers, concerned for my health, might wonder. Well, one night a few weeks ago, my wife was driving home from a party. She was on a highway heading into the city centre and driving at about 50 miles an hour. A car came at high speed from behind her and crashed into her car. And who was the driver? A totally drunk senior police officer, who not only didn't pay for the damage he'd caused, but wasn't even reprimanded by the police officers who came to the scene or by his superiors. (I advised my wife not to pursue the case even though she had some "influential connections", since it doesn't pay to have any enemies in a country where the law is rather vague.)

The climate and beauty of the city aside (and the traffic, which is rather challenging and certainly not boring), what attracted me most to Chiangmai was its low price level following the Asian crisis of 1997/98. The property that we now own came on to the market in a forced sale at that time. We bought the approximately 8,000 square metres of land and the three old Thai houses that were on the land, which is in the city centre, for about US$250,000. We then had to spend some money on redoing the old house, following which I built the office (which is around 25 metres in height) for about US$300,000. (Half the cost was for teak pillars and floors, as termites don't eat teakwood.) A similar piece of land (size and location) with a home and office would cost at least 20 times that in any developed country or in Hong Kong, Singapore, Tokyo, Taipei or Seoul.

To give our readers an idea of the current price level in Thailand, let's compare Bangkok office occupancy costs with those in London. According to a recent survey by CB Richard Ellis, which covered 159 cities, Bangkok's total occupancy costs — including service charges and local property taxes — were US$3.37 per square metre per month. This was one of the cheapest in the world in 2002, despite a 7.3% increase over the previous 12 months. (Manila's office occupancy costs were Asia's most inexpensive, at US$3.34 per square metre.) By contrast, the West End of London was the world's most expensive area, with total occupancy costs of US$45.86 per square metre (13 times higher than Bangkok), followed by Tokyo at US$35.88. There were only five cities that offered better deals than Bangkok: Manila, Christchurch in New Zealand, and Johannesburg, Cape Town, and Durban in South Africa. (South Africa wouldn't be all that safe a place to live.)

The price level in Chiangmai is about half that of Bangkok. Food and flowers are so cheap, they are virtually being given away. My wife, to whom I have been married for 22 years, recently came home with 50 roses, which she had bought for just $1 from a place next to the hospital where she works. Dinner for two in a Thai restaurant with two large bottles of beer costs about $12, and you can get a decent room in a pleasant hotel for about $15 a night. (First-class hotels in the city, however, cost about $50 a night; and the luxurious Regent, located relatively far outside the city, charges about $300.) A friend from London, who recently visited with us, bought an entire container-load of furniture, which he shipped to Marbella in Spain, because prices in Chiangmai were about a quarter of what they were in Spain. According to *The Economist*'s Hamburger Index, a Big Mac in Thailand costs US$1.37, compared to $4.52 in Switzerland and $2.71 in the US. (Other low-cost countries as measured by this index were: China: $1.20, the Philippines: $1.23, Russia: $1.31, Malaysia: $1.33, Egypt $1.38, Argentina: 1.40, and Hong Kong: $1.47.)

Healthcare in Thailand is also very inexpensive. A friend of mine had to have a minor operation on his hand. In Thailand the operation cost 85% less than in Hong Kong and was carried out to his full satisfaction. (We still like the stock of **Bangkok Dusit Medical Services** — BGH TB.)

The reason for the low price level in Thailand, and in most other Asian countries, is quite simple. Thailand experienced a collapse in its property market after 1997 and the Thai baht lost almost half of its value at the time. Consider the following. A friend of my wife ran into some money problems prior to the 1997 crisis. She took a mortgage loan on her house (also in the centre of Chiangmai, but smaller than ours and not on the river) worth 10 million baht (at the time, about US$400,000), which she later couldn't (or didn't want to) pay back. The bank repossessed the house and sold it a few days ago for 2.5 million baht (because of the devaluation of the currency, now worth around US$60,000)! This case is quite interesting, not only because of the magnitude of the price decline (Tokyo real estate prices have declined every year since 1992 — altogether by around 70% — with the fastest decline in a decade occurring last year), but also because if a property declines by so much in price, even the most tenacious "Liebhaber" homeowner will be tempted to walk away from his property and let the bank repossess it! This is something that real estate lenders should consider when they lend close to, or even more than, 100% of the property value to homeowners and homebuyers in the belief that prices will always go up and never decline. In this respect, I recall an occasion in 1996 when a real estate developer in Manila, where I was delivering a presentation, invited me to his house for dinner. After dinner he took me aside and told me "between you and me" and "in strictest confidence" a "little secret", as he called it. According to him, property prices in the Philippines would always go up. Well, as I mentioned above, they are now the cheapest in Asia and my real estate "friend" is no longer in business…

An important reason for the low price level in Chiangmai is that it is not as popular a holiday destination as Phuket, located in the south of the country. Moreover, most foreigners prefer to have a holiday residence on the beachfront in the south of the country. This accounts for the relatively high prices one finds in Phuket. There, even medium-quality homes (not beachfront properties) sell for around US$500,000. I recently visited the Tisara development in Phuket (Simon Murray, the former managing director of Hutchinson, is a partner), which will include a luxury hotel and some villas priced from US$2.5 million, according to an article in the *South China Morning Post*. A friend of mine bought a villa there about two years ago for US$2.2 million. (I have seen the property, which isn't on the beachfront. I wouldn't pay more than US$300,000 for it.).The nicest site in that development, two adjacent lots directly overlooking the sea, were bought for US$5.5 million, which will include the construction cost of the villa. All in all, it is said that 12 villas have been sold by the developer at prices that I certainly don't consider a bargain and which are, by Thai standards, extremely pricey. (A modest two-bedroom house, in which I — and, I suppose, most of our readers — could comfortably stay, costs about US$30,000 to US$50,000, depending on location and size.) Of course, I shouldn't necessarily compare Phuket and Chiangmai. Phuket has become in Asia something of the equivalent of Fort Lauderdale or Boca Raton in the US and receives annually around five million visitors. (Seventy-two commercial flights and numerous charter flights land weekly at Phuket's airport.) Because of its proximity to Hong Kong and, especially, Singapore, it has also become something of a playground for Hong Kong's and Singapore's rich and famous, many of whom own impressive villas in the sensational Amanpuri development (where room rates start at around US$750). The bad news for Phuket, however, is that it's no longer the "real" Thailand, having been overdeveloped and Westernised, which is another reason for my preference for Thailand's north. In addition, beach frontage isn't a commodity that's in short supply in Asia. Malaysia and Indonesia also have beautiful beaches. Vietnam, which is developing rapidly and will, in my opinion, with its 80 million very hard-working and thrifty people, overtake Thailand economically within the next ten years or so, has a coastline of 3,200 kilometres. Danang, located on the coast between Hanoi in the north and Ho Chi Minh City in the south and famous for its "China Beach", has a first-class airport and is much closer to China, Taiwan, and Hong Kong than Phuket. Its wide beach, which extends 20 miles to the south to the scenic old colonial city of Hoian (where another major airport will shortly open to international flights), will eventually become a major tourist destination and villas can be acquired there for a fraction of Phuket prices. As an aside, I am a partner in the Furama Danang Resort Hotel and am also involved with some partners who have lived in Vietnam for a number of years in a hotel cum villa beach development in Hoian. (For anyone interested in Vietnam investments, please contact my friend and partner, Rick Mayo Smith, at rick@indochinacapital.com.)

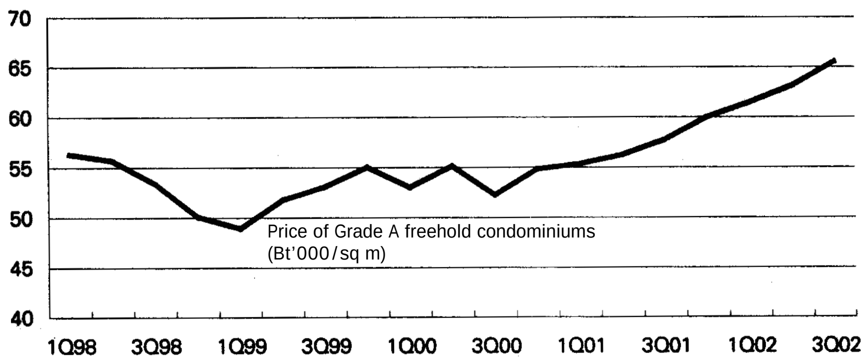
It's not that I wish to talk down Phuket, but for me it has — like Torremolinos in southern Spain and the Côte D'Azur in France — lost some of its charm, and property prices there are unlikely to appreciate much from their present (by Thai standards) extremely high levels.

