

THE INTERNATIONAL INVESTMENT LETTER 2005-01

THE FINANCIAL MARKETS ARE AN ACCIDENT TO HAPPEN. WHATEVER YOUR BANKER IS TRYING TO MAKE YOU BELIEVE, THE DOLLAR, THE BOND MARKET, THE STOCK MARKET AND THE REAL ESTATE MARKETS HAVE NO ALTERNATE BUT TO COME DOWN.

.....In the American textile sector alone, 700,000 people are about to loose their job in 2005 as nothing is done to the \$/Yuan exchange rate.

The author: 1972 Francis D. Schutte graduated (Master in Applied Economic Sciences) at the Antwerp University. He soon became an active member of the Belgian financial world. Initially, he operated with a Belgian broker, subsequently with a renowned Canadian research house and with an American Bank. At that time, he became a registered representative with the Montreal and the New York Stock Exchanges. It was only when he was operating with the First Continental Bank of Illinois, that he added technical research to the fundamentals. A couple of years later, he started his own business, became a member of the Belgian Stock exchange and a well know figure in the Belgian financial world.

As founder and first President of the BFTA (Belgian Federation of technical analysts) and past-vice president of the IFTA (International Federation of Technical Analysts), he managed different Common Investment funds and even ran a successful open portfolio in a financial magazine (order were to be given on a 10 days notice). Weekly, he published his own market letter and his international advice could be read in many financial publications.

In 1989, he was one of the few predicting the Great Crash of the Japanese stock and real estate markets. Hhe travels all over the world and has a sharp insight of the actual geopolitical and economic situations.

- I. General
- II. Currencies , Gold & Silver as the mother of all currencies.
- III. Crude Oil and other commodities.
- IV. The Bond Markets
- V. The Stock Markets
- VI. The Real Estate Markets.

I. GENERAL

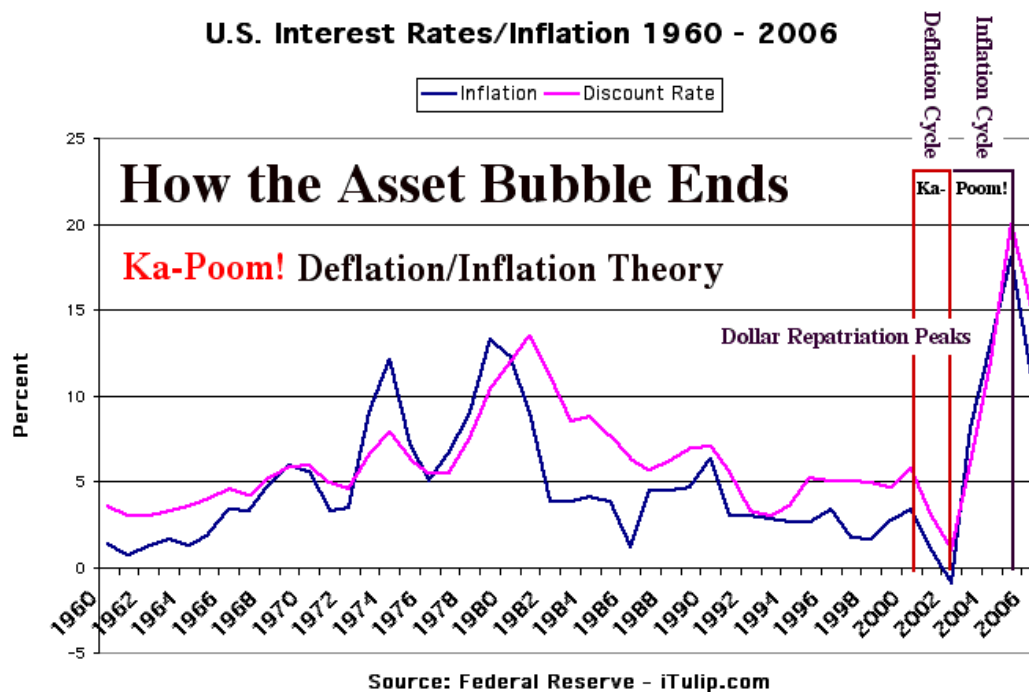
Recession - Depression (Deflation) or Inflation? : Hervé Gaymard, actual French minister of finance, warns for a worldwide economic catastrophe!

(This is a date adjusted excerpt of an old article I found)

The truth is that, until the summer or early fall of 2004 (1930), almost everyone expected the economy to recover, just as it had in 1995 (1921). Unfortunately, almost everyone underestimated the forces pulling the economy down. One was the drop in trade that resulted from very low (collapsing) commodity prices.

The connection lay in a drying up of credit. Many loans used to buy stock, homes and consumables like cars had come from foreigners (China and Japan) and big corporations, and they demanded repayment when the DOLLAR and stock prices plummeted. New York banks assumed some of the loans, but they cut loans to the importers of raw materials. Demand for these products (rubber, cocoa, coffee) dropped, and prices fell. Strapped for funds, countries that exported commodities reduced their imports of manufactured goods from industrial nations. The drop in trade was deepened by Smoot-Hawley, which provoked massive retaliation by other nations.

What made matters worse was a big drop in U.S. consumer spending—far more than can be explained by the stock market crash. The drop may have been a backlash to the rise of installment lending (for homes, cars, furniture, and appliances) in the 2000's (twenties). The prevailing practice allowed lenders to repossess an item if the borrower missed just one payment. *People may have stopped making new purchases to reduce the risk of losing things they already had bought on credit.* Whatever happened, the slump soon fed on itself. *Weak spending depressed prices*, which meant that many homeowners, farmers, businesses, and nations couldn't repay their debts. Rising bad debts prompted banks to restrict new loans and sell financial assets, usually bonds. Scarce credit led to less borrowing, less spending, lower prices, and more bankruptcies. Trade and investment spiraled downward. Confidence crumbled, and as it did, bank runs—people clamoring to convert deposits into cash—ensued.



Why could no one stop this spiral? In the United States there were waves of bank failures in 1931 and 1932. Friedman and Schwartz maintain that the Federal Reserve could have prevented them by lending directly to weak banks and by aggressive "open market" operations (*that is, by buying U.S. Treasury securities and thereby injecting new funds into banks and the economy...and creating new bubbles like it happened since 1987*). This action would have halted the depression, they argue. *Well...this policy was followed this time. The short future will for sure tell us whether Freidman and Schwartz were right or wrong !*

Bubbles and Depressions happen because of incorrect politics. Interest Rates, money supply, and economic activity are not always interfering in the same way.

For the last years, Interest Rates came down dramatically, money supply increased but instead of using the injection to increase productivity and employment, the opposite happened: credit was used for consumption of goods that need to be imported.

Outsourcing has made it so bad that about 700,000 jobs are about to be lost if nothing is done to curtail Chinese imports. As there is no room to bring down wages, there is an urge to increase productivity. Here, a weaker Dollar will for sure bring some relief.