There are a few observations I should like to make before I conclude this introduction and before I put my readers to sleep with my observations about the price level in Thailand. **It is interesting how the window of opportunity for investments at low prices has stayed open for a very long time, not only in Thailand but also in other Asian countries**. Five years after the Asian crisis, bargains are still available. And this is so not only for real estate investments, but also in the case of the Asian equity markets. It is rare for bargains to be available for such a long time, as we shall see later. More usually, the window of "great opportunity" closes very quickly and a few weeks can make the difference between an unusual bargain and a fully priced asset. I might add that some assets can also stay at lofty valuations for a long time, as was the case in Japan between 1990 and 2001.

What is also interesting is that a beach resort like Phuket has higher real estate prices and a higher cost of living than Bangkok, which is the country's commercial centre and capital. (The same is true of St. Moritz, where prime locations sell for more than prime sites in Zurich.) Phuket is also about three times more expensive than Chiangmai, even though Chiangmai is a larger city and, tourism aside, economically far more important than Phuket. I mention this point because, in the share market, we see the same phenomenon, with some stocks that have remained popular (high-tech) still being rather pricey, while others sell for relatively low valuations. It is also interesting that there is a wide divergence in the performance of real estate markets around the world, as is also the case for share markets (see below). For example, in 2002, commercial rents in Bangkok increased by 7.3%, while rents in Hong Kong and Mumbai declined by 27% and 29%, respectively. Similarly, condominium prices in Thailand began to move up at the end of 1999 (see Figure 1).

I have also wished to make the point here that someone with a relatively small income and asset base could have a far higher standard of living, and for far less money, if they lived in Thailand (where foreigners without any local income don't pay

Figure 1 **Thailand Property Prices, 1998–2002**



Source: David Scott Deutsche Bank

any income taxes) or one of the other Southeast Asian countries, than if they lived in a developed country of the West (especially if the person in question was a single male).

But there is one last point, which, from a longer-term point of view, I think is relevant for real estate prices all over the world. My regular readers will remember that I was rather sceptical (to put it mildly) about the valuations of the TMT sector over the last few years. (Nevertheless, I did recommend, in March of this year, buying the then very oversold high-tech and telecom sector for a rebound — see GBD report of March 21, 2003, entitled "Of War Cycles and their Economic Consequences".) However, new technologies have enabled people to live and work very differently than in the past. The fax machine, and especially the Internet, have enabled people to live anywhere in the world, even in the most remote villages, and be as well informed as people living in New York, London, or Tokyo. In fact, modern communications and information technology, combined with a PC, have enabled people to live as nomads, travelling in every corner of the world and staying in daily contact with their home office and their clients. This new condition, which was brought about by the colossal technological changes that occurred in the 1990s, may slow down the process of urbanisation in many countries and could possibly lead, in some cases, to an **exodus of people from large urban agglomerations**, since living costs are so much lower and standards of living usually higher in the countryside or in smaller towns. According to the Halifax Building Society, the **average** price for residential space in London at the beginning of this year was US$6,200 per square metre, compared to US$1,820 in Liverpool (the richest city in England in the early 19th century) and around US$2,000 for **luxury** accommodation in Jakarta, US$1,500 in Bangkok, and US$700 in Chiangmai. (Please note, however, that, according to FPD Saville, London prime location residential prices have declined modestly in the last six months — the first time this has happened since the early 1990s.) Now, I can see why someone working for the subway in New York or the fire department has to stay close to his place of employment. But why should a portfolio manager, a lawyer, a stockbroker, an accountant, an editor, or a secretary travel every day to an office when the same work could easily be performed with far less wasteful and irritating interruptions by outsiders and colleagues from their homes in the countryside or from a comfortable boat anchored off a nice Caribbean, Celebes, Greek, or Turkish island? This may have some implications for real estate prices around the world – a fact that has already been reflected in the huge increase in real estate prices in rural New Zealand and, to a lesser extent, Australia over the last few years. (The actor Russell Crowe just paid US$8.7 million for an apartment at Finger Wharf, overlooking Sydney Harbour, after selling his mansion at Elizabeth Bay for A$3 million more than he paid for it 18 months ago.)

The point is simply this. In the same way that the railroads in the 19th century and the automobile in the 20th century allowed for rapid and unprecedented urbanisation, the Internet and wireless communication may lead to some renewed decentralisation of service jobs, which hitherto have had to be performed in large urban centres, and thus to a decline in urban populations. (I might add that, before the invention of the railroad and, much later, refrigeration, cities couldn't become very sizeable because of the high costs of transporting food from rural areas and across urban areas.) As an example of how service jobs are now being lost in the industrialised countries, just consider the call-centre industry. The British Telecom Group is opening two call centres in India, which a year from now will employ over 2,500 people. In India, call centre staff will earn around US$1.20 per hour, compared to US$7–US$16 at BT's 31 British call centres. According to Mitial Research, which tracks the call centre industry, Britain will lose about a third of its call centres with 20 or more work stations by 2005 to countries such as India, resulting in about 80,000 job losses. In India, however, revenues from such services will grow, according to the National Association of Software and Service Companies, to around US$24 billion by 2008 — not an insignificant amount, considering India's GDP of about US$400 billion. That this migration of white-collar jobs, aside from the poor performance of the manufacturing sector, will have an increasingly negative impact on the economies of the Western industrialised nations and Japan is evident from the vacancy rates in the office markets. Take the US, where office vacancy rates rose to 16.2% — yes, 16.2% — in the first quarter of 2003, from 16% in the fourth quarter of 2002 and 14.7% in the first quarter of 2002. This was the **ninth straight quarter of rising vacancy rates and declining rents**, which nationwide are down 17% from their peak in the fourth quarter of 2002. Now, rising vacancy rates are nothing to be particularly concerned about if they are the result of overbuilding and if demand will continue to rise modestly. But in this instance, vacancies are rising because of a negative absorption rate — that is, because of a decline in the demand for office space. Demand slipped 1.2% in the first quarter of 2003, after having risen slightly in the fourth quarter of 2002 following a negative absorption of 140 million square feet in the previous seven quarters. Thus, the recession in the manufacturing sector seems to have spread to services as well, although we may not see it from the doctored statistics published by the government. The negative absorption rate has been particularly pronounced in Silicon Valley and in San Francisco, where the vacancy rates stand at about 27% and 22%, respectively. (Palm recently wrote down a site it had purchased for US$220 million, at the peak of the high-tech boom, to US$60 million.)

Now, if we consider that in the years to come more and more service jobs will migrate to Asia (Vietnam's salaries are 25% lower than in India for typical data work) as companies strive to cut costs, and that at the same time the Internet and wireless communications allow people to work from home or, for that matter, from anywhere, then the outlook for the urban office markets in the industrialised countries isn't particularly appealing — and certainly not where, in addition to these structural changes in the demand, property taxes are increasing, such as in New York where they were just increased by 18.5%! According to some experts, up to 500,000 US financial-service jobs at banks, brokerage firms, and insurers will move overseas in the next five years. This migration, made possible through telecommunication advances, may even include thousands of white-collar Wall Street jobs, including six-figure-earning analysts. Needless to say, when white-collar service jobs are cut and people move to other areas, the residential market tends to weaken as well. (In New York, apartment prices fell 3.7% in the first quarter — the second quarterly decline — while the number of sales declined 8.4% to the lowest level since the September 2001 terrorist attacks.)

Looking at the world from a financial point of view, we find huge valuation divergences and imbalances everywhere. Although I read all the major financial publications and hundreds of reports about inflation, deflation, recession, recovery, currencies, employment statistics, etc, published by some of the financial markets' leading minds, I find it difficult to come to any definite conclusion about a number of issues. After all, the forecasting ability of most of these experts (including my own) is extremely limited. Moreover, experts frequently support their arguments with very questionable statistics (see below). I often encounter overpriced or undervalued assets, which in some cases stay that way for a long time and in others rapidly correct their temporary mispricing. It is about these kinds of opportunities that I wish to write today, since many investors miss some great opportunities by focusing their entire attention on whether the US economy will grow by 2% or 3%, or whether inflation and unemployment will rise or decline.

STILL PLENTY OF OPPORTUNITIES, BUT WHERE?

> There is only one thing about which I am certain, and that is that there is very little about which one can be certain.

Somerset Maugham

The other day, I looked at the performance of a few financial assets from the beginning of the year to May 3. First, I was interested to see how the US stock market had performed expressed in Euros since the beginning of the year (see Table 1). And although the market has risen since then somewhat, more to the point is that a large portion of the capital gains achieved from being long US equities has been "neutralised" by the weakness in the US dollar over the last 12 months or so (see Figure 2).

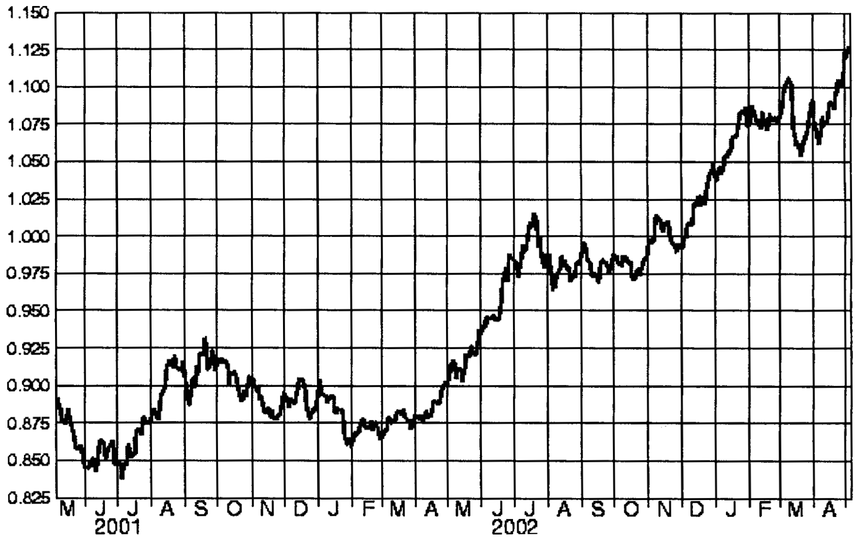
In fact, while few Americans may realise it, the US dollar has lost 30% of its value against the Euro since January 2002! It is therefore with a smile that I read an article in the *Financial Times* entitled, "Rivalling America will make Europe weaker" (see the *Financial Times* of May 5, 2003). So far, at least, it has made the US dollar decline by 30% (a staggering decline in value for the world's major reserve currency). What this decline in the value of the

Table 1 **Performance of US Stock Market in US Dollars and Euros, January 3 to May 3, 2003**

Index	in US$ (%)	in EUR (%)
S&P 500	+5.71	–1.26
DJIA	+2.89	–3.89
Nasdaq Composite	+12.53	+5.11

Source: Bloomberg

Figure 2 **Daily Exchange Rates: US Dollars per Euro, 2001–2003**



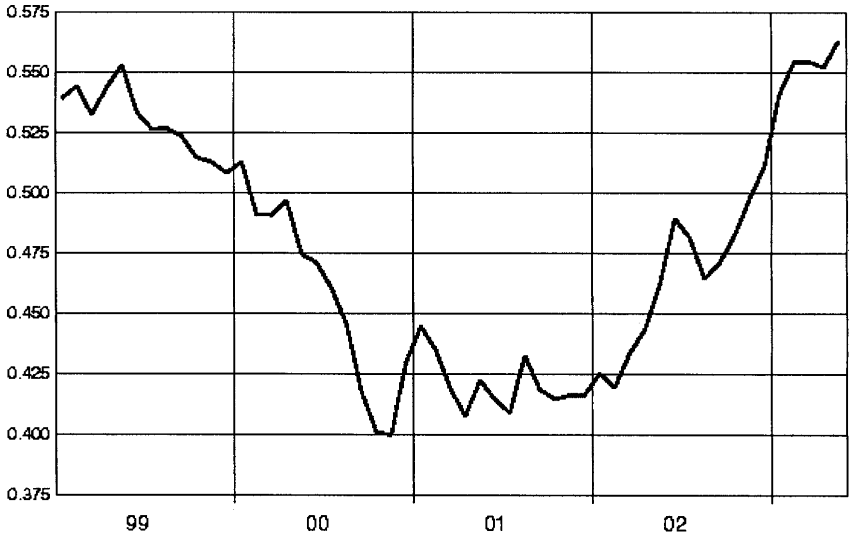
Source: Prof. Werner Antweiler, University of British Columbia, Pacific Exchange Rate Service

US dollar means from an economic point of view is that, for a foreigner, the price level in the US has declined by around 30% since the beginning of 2002. In other words, for a holder of Euros, US real estate, equities, and bonds are today about 30% cheaper than they were at the beginning of 2002. Therefore, while there still is some domestic inflation in the US, running (depending on which price index you follow) at around 2–3%, in Euro terms we have experienced a **serious deflation**. This isn't surprising given the Fed's monetary policies and the statements we have recently heard by various members of the Federal Reserve Board. Last year, I wrote two reports entitled "The Curse of Empires" and "Lessons from History" (see GBD reports of April 25, 2003 and May 21, 2003 — both of which can be downloaded from www.gloomboomdoom.com/gbdreport/indexgbdhighlights.htm) in which I tried to explain what usually happened in history to the currencies of empires, or of countries that had ambitions to rule or pacify the world. In addition, I attempted to show that John Law, who was some kind of a financial genius and who undertook a large-scale experiment with paper money at the beginning of the 18th century — "the Mississippi Scheme" — failed bitterly because of the excessive issuance of bank notes, which brought about a loss of confidence in France's paper money, a flight to hard assets and gold (inflation accelerated sharply), and a collapse in the currency. When the issuance of additional bank notes and the huge credit expansion he engineered failed to stabilise the price of the shares of the ailing Mississippi Company (the S&P 500 didn't exist then), Law resorted to "extraordinary measures" and declared the ownership of gold as illegal. The public, having lost faith in paper money, had sold their bank notes for gold and silver and therefore drove up the prices of precious metals. In turn, this led to a loss in the value of paper money. By declaring the ownership of gold illegal, Law hoped to restore confidence in paper money. (Severe penalties were imposed on people who hoarded gold.) But exactly the opposite happened, as one can imagine! In desperation, Law then "fixed" the price of the South Sea stock by opening a bureau of conversion where the shares of the Mississippi Company could be bought and sold in exchange for bank notes with a face value of 9,000 livres. (At the peak in 1719, the Mississippi stock reached more than 20,000 livres.) However, by then, speculators had completely lost faith in the company's shares and therefore, instead of putting a stop to the selling, the fixed price acted as an inducement to sell, which led the government once again to increase the supply of money by an enormous quantity. The result was another round of sharply rising prices and further weakness in the currency. In the end, John Law realised that his main problem wasn't the rise in the price of gold, but inflation. He then tried gradually to "devalue" the shares of the Mississippi Company, but this scheme met with so much resistance that he was forced to leave the country.

The history of the Mississippi Company and John Law is a fascinating account of an early experiment to introduce paper money and to debase gold. Unfortunately, it would seem to me that some people who run the world's most important central bank have learned nothing since then. Now, I am not suggesting that the US dollar will continue to depreciate at an annual rate of 30% for the next ten years or so against the Euro (it is near-term oversold), but it would seem to me that, based on the evidence of the existing external imbalances of the US, which are unlikely to be corrected by weakness against the Euro, the US dollar will continue to depreciate — especially against a basket of hard assets and commodities. Is it a coincidence that the currencies of resource-based economies such as Canada, Australia, New Zealand (see Figure 3) and even Argentina and Brazil have been so firm recently? In the case of New Zealand, I should like to add that its pastoral real estate prices were extremely depressed for most of the 1990s. But starting about four years ago, they experienced a very strong appreciation, as a large number of wealthy American and Asian investors began to realise the appeal of very inexpensive property prices in one of the world's safest and most scenic countries with a well-established Anglo-Saxon legal infrastructure (well-defined property rights).

In the case of Argentina, the opportunity for investors didn't stay

Figure 3 **Monthly Average Exchange Rates: US Dollars per New Zealand Dollar, 1999–2003**



Source: Prof. Werner Antweiler, University of British Columbia, Pacific Exchange Rate Service

open for as long as in New Zealand, where prices had languished for almost a decade. Last August, we published a report on Argentina by our friends Marcelo Mindlin and Clarisa Lifsic, who run Dolphin Asset Management in Buenos Aires (mmindlin@irsa.com.ar and clifsic@dfm.com.ar), highlighting how inexpensive Argentinean assets had become following the collapse of the peso. Well, now I am pleased to report that the Argentinean stock market was the third best-performing stock market in US dollars (after Latvia and Kuwait) so far this year (see Table 2) and that it has risen by more than 100% in US dollar terms from its low in June 2002 (see Figure 4). Stocks moving higher achieved part of this performance, while some of it came from the appreciation of the Argentinean peso since the summer of 2002 (see Figure 5).