II. CURRENCIES

1. GOLD & SILVER: (432 \$, 340 €) One Rupee is 1/19408.40th of an ounce of gold.
One Rand is 1/2521.20th of an ounce of gold. One Euro is 1/330.27th of an ounce of gold.

Continue to accumulate Gold and Silver on price weakness

A final point to note from the new Asia Maxima is that the gold price target for the end of this decade has been revised up from US\$3,400/oz to US\$3,700/oz. This has been done as a consequence of updating the growth of US total personal disposable income in the period since the last gold bull market peaked at US\$850/oz in January 1980. This was the methodology employed in the original gold forecast (see *GREED & fear - Gold rush*, 19 December 2002).

As 2005 makes its first steps, the \$ 430 level (see December 2004 issue) is being tested. Gold expressed in Euro, Aussie, Yen, has fallen all the way to the support level. The price still being balanced by the Dollar, I do not foresee these levels to be broken.



Chart left: The objective here is \$ 408. However, Gold being oversold (see chart below), and the price dip happening on Monday, Jan. 3rd when most non-us markets were closed in compensation of New Years day that fell on a Saturday, there is at this point not a lot of room for weaker prices.

Hence, this price reaction offers a nice opportunity to buy Gold on Weakness.



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Chart right: See how the MACD and the RSA index have both become "Oversold". Basically, I call this a healthy reaction. Nothing will change, even if Gold hits \$ 408 (potential objective).

See how I labeled the present price reaction as a C-D price reaction (see previous issue).

Chart of Gold in €uro since 1980:



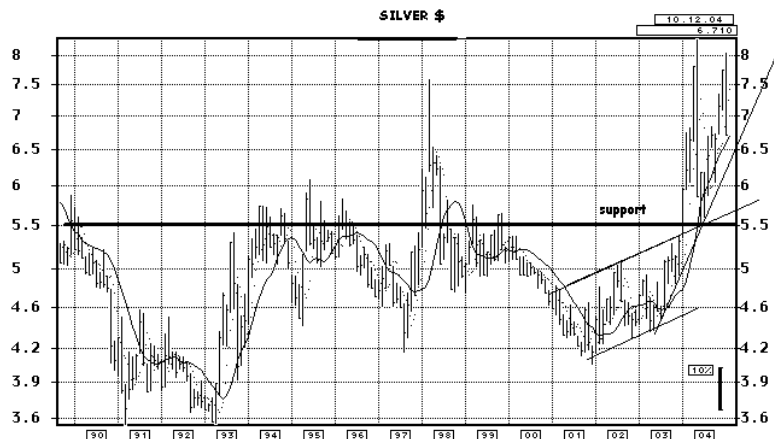
Note the Double Bottom on the long term Gold-Euro chart followed by a break-out at € 305 and the actual accumulation zone ranging from € 305 to € 350. Once 350 is cleared, the up objective is € 455.

The Silver price (\$ 6.40 jan 03) Silver as been quite beat up but does have significant support at \$6.50-\$6.70 so we may have seen the worst of the silver drop. Clearly with serious pressure on world silver supplies the drop was not justified from any fundamental standpoint. The pattern playing out while scary may just be part of the correction that began earlier in the year. Clearly if we were to break down under \$6.50 we could fall to longer term trend line support near \$6.20.

I kept last months Silver chart. Not a lot has changed here.

Assuming the silver price moves to \$ 11, the long term downtrend will be reversed and we could again see the historic levels of \$ 48. (Remember the Hunt brothers?)

2. The US Dollar (1.34 € jan 03)



I am still bullish for the

Euro and the SWISS and bearish on the \$ and the £ !

In the USA "One chemotherapy injection costs more than \$12,000."...there is a lot more wrong with the us then just the deficit. Deep down, this is a truly immoral situation where "we the people are simple exploited" by huge lobbying companies using the fear factor: Health !

I know of people that will only visit a doctor that is over insured, hoping for an opportunity to take both the doctor and the hospital to court. I know about a man that took his own church to court because he fell after somebody inadvertently turned out the lights (what a catholic!?)..

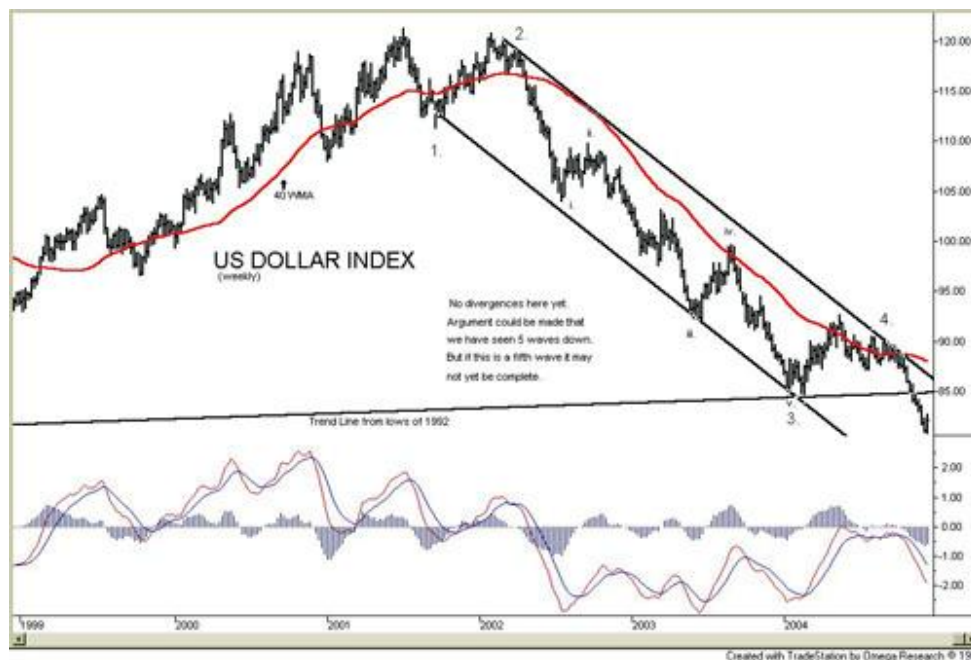
America's federal government budget deficit is a very serious problem. . . . Declining personal saving is an outgrowth of the Asset Economy -- namely, aging and myopic homeowners banking on unrelenting house-price appreciation to do the saving for them. The fact that America is now in the midst of a housing bubble is especially worrisome in that regard. The problem with persistent structural budget deficits -- a long-term prognosis that is centered in the 2.5% to 3.5% steady-state range -- is that the US has no cushion of private saving to fund it. That's the intractable current account problem in a nutshell. . . . America's saving problem is off the charts -- possibly the most serious imbalance in an unbalanced world. . . .

A Possible scenario: *The Dollar falls as the domestic consumption fall.*

*China invests its surplus in Dollars in order to keep the Yuan pegged to the Dollar. As the American purchasing power runs out of steam because there is no income or savings left to keep the ongoing of buying of goods and services alive, the amount of Dollars that need to be reinvested by China will fall. Therefore, the demand for Dollars will also fall and interest rates will have to be increased in order to stem the fall of the dollar and also to make the currency more attractive for foreigners. Doing this, the domestic demand is pushed down even more.....bringing the whole situation into a vicious circle.. **Watch the Dollar as the line on the chart below starts coming down!***



Chart below: We have reached a very important resistance level. However, I am still expecting wave 5 to unfold. This wave should bring the Dollar to a level of 1,45 to 1,65 €uro.



At best the US\$ index could rally back to the break down line up at 85.50-86.00. This could drop Gold to key longer term support near \$420. But remember this is our worst case. There is also good support for gold in here just above the former highs near \$427. So a bounce is due from these levels. The strength of the rebound will determine whether the lower figure of \$420 is feasible or not.

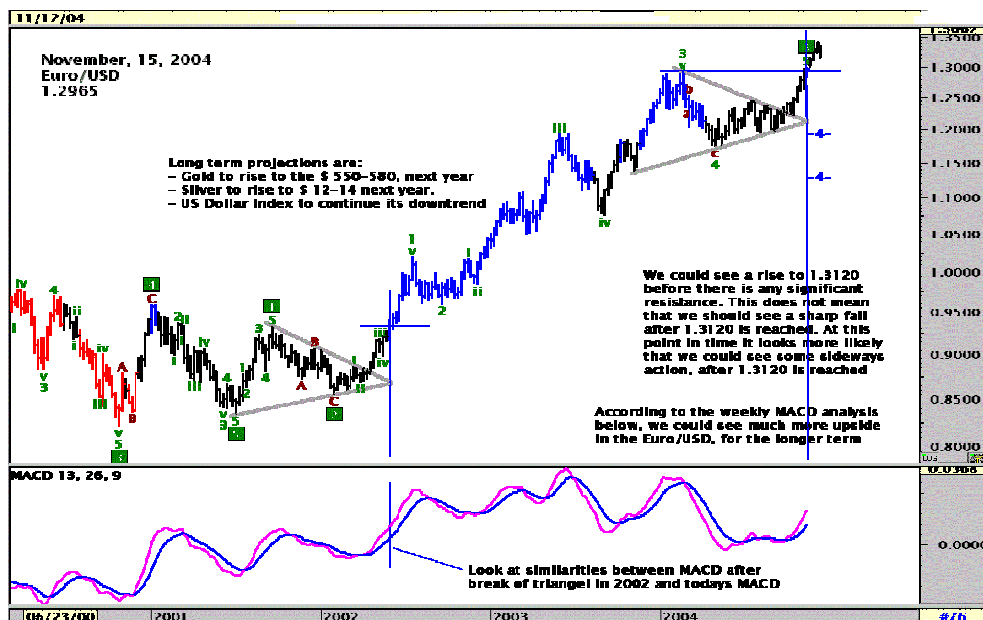
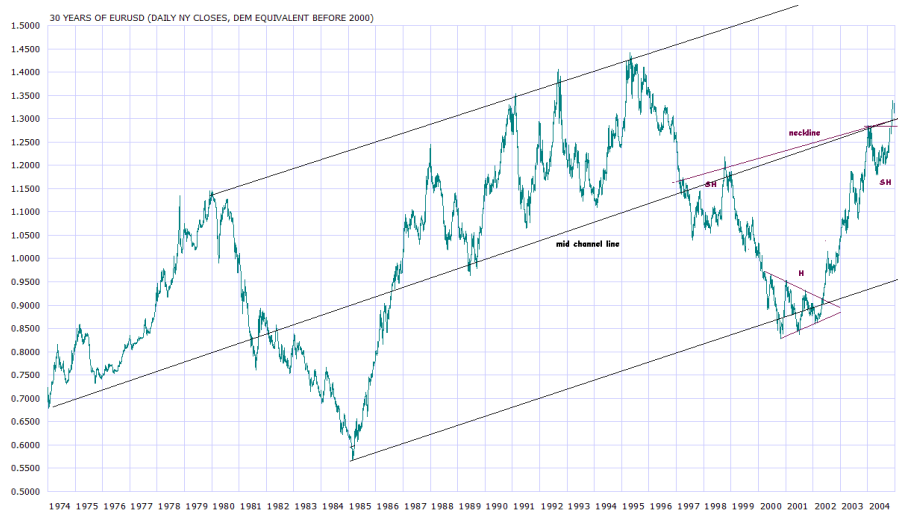
"Si vous vous trouvez coincé dans un trou, la première règle, c'est d'arrêter de creuser. Ce n'est pas l'avis des Américains, qui se contentent d'importer de plus grosses pelles." Hahahaha !

So much debt is hold by foreign institutionals, that the Dollar fixing is probably made outside the USA ! We have reached that point, where the Dollar will already suffer as "those foreigners" just buy "less" debt. When the Dollar decline started in 1985, little debt was hold by non-Americans. Today 9,000 billion dollars are kept overseas. One third of this amount is in hands of Central Banks.

Coming weeks are decisive for the Dollar/Euro entering the top (weaker) range of the 30 year chart below. Plenty of indicators point in this direction, however, I am awaiting a positive test of the actual support levels. If the

levels hold, this *portends a further 30% depreciation in the dollar from current levels to the region near 1.62 !*

30 Year chart below: As we've lifted off the mid-channel level of 1,20 the long term objective of wave (V) after actual correction (wave IV) could well be as low as 1,65 \$ for 1 € !? . Resistance is only to be encountered from 1,40 to 1,45.



3.

The Yen (\$/yen) : Amazing is the head and shoulder pattern on the 30 year Dollar/yen chart below, and the actual pullback towards the neckline that was successfully tested. Next objective here is the 1995 bottom, but the objective of this Head and Shoulder pattern is way lower! Will the \$ also fall all the way to the bottom of this downtrend?



If you own your banker \$ 100,000, you have a problem, but if you own your banker \$ 1,000 billion, he's got the problem.

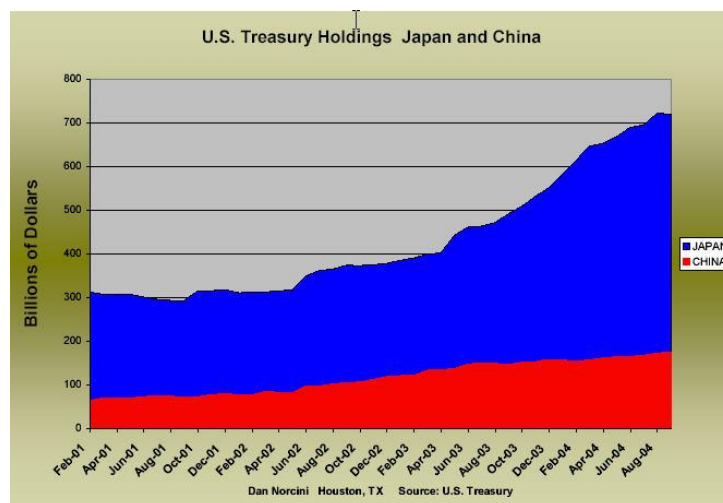
US foreign debt amounts to a staggering 3,300 billion dollars (30% of BNP). Japan is the biggest holder of this

debt or about 720 billion \$. All of this debt is managed by a Mister Asakawa. In fact, it is thanks to him that the Americans can go out shopping for X-MAS and keep on paying for the mortgage and other debt they have. He's like a Japanese Santa Claus.