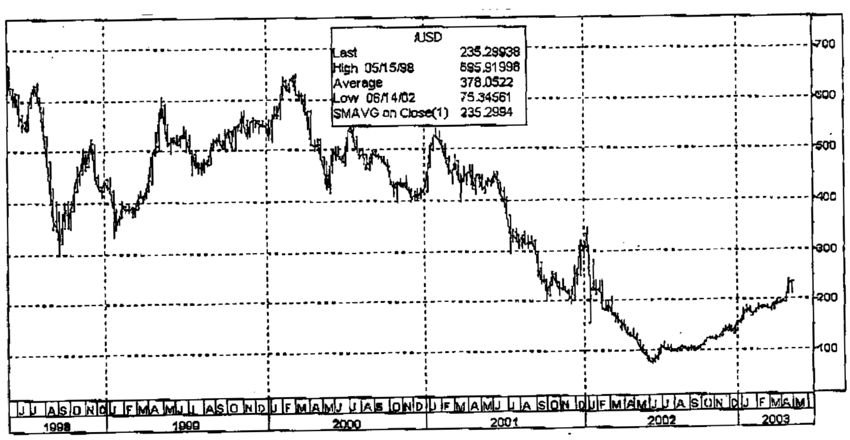
There is one point that I think is interesting about this dual bull market in Argentinean stocks and in the Argentinean peso. In local currency terms, the Argentinean stock market bottomed out in November 2001. But because of the subsequent extreme weakness in the currency, in dollar terms the market only bottomed out in June 2002, although by then the market in local currency had already rallied by about 50% (after having trebled in local currency terms between November 2001 and late January 2002 — that is, in less than two months; see Figure 6). I am directing our readers' attention to this fact because there are at present many strategists in the US who are assuring the public on CNBC that the US stock market made a major low in October 2002 at 768.67 for the S&P 500. This may be the case, but in Euro terms the US stock market made a new low in March of this year, since the dollar lost 11% of its value between October 2002 and March 2003! In fact, if you look again at Figure 3, you will notice that between the end of 2000 and June 2002, in dollar terms, the Argentinean Merval Index lost 80% of its value, while over the same period in local currency it only lost 50%. One should, therefore, not rule

Table 2 **Best-performing Stock Markets, January 3 to May 3, 2003**

Country	Index	in US$ (%)
Latvia	Rici Equity	+68.65
Kuwait	Stock	+51.71
Argentina	Merval	+50.63
Bulgaria	Sofix	+48.21
Kenya	NSE 20	+47.98
Brazil	Bovespa Stock	+35.59
Namibia	Local	+33.67
Peru	Lima General	+30.95
Turkey	ISE Industrials	+27.75
Israel	Tel Aviv 25	+26.66

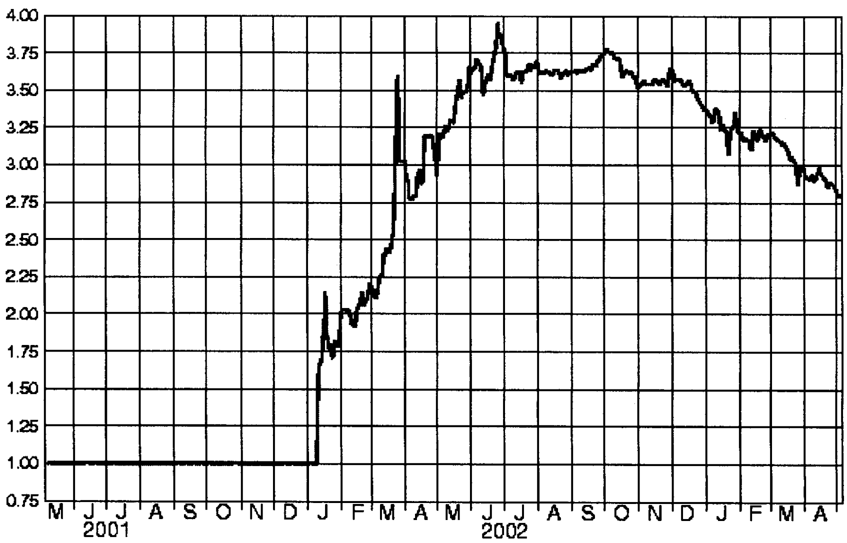
Sources: Bloomberg and ICN Group

Figure 4 **Argentinean Merval Index (in US$), 1998–2003**



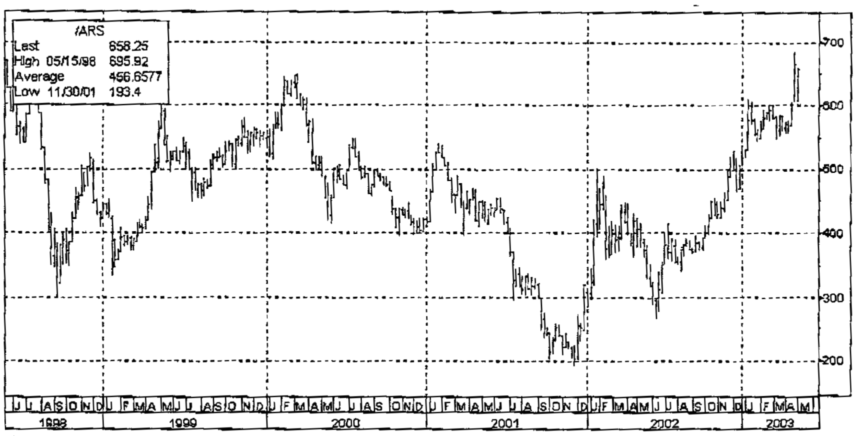
Source: Bloomberg

Figure 5 **Daily Exchange Rates: Argentine Pesos per US Dollar, 2001–2003**



Source: Prof. Werner Antweiler, University of British Columbia, Pacific Exchange Rate Service

Figure 6 **Argentinean Merval in Pesos, 1998–2003**



Source: Bloomberg

out that, in dollar terms, the US stock market made its low in October 2002, but that as a result of further dollar weakness, the ultimate low expressed in non-US dollar currencies will be at a far lower level at some point in the future. In fact, **I believe that a dollar crisis is only a matter of time. The way such a crisis will eventually play itself out is, however, a matter of debate.**

As I have pointed out in the GBD report of March 21, 2003, entitled "Of War Cycles and their Economic Consequences", the external imbalances of the US are horrendous. Foreigners now hold more than US$7.3 trillion of US assets compared to US holdings of foreign assets of around US$5.3 trillion — which means a current negative net investment position of more than US$2 trillion. But it's not the size (about 20% of GDP) that concerns me. Rather, the **trend** is worrisome. Since 1997, US national income rose by US$1.2 trillion, compared to an accumulated current account deficit of US$1.4 trillion and private non-financial debt growth of US$5.5 trillion. Moreover, in the first quarter of 2003, consumer spending on goods was up US$115.7 billion (0.4% year-on-year), while imports on goods increased by US$148.5 billion, or 9% (figures supplied by Dr. Kurt Richebächer, *The Richebächer Letter*, www.richebacher.com). That a weaker dollar shouldn't bring much relief should be clear when we consider how low the price level is in Asia (see above) and the fact that in 2002, US imports from China amounted to US$125 billion, while its exports to China only came to US$22 billion! Since most Asian currencies, including the Chinese RMB, are more or less loosely tied to the US dollar, the recent weakness will hardly redress the existing external imbalances. In the case of India, US exports in the first two months of this year reached US$786 million, compared to imports of US$2.2 billion, which brought about a trade deficit of US$1.34 billion in just two months. It was therefore no wonder that India's foreign exchange reserves rose in 2002 by US$22 billion to US$70 billion, whereby the accretion to reserves was almost three times the accretion of US$8 billion in 2001. I might add that the weakness of the US dollar and strength of the Euro is extremely positive for Asian exporters, since their competitive position does not deteriorate in the US market, whereas it improves in the Euro zone.