Over the last months, the Dollar lost 8% versus the Yen, or Mr. Asakawa lost about 57,6 billion dollars. Even for Japan, this is an enormous amount of money.

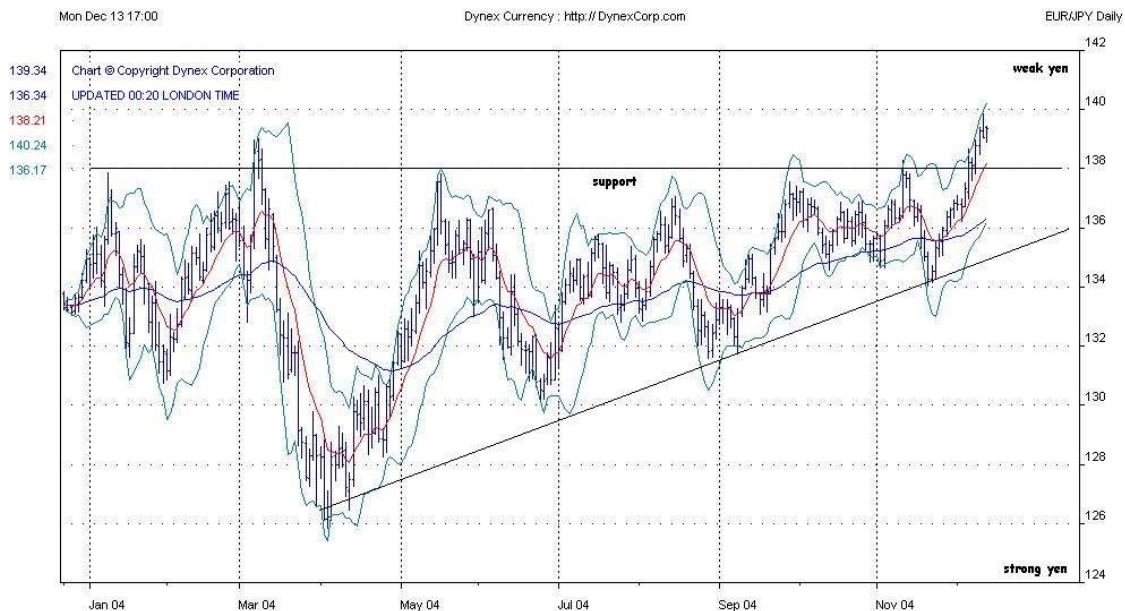
Mr. Asakawa goes to bed with his remote system (well known by traders) that sounds alarm each time the Dollar falls out of a previous determined support channel. And he hasn't been sleeping a lot recently!

Unbelievable is that 280 millions of Americans sleep tight every night not understanding that a simple phone call made by Mr. Asakawa could, in a couple of seconds, ruin the American Holliday Period.

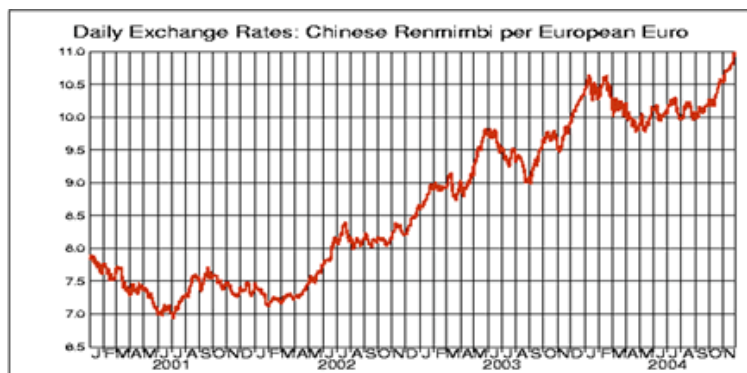


(Euro/Yen):

The yen has broken out of the triangle discussed in an earlier edition, indicating that Japan is trying to keep pace with the falling dollar. (note: inverted chart)



4. The Chinese yang or Renminbi: The weak Dollar means renewed attention on the Renminbi's perceived extreme undervaluation, which is best reflected in China's growing share of world exports. China's share of world exports has risen from 1.8% in 1990 to 6% in the first five months of this year. How long will the Chinese currency be able to keep the link with the us \$? As the \$ slides, Chinese imports also become more expensive.

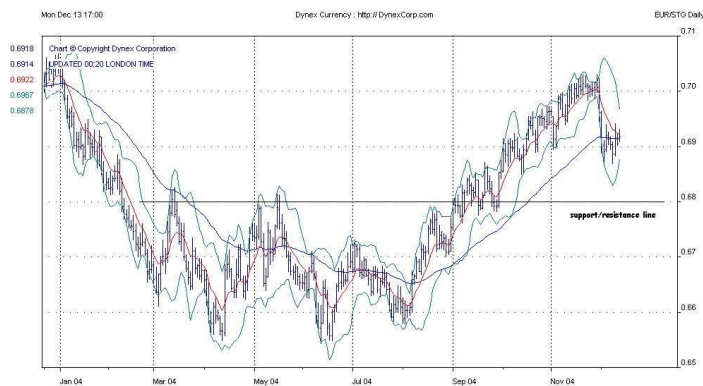


Export Taxes: If you can't make your products more expensive by moving up your currency, tax your Exports!

HONG KONG, Monday, Dec. 13 - The Commerce Ministry in China announced Sunday night that it would impose tariffs on some textile exports, a step that could avert a trade war with the United States and the European Union over a new influx of low-cost Chinese garments that had appeared likely to flood Western markets starting Jan. 1.

5. The wonderfull falling POUND STERLING :

The British pound is like a sheep (blair..) tied to the American herd. market has



always been a forerunner of what was about to happen elsewhere! Few recall those days when the Sterling was on the Gold Standard? Not that far away! When it went off the Standard, the Sterling's Role as world currency quickly vanished. Today, what is left over keeps on weakening in the wake of the falling \$...(see how the Sterling followed the reaction of the

Dollar).

6. The South African Rand: (€7.70 \$5.80)

The 7,50 € level keeps on being a strong Support/Resistance level!

Can you believe it? No interest rate cut! The Rand initially weakened to the R5.92 level, before re-assessing itself. Under the illusion that the growth South Africa is enjoying now is long term, the Reserve Bank, continues to ignore the level of the Rand. These are mistakes, which cannot be rectified as can inflation, or interest rates levels. These industries take years to establish, as do ordinary exports, so once destroyed will take more than years to repair.

The Gold Producers continue to suffer the erosion of their margins, which will continue to result in job losses as the lower quantities of higher ore are turned to, to save what can be saved of the margins. The gold production falls tell the story, as do the job loss figures. As to the future of the industry, that is the first casualty of the Rand. Only strong rising prices for commodities could and will bring some relief!

Note: *Unlike Europe and in a lesser extend the USA, South African finance is very much in technical analysis. I am sure they must be aware of the potential for Gold, Silver, and other commodities mined by this country. On top, the Reserve bank has enough forex to aim for a STABLE currency.*

7. The Swiss Frs: The Swiss continues to strengthen against the Euro (and off course versus the \$) as money continues to flow in this direction. Resistance is about to be encountered but the long term objectives are the 2002/2003 levels.

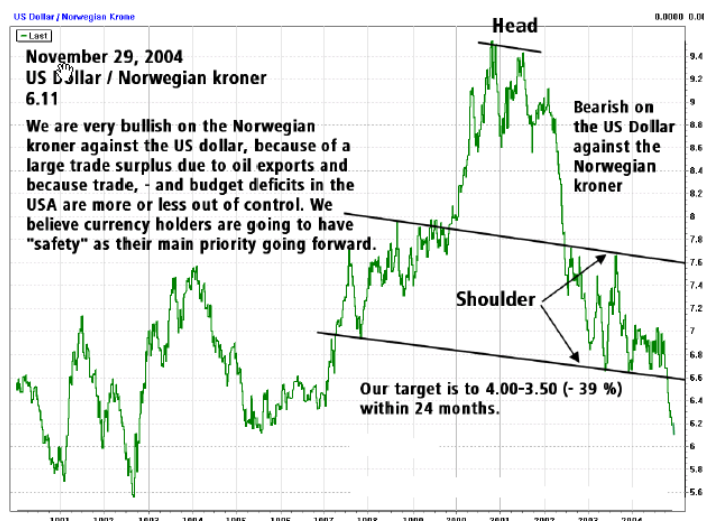
8. The Canadian Dollar: Will we again see 1 to 1 : Canadian Dollar to US Dollar?



Chart above: As the Greenback has reached the bottom of the trend channel and Canadians have started to write sarcastic jokes about liberal Americans trying to illegally cross the border into Canada..., resistance is encountered. Will the Greenback fall through the floor of this channel? As a matter, it already has! 1,50 surely could be the next support/resistance level, but I would not bet on it! As of the down wave, long term level of 1 to 1 is possible if the Greenback gets into trouble. After all, Canada also has commodities and Oil. If my measured move is correct, leg # 2 will equal leg # 1 and the objective is 1,05 (this statement is technical premature, but possible)

9. Norwegian Krona:

Currency with Oil and no ties to the Euro and a clear picture!



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II. Commodities:

1. CRUDE OIL (\$ 40 per barrel)

2.

Why are we not buying our oil from Canada for \$45 per barrel, but instead, stealing it from the Iraqis at a cost of around \$1,100 a barrel? Information gained from the Energy Information Administration, (<http://eia.doe.gov/>) provides this data. When the number of barrels of Iraqi oil that we have imported is divided into the \$300 billion we have spent on the war so far, the number comes to about \$1,100 per barrel. From an accountant's standpoint, this doesn't seem like a very good deal.

One drop of Saudi oil burns and crude is off to \$69.

From: www.Stratfor.com

Summary

In his penultimate audiotape, Osama bin Laden indicated that al Qaeda has finally decided to stage attacks against the Saudi regime - not just Western targets - in the kingdom. When this happens, it will have serious repercussions for Saudi Arabia's political, social and economic stability.

Since falling from its peak of around \$55/barrel in October, crude oil has been in a free fall of sorts, having recent retraced a substantial portion of its earlier 2004 gains. Already there are financial commentators who have written of crude's demise and have concluded that oil prices are destined to tank even further in 2005.

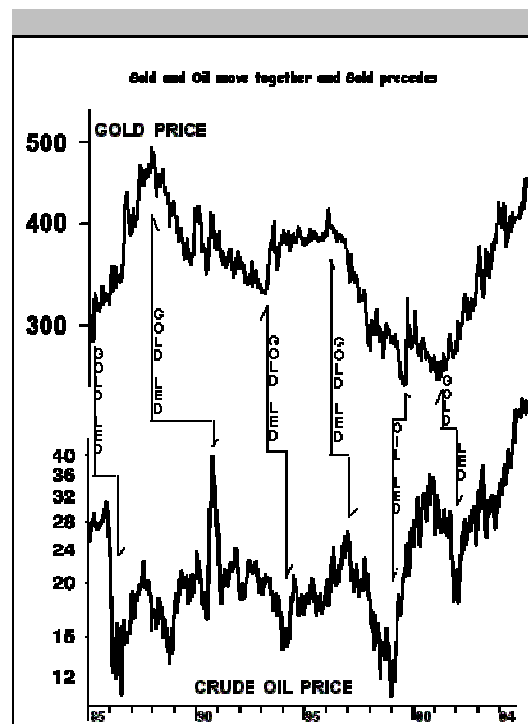
While it is not my intent here to forecast the year ahead in crude oil, I would point out that talk of crude's demise is premature. Note the longer-term monthly oil chart which shows the uptrend channel still intact (from the start of the 2002 bull market advance). Until this uptrend is decisively broken, any talk of oil beginning a new major downtrend is purely speculative.



b) Long Term (chart above): The \$ 40 support zone is holding nicely and the Medium term Uptrend is still "Intact" . From a Technical point of view, if the price of Oil doesn't move sideways, this intermediate down wave might take us to a minimum level of max. \$ 36,50 before entering next up wave # V . (The odds that the price falls below \$ 36,50 per barrel are really very, very small).

With high strategic Oil reserves (see earlier editions) and an early winter, this actual price reaction was expected and could well extend into 2005.

c) Chart to the right: note that the price of Oil and Gold move together, and that the price of Gold precedes the price of Oil.



2. OTHER COMMODITIES

Palladium: is a screaming buy!

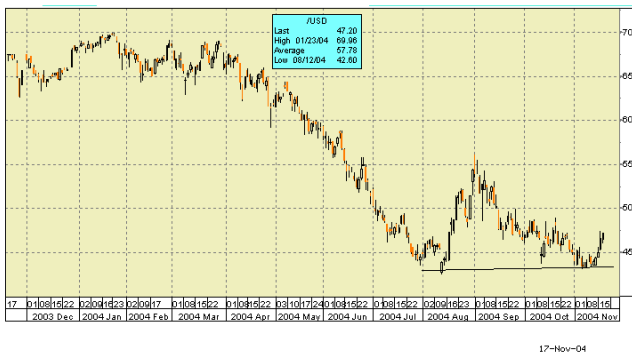


Most commodities are screaming buys.! These also show similar charts (but less dramatic) when expressed in Euro and non-dollar currencies (to be continued). Other commodities with similar patterns are Lead, Wheat, Corn, Soybeans, etc...