Above I mentioned the inevitability of a dollar crisis sometime in the future, and my lack of knowledge and certainty about how and when such a crisis will play itself out. A further rise of the Euro and the Yen against the dollar will not be desirable by these trading blocs, and therefore the European Central Bank and the Bank of Japan will be forced to print money as well in order to prevent their strong currencies from bringing about a deflationary spiral in their economies. In such a scenario, I suppose that only hard assets, including precious metals, commodities, real estate, art, etc., will appreciate not only against the dollar but also against all currencies. In fact, if we look at Table 3, we can see that commodity prices have already increased — in some cases, sharply — from their lows in the 1998–2002 period, whereby in most cases the rise so far is small when compared to the previous secular bear market, which began (depending on the commodity) between 1973 and 1980. Still, as can be seen from Table 3, the average rise in the commodities under review was 77% — not insignificant when compared to the miserable performance of equities in the developed countries in the world since 2000 and considering the fact that investors kept saying that commodities would never rise again! In particular, I would like now to draw our readers' attention to the laggards among the commodity complex, such as **silver, copper, wheat, corn and palladium**. (Palladium is not included in Table 3, but was down from a peak of more than US$1,000 in 2000 to a recent low of around US$150.) And while I have some reservations about economic-sensitive commodities such as copper, I think that both **corn and wheat** (see Figure 7) have — after their correction over the last six months — strong upside potential, which, incidentally, would lend further support to the recovering Argentinean economy. (The agricultural sector is experiencing a boom, which is beneficial for **IRSA** [NYSE: IRS] and **Cresud** [Nasdaq: CRESY].)

UNCERTAINTY ABOUT US CORPORATE PROFITS

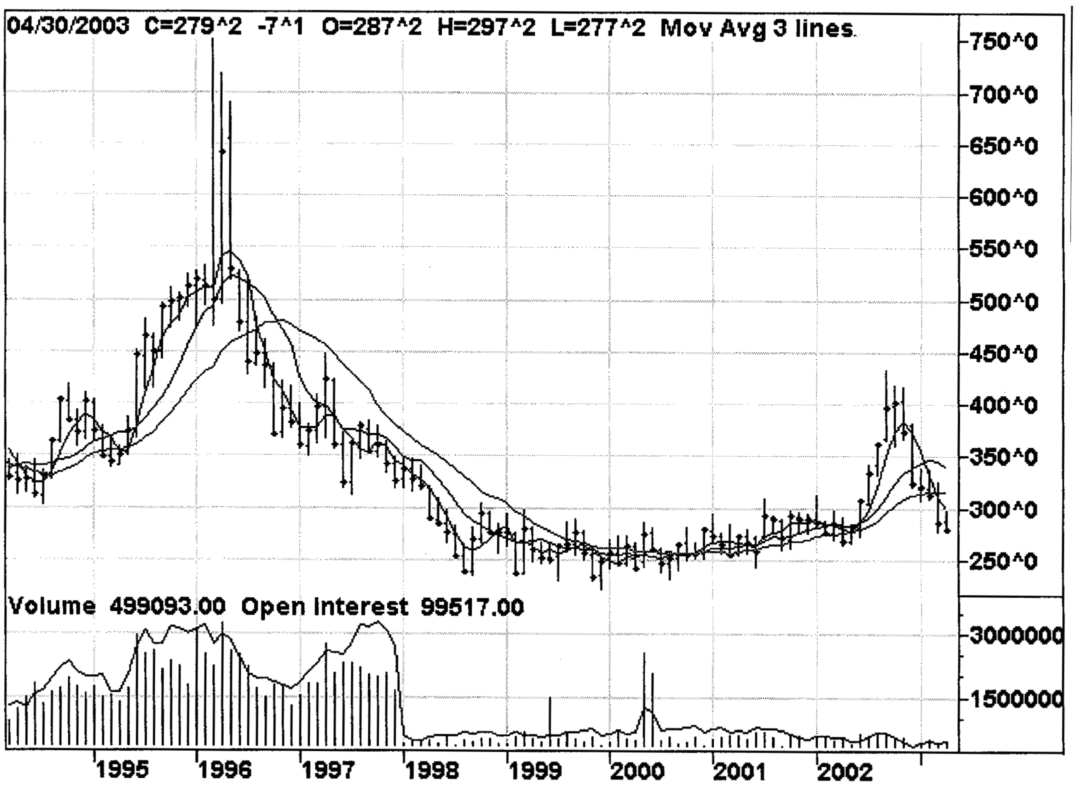
There is another point I should like briefly to touch upon regarding the weakness of the US dollar. Although the guest commentators on CNBC seldom address this rather embarrassing subject, when it *is*

Table 3 **Percentage above Bear Market Lows in Each Commodity**

		A	B	C	D	E	F	G
			Year	Historic Lows Basis (NF)	Price at Low	Price on May 1, 2003	% above Low Price	Bear Market Preceding Low
1	CC	Cocoa	2000	Dec 15, 2000	650.00	2,078.00	220%	63%
2	LH	Hogs	1998	Dec 14, 1998	20.70	62.87	204%	76%
3	PB	Pork Bellies	1999	Jul 12, 1999	32.10	90.05	181%	70%
4	CL	Crude Oil	1998	Dec 21, 1998	10.23	26.03	154%	61%
5	CT	Cotton	2001	Oct 26, 2001	28.20	54.30	93%	76%
6	O	Oats	2000	Jul 3, 2000	93.50	167.75	79%	67%
7	PL	Platinum	1998	Oct 30, 1998	332.00	595.50	79%	30%
8	SB	Sugar	1999	May 3, 1999	4.36	7.38	69%	72%
9	KC	Coffee	2001	Dec 5, 2001	41.50	68.15	64%	87%
10	SM	Soybean Meal	1999	Feb 26, 1999	120.00	195.70	63%	61%
11	S	Soybeans	1999	Jul 9, 1999	401.50	625.75	56%	56%
12	BO	Soybean Oil	2001	Feb 14, 2001	14.35	21.95	53%	53%
13	GC	Gold	1999	Aug 25, 1999	252.50	342.00	35%	40%
14	JO	Orange Juice	1997	Oct 10, 1997	65.00	87.55	35%	53%
15	C	Corn	2000	Aug 14, 2000	174.00	233.50	34%	69%
16	LC	Cattle	1996	Apr 26, 1996	54.00	72.07	33%	36%
17	LB	Lumber	2001	Jan 12, 2001	180.40	235.70	31%	59%
18	W	Wheat	1999	Dec 13, 1999	222.50	274.00	23%	70%
19	HG	Copper	2001	Nov 7, 2001	60.50	72.45	20%	59%
20	SI	Silver	2001	Nov 21, 2001	401.50	472.00	18%	45%
						Average	**77%**	

Source: Past-Present-Future (fax: 1310 829 1546)

Figure 7
Wheat (CBOT), 1994–2003



Source:
TFC Commodity Charts

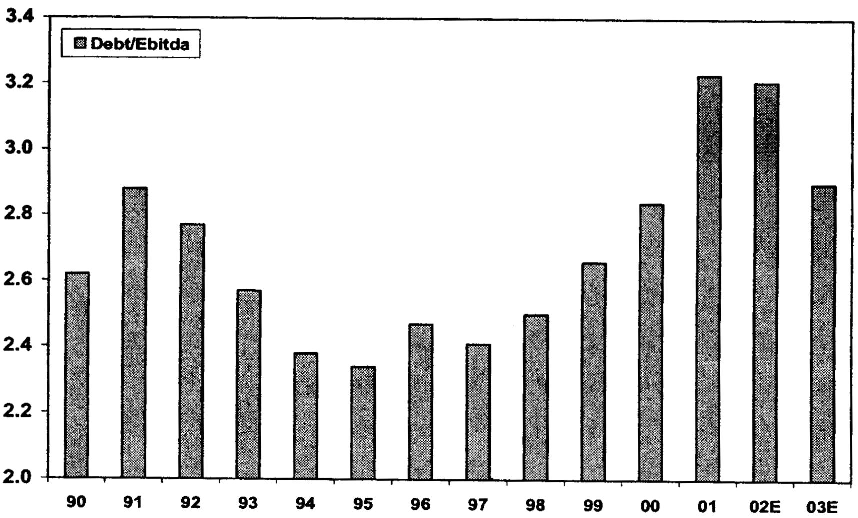
addressed it's always in a positive context, such as: a lower dollar will make American manufacturers more competitive and that, as a result of weakness in the dollar, the earnings of the multinationals will rise. Above, I have tried to show that the dollar would have to depreciate at least 50% against the Asian currencies ex Japan in order to have an impact on the existing trade imbalance between the US and Asia, including China and India. (Since 1985, the dollar has declined from around 250 Yen to 116 Yen, but what about an improvement in the trade balance with Japan?) And a revaluation of the Asian currencies of such a magnitude isn't likely to occur for the time being. Moreover, I'm not so sure that a weak dollar will boost the earnings of the multinationals by as much as analysts expect, simply because the overseas economies have been weakening over the last six months or so. Gerard Minack of ABN-AMRO (www.au.abnamro.com) pointed out in one of his recent commentaries that, according to the tax-based NIPA data, foreign-based profits fell by 30.7% in 2002, despite a 5% decline of the US dollar in trade-weighted terms and a 15% decline against the Euro. Still, because of the weak dollar, companies such as McDonald's and Procter & Gamble could report higher sales and earnings than had been expected. Without the dollar's decline, Procter & Gamble's sales would have been up by 5% and not, as reported, by 8%, while McDonald's sales would have risen by just 1% instead of the reported increase of 5.6%. I might add that for McDonald's, same store sales, at stores open for more than one year, remained almost as unappetising as its hamburgers, since they declined by 3.6%! Also, considering that in Asia, where 58% of the world's population lives, the markets for many consumer goods are far larger than in the industrialised countries, and where growth potential is the highest, the impact of SARS on consumption, and therefore also on the earnings of multinationals, will become a factor.