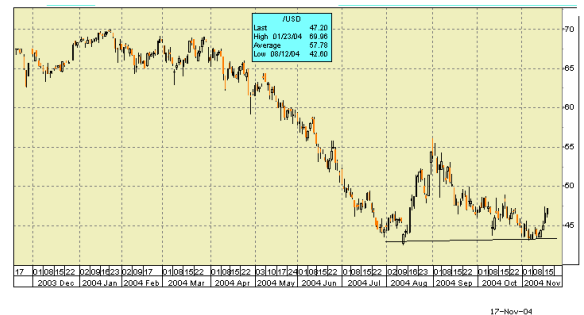
LUMBER MONTHLY \$



COTTON YEARLY \$



COTTON YEARLY \$



III. THE BOND MARKETS

" US Treasury-Bonds are an accident waiting to happen."

STAY AWAY AND/OR SELL BONDS IN ALL CURRENCIES !

With respect to the unbelievably strong bond market, my good friend and money manager Wistar Holt responded to a remark I made to him with the following email response: You're right Jay, the bonds defy all logic. " My oversimplified answer is that I don't see any way that bonds won't weaken this year. Perhaps significantly! Either Japan, China, or other foreign private or govt. purchasers will retreat, or inflation will rise significantly, or the economy will turn down, affecting corporate debt. One of these consequences is very likely."

I expect strong selling in the bond market between now and July 2005. Either the market will precede or follow the nose diving Dollar.

The only way to persuade foreign investors to hold on to US dollars is to pay them enough interest. This time, on November 19th, even Al Greenspan warned investors to stay (sell) us-denominated assets. The USA has both a structural budget problem and a private saving problem. The rebalancing will need real interest rate adjustments.

Ten Year Treasury Note Yield (\$TNX) INDEX
09-Dec-2004.



Five Year Treasury Note Yield (\$FVX) INDEX
09-Dec-2004.



The charts above are these of the 10 and 5-years U.S. Treasury Bonds (any new emission in 30-years being inexistent) . *On the charts shown above, clear trend reversals can be seen. These are the start of a major increase in interest rates and a secular bear market in Treasuries.*

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The name of the game ? :

Bonds and Stocks go up and the Dollar goes up... Gold, commodities and Crude Oil fall.. Bonds come down, Stocks fall and so does the Dollar,... Gold, commodities and Crude Oil go up.

Chart below: See the distribution that is in the make...just below the 1998 top of 135! A break below 110 and 90 will certainly take the bottom out of this market.



"Just look at what happened in 1987," "Back then, as the dollar went into a tailspin, overseas investors cried and began to exit U.S. financial markets in droves. This set also off a panic by U.S. investors . First they sold bonds. Then they sold stocks."

I expect the same to happen, except that this time additional damage will be done to the Real Estate Market.

Chart above: The 110 level is a very dangerous one...the distribution pattern is getting larger and larger ! Who's thinking that this one will break out and move to higher levels ? Really think there is room for a lower yield on 30 year T-bonds?

Chart below: The very long term 30 year T-bond...



STOCK MARKETS..the "after bubble.."

My analysis of the Dow indicates that it is a large complex flat top that has been in place since 1999. All the gyrations of the past six years have been necessary to form this massive top as the beginning of the bear market correction to the huge 20 year bull trend. If the Dow fails to penetrate above the 11 100 level during the first quarter then I expect to see at least a 4000 point fall this year.

May 2005....the ultimate SELL and STAY away before much lower markets...but I don't want to take to risk of waiting that long because the weak Dollar will not be able to offset the potential gain of the American markets!

As a principle, stay away of any stock market with a weak currency.

equity investors have been walking on air for a couple of months now. The better tone no doubt owes something to the decline in crude. But, after all, \$44 crude is not exactly an excuse to party, especially when, as we hinted in our opening screed, the outlook for the economy is more than a little problematic. But don't try telling that to the average man in the Street who's absolutely convinced that happy days are here again.

the US stock market is almost certainly still in a secular bear market (defined here as a generation of P/E Ratio contraction and rising Yields, in

waves rather than linear fashion) in response to the busting of its bubble in 2000.

1. Wall Street:

Dow 22000??? Alles is mogelijk, maar ik geloof het niet.
Zou het gebeuren, dan.....

- Lijkt me de \$ zero
- Sentiment is op levels die we nog niet gezien hebben en dus zal 1987 verbleken
- Prechter krijgt toch gelijk want Dow wordt 100 (ja een 1 en 2 nullen)
- gold goes through the roof
- real estate gaat terug naar niveau's van de 70-er jaren

Chart below: SPIC 500 expressed in South-African Rand (this is one of the many).
A quick simple look reveals that the new highs in all the indices are illusory in nature and that they are still in a firm down trend when priced in stronger currencies.



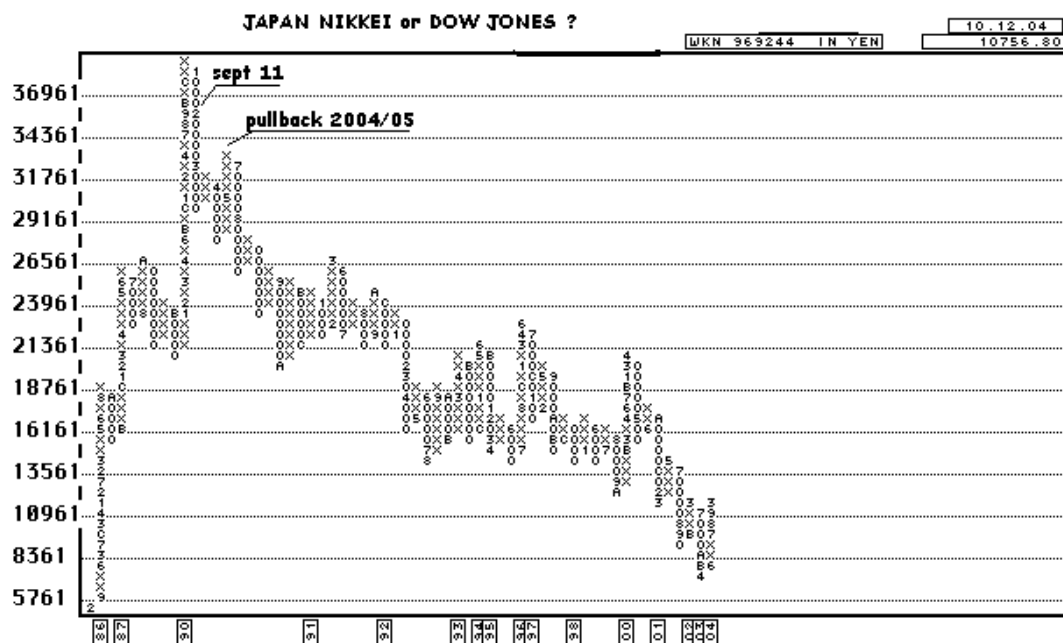
To the delight of U.S. Investors, the long-missed euphoria in the markets permeate the air as prices move higher and higher, fast. The crush to buy U.S. Equities in the aftermath of a tough election race has taken the S&P500 to levels unseen in over 3 years, and up 12% from its low point for 2004. This major bellwether for equities has been able to cross some important technical milestones in the process as well. The Nasdaq-100 is running right along and cooperating with the S&P's leadership, reaching levels last traded way back in January 2002, up 21% from this year's low point. **The actual retracement is mainly a 61,8 % bear**

market correction that could run out of steam end once the year-end window dressing is over.