There is another point that makes me cautious about the outlook for the corporate sector in America, despite a lengthy program on CNBC during which numerous "very good news economists" were interviewed and the CNBC commentator concluded that "corporate America is healthier than you think"! If, indeed, the overseas economies are weakening — and this certainly seems to be the case in Europe and much of Asia — then excess capacities will continue to put pressure on prices. At the same time, costs for insurance, healthcare, depreciation charges, and pension funds are rising rapidly in the US and could, therefore, continue to squeeze corporate profits. And while it may be true that there has been a slow improvement in credit quality (see Figure 8), overall the corporate profit picture is far from rosy. In this respect, I am once again indebted to Dr. Kurt Richebächer who has studied the conditions in the corporate sector rather intensively.

To start with, Richebächer points out that "from the beginning of the U.S. economy's slowdown in the third quarter of 2000 until the fourth quarter of 2002, consumer spending has increased by $681.7 billion, or 7.8%, while business fixed investment in the nonfinancial sector fell $165.9 billion, or 12.9%. Profits are down 28.6% from their peak in 2000 and 36.4% from their 1997 peak."

According to Dr. Richebächer, "this is the **steepest fall in profits** in the whole postwar period" (emphasis added). He then demonstrates that **net investments** is what generates profits in the long term, since net investments create revenues for the corporate sector without creating any immediate expenses, since capital expenditures are capitalised on the balance sheet of companies while they generate immediate revenues for the manufacturers of the capital goods. (Bridgewater Associates has written extensively on the phenomenon of new investments causing a "front loading of profit growth" — see GBD reports of December 18, 2000, entitled "The 'New Economy' and its Impact on You" and of March 14, 2001, entitled "The Darkening Outlook for Corporate Profits".) But when, in an economy, net new investments decline, while depreciation charges rise, a profit squeeze will inevitably follow. According to Richebächer, net fixed investments declined in 2001 to US$268.1 billion from US$407.3 billion in 2000, as a result of lower gross investments and sharply higher depreciation charges. In 2002, the net investment position worsened further, because gross fixed investments in the non-financial sector fell by another US$84 billion, while Richebächer estimates that depreciation charges increased by another US$40 to US$50 billion,

Figure 8 **Debt to Cash Flow of Top 100 US Debt Issuers, 1990–2003**



Source: Morgan Stanley Research

which would have lowered **net fixed investments** to around just US$100 billion and is quite negligible compared to a US$10 trillion economy. So, while the corporate sector is slashing its capital spending, it is the least desirable adjustment for the US economy, since long-term growth and profits in an economy can only come from **net additional capital investments** and not from consumption. Just consider that in 2002, merchandise imports rose by 11% against a GDP growth rate of just 2.4%. In other words, in 2002, imports rose almost five times faster than GDP.

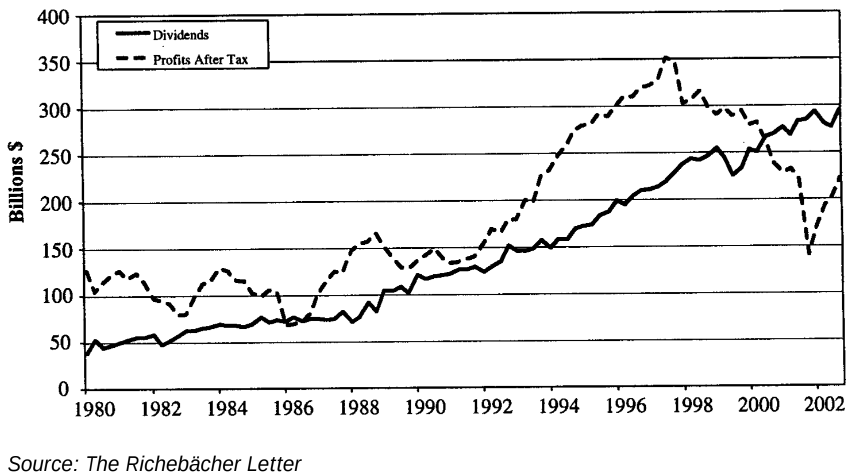
Now, some (if not most) US strategists are arguing that corporate balance sheets and cash flows have improved significantly over the last 12 months. But, as Dr. Richebächer points out concerning cash flows,

> … it is necessary to distinguish between two different components of totally different quality: depreciation charges and undistributed profits. First of all, depreciation charges are expenses, and second, they derive from obsolescent capital stock needing replacement. In reality, retained earnings are the only freely disposable component of cash flow. Also called business saving, they alone represent a net financial gain for the firm. But this component of corporate cash flow in the United States has collapsed. Any increase comes from **soaring depreciation charges**. What has happened to business savings net of depreciation charges is an outright disaster that most observers have yet to notice. Until the latter 1970s, they equaled on average 2.9% of GDP. In the late 1980s, that was down to 1.8% of GDP. Lately, however, it is zero for business as a whole. (Emphasis added.)

According to Dr. Richebächer, "retained earning have not only disappeared, but they have turned heavily negative because the companies are paying dividends increasingly in excess of their earnings. In other words, a sharply rising part of dividends is met with borrowed money." After discussing how, in the late 1990s, companies "wasted money" on costly acquisitions whereby, between 1997 and the third quarter of 2002, the debts of non-financial companies soared by US$3.1 trillion, or 47%, the tangible assets (real estate, equipment and software, and inventories) only rose by US$1.5 trillion, or 17%. The difference of US$1.6 trillion was accounted for by sharply rising goodwill, which was hidden in statistics under "miscellaneous assets". The good doctor then shows what happens when companies increase debts at a much faster pace than assets, which generate earnings. "Corporate net interest expenses are lately running at an annual rate of more than $190 billion, compared with $119 billion in 1997. But after-tax profits were then around $300 billion, as against $190 billion currently." Regarding his statement that US corporations are increasingly paying dividends in excess of their earnings by additional borrowings, he shows that in 1997, non-financial corporations paid US$218.1 billion in dividends from US$337.7 billion in after-tax profits. However, in 2002, they paid dividends of US$258.8 billion, compared to profits of only US$197.0 billion, which meant that US companies have increasingly been financing their dividends by either drawing down their cash reserves or by borrowings. (See Figure 9, courtesy of *The Richebächer Letter*, tel: 800-433 1528 or (1-203) 699 2900). Richebächer concludes that while "outsized dividends" may prevent an even steeper decline in stock prices, the flip side is that "balance sheets are not repaired but further rampaged" and that such management strategies are the "policies of desperados".

I have to confess that I am somewhat confused by the negative assessment of US corporate profitability by Dr Richebächer, not because I don't trust his statistics and perceptive analysis, but because I read all these optimistic papers by Wall Street bulls, including a recent article published by the *Wall Street Journal*, which is becoming increasingly supportive of the financial markets, which carried the headline, "Give thanks for the resilience of corporate America" (reproduced in the *Asian Wall Street Journal*, May 5, 2003). A more appropriate title would have been "Give thanks to history's largest credit bubble". After all, whereas GDP increased between 1997 and 2002 by US$2.1 trillion, non-financial non-federal credit soared by around US$5.6 trillion and financial credit by another US$4.9 trillion — in other words, debt grew more than three times as rapidly as GDP. (In defence of economists, I have to

Figure 9 **After-tax Profits vs. Dividends, 1980–2002**



Source: The Richebächer Letter

point out that James Montier and his colleagues, who produce some of the best research and strategic papers for Dresdner Kleinwort Benson, also have a rather sobering view of corporate America's balance sheets — james.montier@drkw.com).