Chart below: Is it the Nikkei or the Dow Jones do be?

See how the market retraced after the first down leg after the 38.000 high was hit. Nothing to be afraid off with officers as George and Al being in charge!?

The Nikkei fell from a high of 38000 to a low of 8000. This is a loss of 30.000 points over 14 years. The index was smashed by a 4,75 factor. Applied to the Dow Jones, the calculated figure is 2.500....



The Dow, S&P, and Nasdaq are all showing prominent topping and preparation for a sell-off. What we see now, in my opinion, is not the final move into a big slide, but a smaller up move to be followed by a small recovery, choppiness and then the bigger wave down to 8450-8400, followed by a larger down leg next spring or fall to 7,000 and 6,000 Dow. Some would say this is a crash, but I view it as a long, tortured adjustment headed to the bottom. We do not need, nor should we wish for, a smash like 1987, when the entire game nearly went into the drain. Slower is better.

Chart below: Do you really think the stock markets can keep going up as earnings decrease?





I just can't agree with those advocating that the excess of money keeps on spilling into the stock markets because there is no other way to go. And if correct, it is a extremely dangerous game! *Technically speaking, many charts look Bullish...but when looking at the whole picture, a completely opposite outlook is created.*

2. Gold and Silver Shares

There is no advantage of buying a Dollar denominated Gold Stock if it goes only up by as much as the Dollar falls. Therefore it is important is to find a way of Goldmine-price-definition in Euro or any other stronger currency. Only this will allow asserting the potential profit of investing in Gold Shares correctly.

"The 20-year bear Gold market in gold has weeded out marginal gold producers and significantly curbed exploration and production.". "If gold was \$1,000 an ounce, it still takes four to seven years to open a mine," Buy South African Gold stocks on weakness.

The South African Royalty tax prospect - crushing new ventures.

While the Rand moved on and upwards and South Africans prayed for a cut in interest rates, international eyes turned again to the prospect of a revenue based Royalty tax on precious metal mining companies. This week it was Anglo Platinum that joined A.B.S.A.'s attack on the concept of Royalties on revenue, nor on profits. With this uncertainty, let alone the reality hanging in the air over South African investments, the investing public

have to factor in the worst case. This is a 4% Royalty on revenue. This would kill the Junior mining sectors, not only in Platinum, but gold and diamonds. The intransigence in government appears to be politically driven by an unwavering belief that mining is robbing the citizens of South Africa of its wealth (which is partly true).

Since the start of the current bull market in Gold in 2001 the Gold share index HUI appreciated by more than 600%. Still lot of denial does exist among fund managers regarding the strength of this current bull. It seems that the first phase of this bull market in Gold (which was characterized by denial) is in its latest stage and phase two (which will be characterized by acceptance)

will be launched by slashing Gold's 16 year high of \$430. Expect some serious inflow of investment capital during this second phase of the bull market in Gold and watch out what will happen with the high quality junior mining firms. They can go ballistic but it requires a stomach of steel in order to keep them during severe corrections. They tend to rise faster as their senior brothers but also the opposite is true, they fall much harder during corrections.

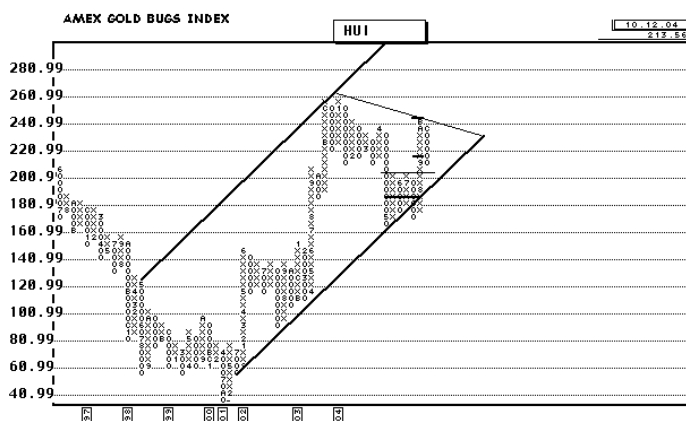
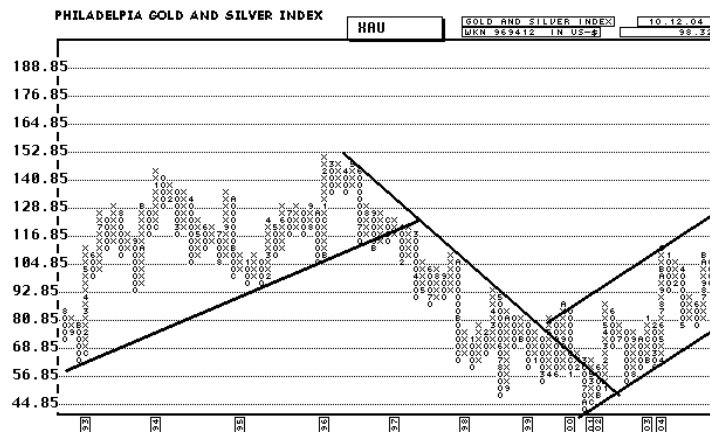


Chart left: The BULLISH reverse on the "The Gold Bugs Index" (HUI) did not make it, instead the index broke down. However, the UPTREND is still alive. A break of this index above the 260 level would clear a lot of resistance and open the way for higher levels. As the neckline of the huge reversal pattern on the HUI has already been tested, I don't expect the index to fall a lot below present level.

The South African Gold Mine Index looks a lot different...and not nice. As long as the Gold price expressed in Rand doesn't break out, nothing much will happen here.

Purchase following candidates (South Africa) at historic low levels:

Durban Roodepoort (DROOY) @ 1,60 \$, Harmony (HMY) @ 11 \$,

Following are the potential objectives for the Gold Shares that were purchased late August 2005:

ASA (asa) (\$ 42/41) - obj. \$ 68
Anglo Am. (aauk) (\$ 25/23) - obj.
Anglogold Ltd. (au) (\$ 38/35) - obj. \$ 58
Barrick Gold (abx) (\$ 23/23) - obj. \$ 38
Coeur d'Alène (cde)(\$ 5,0/4.0) - obj. \$ 8
Durban Roodeprt (\$ 1,75/1,63) - obj \$ 4
Freeport (fcx) (\$ 42/37,50) - obj. 47
Goldcorp (gg) (\$ 13 ½/15) - obj. 25
Gold fields (gv) (\$ 12,5/-) - obj. \$
Harmony (hmy) (\$ 11,5/9,5) - obj. 20 ½
Kinross (kgc) (\$ 8,5/8) - obj. \$ 10
Newmont (nem) (\$ 48/45)- -obj. \$ 53
Placer Dome (pdg)(\$ 23,5/19) - obj. 40

Note: Prices have reacted nicely since October.