There are other reasons for some caution about several sectors of corporate America. In the mid-1990s, I wrote a report entitled "What Happens When the Marlboro Man Falls off his Horse" and followed it up with one entitled "Are the Multinationals Set to Stumble?" (see GBD report of September 1, 1997), in which I made the point that private-label goods would increasingly eat into the market of brand products and erode their profitability. In the case of the US tobacco industry, this has certainly happened, since the market share of "deep discount brands" has risen from less than 2% in the mid-1990s to 10% at present. As a result of the proliferation of cut-price brands, R.J. Reynolds surprised the market with a first-quarter 2003 net profit decline of 53% (sales dropped year-on-year by 20%), while Brown and Williams, British American Tobacco's US subsidiary, reported a profit decline from US$126 million a year ago to US$63 million in this year's first quarter. Naturally, the erosion of market share of the top-line cigarette brand names isn't the only problem for the American tobacco industry. A court order that Altria Group (formerly Philip Morris) post a US$12 billion bond to appeal an Illinois tobacco verdict has also depressed the group. (The bonds of tobacco companies could be attractive, since it isn't in the states' interest to bankrupt the industry.) But the point is that, for many branded goods companies, the competitive environment has intensified because, in a sluggish economic environment, the consumer becomes more cost-conscious and local brands frequently gain in popularity in overseas markets. In China, TCL, a manufacturer of TVs which started making cellular phones in 1999, has already overtaken Siemens and Samsung to become China's third-largest handset vendor after Motorola and Nokia. And, whereas local brands such as TCL, Ningbo Bird, and Amoisonic had less than 3% of the handset market in 1999, today the more than 30 manufacturers of domestic brands control more than 26% of the market. (I also think that, because of overcapacities, many multinationals will be disappointed by their business in China.) I might add that even Levi Strauss, which for years took large retailers to court for selling their jeans at discount prices, recently introduced "Signature" trousers, which will be sold through Wal-Mart and other mass-market retailers. (Signature jeans cost about 80% less than Levi's.) But cut-price brands and generics in the pharmaceuticals industry aside, I am also concerned that pirated goods will make further inroads in many product lines. In 2002, world music sales fell by 7% (the third consecutive decline in annual music sales) because of rampant illegal Internet downloading and compact disc copying. (In this instance, the Internet has boosted the productivity of "pirates" at the expense of the leading music and entertainment companies. In Spain, where music sales dropped 16% last year, two in every five CDs sold are pirated.)

I also think that cash-strapped US states and their agencies will increasingly target some industrial sectors. After having gone after the tobacco and asbestos industries, we may see the **healthcare industry come under government scrutiny**, since the rising healthcare costs of an aging and longer-living population are a huge burden for the states, which already run a combined deficit of around US$100 billion. (Although the states don't contribute to Medicare, a federally-financed institution, they pay a large portion of the cost of Medicaid, which provides coverage for the poorest and pays for much of the bills of the elderly, since Medicare doesn't cover prescription drugs.) America spends more than US$149 billion a year on pharmaceutical products alone (Indonesia's GDP, with a population of 200 million, is US$155 billion), partly because prices are far higher than in Europe, Canada and Japan, where the government does, to some extent, control prices. High prices aside, the drug industry has also been spending lavishly on advertising to convince the public to purchase unnecessary and expensive drugs, and has used at times rather unethical marketing tactics (selling drugs to doctors at much lower prices than those at which the state reimburses these customers). Therefore, investors should consider carefully whether the healthcare sector is as "defensive" as they might think. After all, the tobacco stocks were also perceived to be defensive until they recently tumbled.

AND WHERE ARE THE OPPORTUNITIES TODAY?

If we look at Table 4, which shows the performance of the ten worst-performing stock markets year-to-date (up to May 3, 2003), what is striking is that, whereas the best-performing markets were in Latin America (see Table 2), some of the worst performers are to be found in Asia, where India, Japan, South Korea, Taiwan, and Hong Kong were all down double digits. Now, it is a fact that SARS has had, and continues to have, a negative impact on the Asian region (although both Indonesia and Thailand have performed satisfactory), but I look at SARS as follows. If the disease turns out to be a major problem, then the SARS pandemic is likely to spread around the entire world in due course and will therefore also have a very negative impact on the highly priced US stock market. If, on the other hand, SARS is only a temporary phenomenon, then the Asian economies, which undoubtedly are suffering from the SARS scare, are likely to recover from their current lower growth rates, which came about from curtailed travelling and reduced consumption. In particular, the Taiwanese stock market, which at its current level is significantly lower than during the Asian crisis of 1997/98, would seem to have strong rebound potential. Investors may consider the purchase of the **Taiwan Fund** (TWN) and the **Korea Fund** (KF), both of which are listed on the NYSE and sell at a discount of more than 15%. An alternative would be to buy the **exchange traded South Korea (EWY) and Taiwan (EWT) funds**, which track the respective MSCI indexes of these countries.

Personally, I have a preference for the Southeast Asian markets. As I have explained repeatedly in the past, Japan, Taiwan, and South Korea will increasingly be squeezed by China, where production costs are far lower. Conversely, Southeast Asia, with its sizeable natural resources, is in many sectors complementary to China. As a result, I still like Indonesia, where the economy is performing satisfactorily and where we find numerous inexpensive companies. (In 2002, motorcycle production rose 41% to 2.3 million units, surpassing for the first time the pre-Asian crisis level.) We still like **P T Telekomunikasi** (listed on the NYSE: TLK) and smaller companies such as **Indofarma** (INAF.IJ), **Ciputra Surya** (CTRS.IJ), **Enseval** (EPMT.IJ), **Mayora Indah** (MYOR IJ), **Lautan Luas** (LTLS.IJ), and **London Sumatra** (LSIP.IJ). I also feel that the Indonesian banking sector has good recovery potential. What encourages me particularly about the outlook for Indonesian equities is that the net capital flows have recently turned positive (see Figure 10). In fact, I would argue that SARS may have a beneficial impact on the flow of foreign direct investments (FDIs) into some countries, because multinationals have become aware of the danger of relying too heavily on investments and supplies from China. Therefore, some FDIs, which before the crisis would have been made in China, may now flow to some other Asian countries.

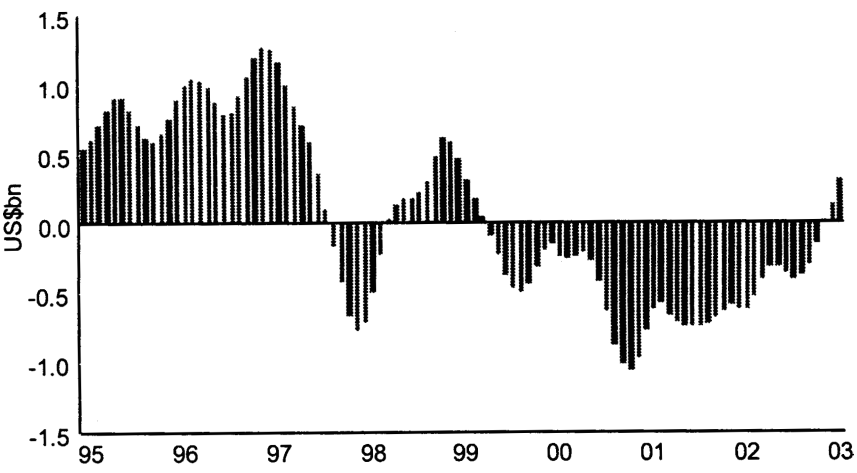
For an exposure to Thailand, we continue to recommend the purchase of the Thai Focused Equity Fund, which is managed by Bangkok-based Doug Barnett, managing director of Quest Management (www.questthai.com). For financial institutions that may wish to purchase Thai shares directly, we recommend our friend Richard Mark Bowers at Salomon Smith Barney in Bangkok (richard.m.bowers@ssmb.com), who has given us some excellent ideas in the past. (He personally only handles institutional accounts.) For individual stock recommendations in Thailand, please refer to the GBD report of January 31, 2003, entitled “A Contrarian’s Approach to Life and Investments in 2003”, and our website: www.gloomboomdoom.com. A market that is often overlooked and shunned by foreigners is the Philippines. However, it has been my experience that the Philippine stock market frequently follows the Latin American markets, and therefore, given the strong performance in South America, a strong bounce could occur in Philippine stocks as well. There we still like **Ayala Land** (ALI PM), **Jollibee** (JFC PM), and **ABS-CBN** (ABS PM). In Hong Kong, we like **Swire Pacific** (19 HK), **TVB** (511 HK), **Next Media** (282 HK), **Shangri-La Asia** (69 HK), and **Hong Kong & Shanghai Hotels** (45 HK); and in Singapore, **Singapore Telecommunications** (ST SP), **Singapore Airlines** (SIAL SP), **Singapore Technology Engineering** (STE SP), and **Capitaland** (CAPL SP). (Since many investors have approached us regarding the purchase of Asian equities, I should like to point out that Marc Faber Limited

Table 4 **Worst-performing Stock Markets, January 3 to May 3, 2003**

Country	Index	in US$ (%)
Zimbabwe	Industrial	–88.45
India	Mumbai Sensex 30	–16.43
Ukraine	PFTS	–14.49
Japan	Nikkei 225	–13.88
South Korea	Composite	–12.92
Venezuela	Stock Market	–12.83
Taiwan	Weighted	–12.16
South Africa	FTSE/JSE Africa Top 40	–11.72
Netherlands	Amsterdam Exchanges	–11.60
Hong Kong	Hang Seng	–10.55

Sources: Bloomberg and ICN Group

Figure 10 **Net Capital Flows, 1995–2003**



Source: Kim Eng Securities

has a business relationship with Kim Eng Securities in Singapore. Investors wishing to purchase any Asian securities should contact Mr. Khing Go (kgo@kimeng.com) at Kim Eng Securities in Singapore directly.)

I would like to stress that I have a high degree of confidence that a diversified portfolio of Asian equities could be sold sometime within the next five years with a significant capital gain, while in the meantime one is paid for waiting because of the high dividend yield that Asian equities provide. (I own, directly or indirectly, some of the equities mentioned.)

Incidentally, I also believe that we are approaching a major low in the Japanese stock market. Blue chips and religious stocks such as Sony have totally broken down, which is usually a sign that the bear market is approaching its end. I maintain my earlier recommendation that, sometime this year, investors will have to be long Japanese equities and short Japanese bonds. It is only a matter of time before investors will pull out money from the ridiculously priced bond market (yielding less than 0.6%) and buy equities. Bearish sentiment about Japan is at an extreme — at conferences these days, the world's second-largest economy isn't even mentioned — while stock buy-backs, management buyouts, and merger activity has recently picked up — all positive signs.

At the same time, I have less confidence that purchase of the S&P 500 at around 950 will produce satisfactory returns over the next five years. Near term, the stock market is very overbought. The VIX Index has declined below 22, a reading which shows extreme complacency among market participants and which is usually associated with intermediate stock market peaks. Extreme bullish sentiment has also replaced the caution that prevailed before the Iraq War. At the beginning of May, the bullish sentiment among investors rose to 55.8%, while bearish sentiment declined to 24.4%. Whenever bulls outnumber bears by more than a 2:1 margin, an intermediate top is usually not far away. Moreover, the fact that insider buying is almost absent isn't a sign that corporate executives are as confident about future growth as the regular commentators on CNBC and the Wall Street strategists community! (US executives, directors, and insiders bought fewer stocks in April than in any other month since April 1995.) In addition, I should like to remind our readers that the Japanese market rallied by more than 25% five times after its 1989 top (and once in 1996 by 52%), and yet the market still plunged after 2000 by more than 50% — a full ten years after the market's top. Similarly, the Nasdaq in the US had five rallies of more than 20% following its March 2000 peak.

What also disturbs me is that the leadership hasn't changed. Right now, the best-performing and most active stocks are telecommunication and high-tech issues. Normally, when a new bull market gets under way, there is a change in leadership. Therefore, I have yet to be convinced that this is the beginning of a genuine new bull market. Still, as I have shown above, the markets around the world have had widely diverging performances and, therefore, some sectors in the US will also perform no matter what the overall market does. I continue to like oil companies, whose earnings in the first quarter were superb, oil servicing companies, and gold mining companies. Stocks such as **Royal Dutch** (RD), **Chevron Texaco** (CVX), **Exxon** (XOM), **Woodside Petroleum** (WPL AX), **Schlumberger** (SLB), **Diamond Offshore** (DO), **Newmont Mining** (NEM), and **BHP Billiton** (BHP) should be accumulated.

CONCLUSIONS

There are times when markets stay depressed for a long time and provide investors with plenty of time to purchase extraordinarily inexpensive assets. In the case of Asia, the stock and property markets — while not quite as depressed as in 1998 — are still very inexpensive. This is more than six years after the 1997 crisis. In fact, given the improvement in Asia's financial conditions (de-leveraging in the corporate sector and relatively strong economic conditions), one could make the case that equities are at present cheaper than during the Asian crisis. Based on these low valuations and favourable long-term fundamentals, we once again urge investors to meaningfully overweight Asian stocks.

Often the window of opportunity for the investor is only very brief. Both Argentinean and Brazilian financial assets have improved so much that some caution is now in order. (In the case of Brazil, bond yields tumbled from around 25% to about 12% within nine months.)

In volatile trading markets such as we now have, and which we may continue to have to live with for a long time, I believe that investors should focus increasingly on opportunities and assets for which some mispricing exists, and less on what Mr. Greenspan and Bernanke have to say, or on what doctored economic statistics look like. By now, everyone should be fully aware that the US is fully committed to "print money" and that this will lead to a further devaluation of the US dollar. For the reasons outlined above, this coming dollar weakness may well be less pronounced against other currencies than against commodities, hard assets, and gold and silver. In this spirit, we continue to recommend the purchase of oil, mining, and oil servicing companies.

In the Eurozone, we continue to like Euro-denominated bonds, as the European economy is likely to weaken further and bring down interest rates.

Japan is also on our radar screen. Sometime within this year, the stock market will have to be bought, while bonds will have to be shorted.

Lastly, as I have repeatedly explained, we live in a world of "plenty of liquidity". This liquidity will flow somewhere, depending on the impulses and inclinations of large financial institutions, which include mutual funds, banks, treasury operations of large multinational companies, pension funds and central banks, as well as individuals. Therefore, every investor, aside from focusing on macroeconomic data, should spend time trying to figure out where this huge liquidity pool will flow to next.

One of the problems of this excessive liquidity is, however, that for a long time some assets fail to decline to bargain levels, from where the expected returns would be compelling. This seems to be the case for the US stock market, where the current bout of strength is unlikely to mark the beginning of a sustainable long-term bull market.

* * *

I recently received the following information about SARS from the Al Emar Group of Riyad, which I thought might interest some of our readers. (It is reproduced in its original, unedited form.)

SARS: TIPS TO RESIST IT — WORTH NOTING

Vitamin C gives a heavy resistance to, and fights against, SARS. It helps in increasing your body immunity. Please get some tablets of Vitamin C (any medical shop) and have at least one tablet daily. SARS is really very close to us. There would be at least one person in your daily life you meet, who might have traveled to a SARS affected nation and might have carried the virus, knowingly in your bus, hotel, shopping complex, bus stop, or from anywhere anytime. … please take note no one is safe. But as a precautionary measure you can be socially as well as personally responsible for your health and hygiene as well as that of your friends and family. If your body temperature reaches 38 degree celcius, or you have cold or cough, or if you are having muscle aches or at the most, if you have breathing or other nostrils problems please consult a doctor. A lot of people wear masks, as they think that it is a lot safer to do so. However, did you ever ask yourself whether is it effective or not? Do you know the pore size of the best selling mask N95 nowadays? The answer is 0.3 micron. Do you know the size of Corona Virus which causes SARS, it is 0.06 micron? Ha, this means that even the N95 is a large doorway for corona virus to your body!

Iraqis in order to protect themselves from chemical weapons, cover themselves so well with protective suits that they need to pump oxygen so that they can breathe. Well, that type of protective suits can really prevent corona virus from entering our bodies! In fact, wearing masks and talking at the same time will cause fluid and saliva to gather on your masks. This will then create a very good environment for bacteria and virus growth. Okay, let's understand how corona virus spreads. When a SARS patient rubs his nose or covers his mouth with his hand, his hand would be full of corona viruses.

When he goes to the office and touches the table or doorknob, he leaves the corona viruses on it (Corona can survive for only 3 hours outside host cell). When another person touches the table or doorknob, he would pick up the virus on hand. If he rubs his eyes with hands or takes food using his unwashed hands, corona virus would enter the body.

After entering our bodies, the virus would inject DNA into our cells and start replicating. Our immunity cell — Interferon in our cell would trigger the infected area to stop replicating. Whereas, another immune cell — interleaving will gather more white blood cells, antibodies to the infected area and fight with the virus. Once the battle is over, our own body cells would start replicating again automatically. This is what drugs cannot prevent.

Now you know how your immunity system works for you and prevents yourself from getting SARS or whatever viral infection! Thus take very good care of it and strengthen it through stable emotions, good rest, good exercise and balanced diet! Another effective way to prevent one from getting SARS is to wash your hands frequently.

Virus is protected by an outer layer which is quite fragile. We can wash our hands with soap and water, the outer layer will break and the virus can't survive.

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