Chart right: * Newmont Mining:

However, expressed in Euro, the uptrend is a lot flatter. The big move if the gold shares has still to come. Newmont first has to clear the \$ 50 level.

*** SA Goldshares:**

The increase of the price of Gold expressed in South African Rands has been marginal (if any) because this currency has over the last years been extremely strong. Hence, SA gold shares are extremely depressed. This situation can rapidly be reversed. We either just need higher gold prices with a break out in Rands (technical analysis is common in SA), or a weaker Rand, whichever comes first will make it.

3. Oil Stocks: New positions were acquired during the recent price reaction.

Oil & gas reserves
Oil & Gas equipment and service
Oil & Gas integrated
Oil & Gas Pipelines
Oil & Gas drilling and exploration

Amerada Hess (\$ 79/85) - obj. \$ 116 (ahc)
Baker Hughes (\$ 41/43) - obj. \$ 61 (bhi)
BP (\$ 59/58) - obj. \$ 68 (bp)
Exxon (\$ 50/50) - obj. \$? (xom)
Halliburton (\$ 36/39) - obj. \$ 70 (hal)
Imperial Oil (\$ 57/56) - obj. \$ 63 (imo)
Marathon Oil (\$ 38/37) - obj. \$ 60 (mro)
Oxy petroleum (\$ 57/57) - obj. \$ 96 (oxy)
Royal Dutch (\$ 53/57) - obj. \$ 64 (rd)
Schlumberger (\$ 62/65) - obj. \$ 90 (slb)
Total (\$ 106/105) - obj. \$ 141 (tot)
Martin Marietta (\$ 46/51) - obj. \$ 67 (mlm) ..
construction



Chart right: Royal Dutch has finally broken with a very nice objective of \$ 64.

4. Insurance stocks:

In this sector, there are several looming Dangers. To be discussed in depth in a later issue.

5. Bank and other financial stocks:

The derivatives market is based largely on "*insuring interest rate risk*". According to the Federal Reserve, most of these derivatives are held by **J.P. Morgan** (jpm), **HSBC** (hbc) and **Bank of America** (bac). Perhaps one of these large institutions will fail? Fannie Mae (fbm) keeps on extending its distribution formation..

A banking collapse with interest rates at 1% can be compared to a drought after the last water supplies have already been used. Under this situation, there will be no place to hide. Grim.

6. Defence:

Lockheed (\$ 57/59) - obj. \$ 78 (lmt)

6. Euroland: (Which is "bad" and "which" is "worse", Euroland, Australia, Africa or the US ?)

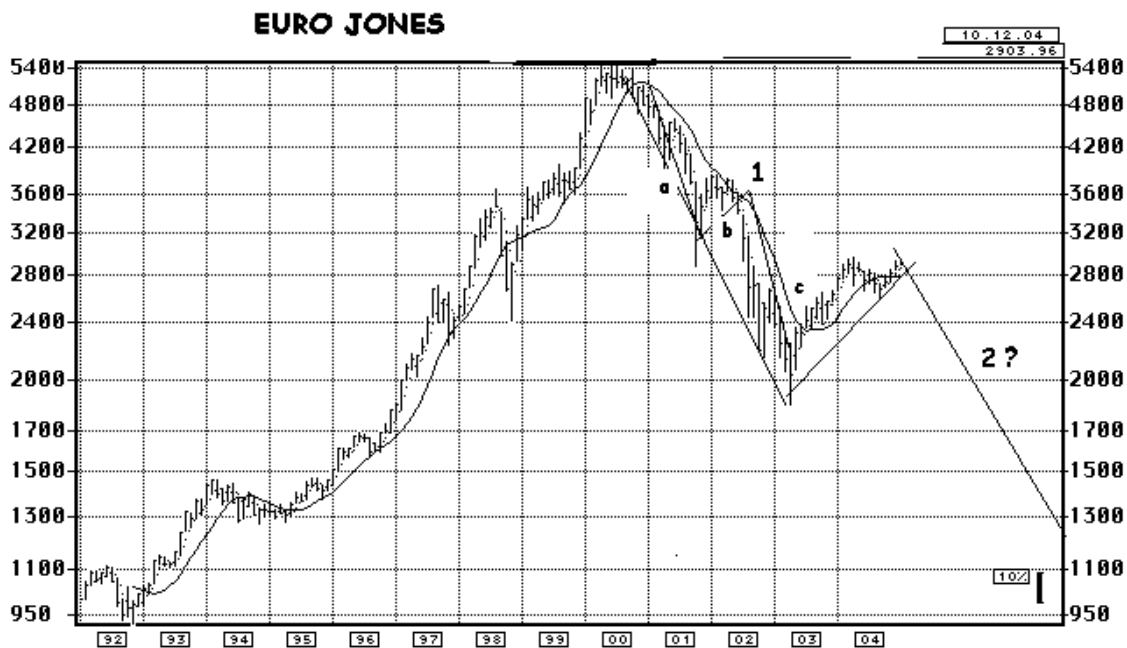
The Euro is at the base of a huge European inflation masquerade. The question being how long it will take before the markets start to understand what the outcome will be. When they do, **GOLD** will surge!

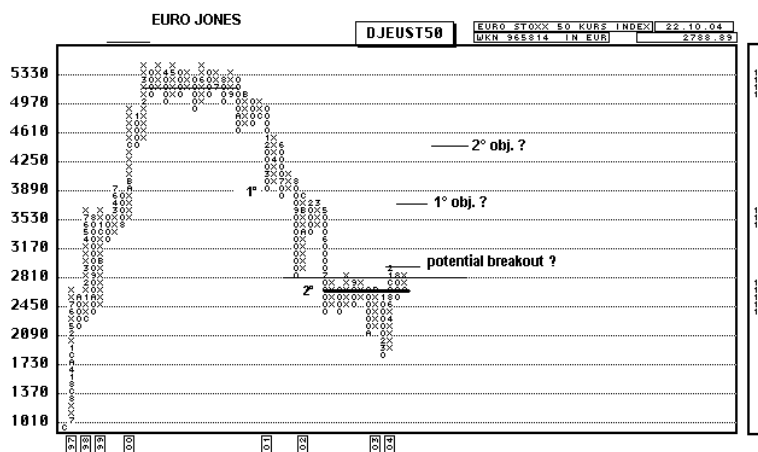
The question being "if" and if so, how long it will take before the Euro takes over the role as "key currency"? It might take over for some time, but I think that ultimately, Gold and/or Silver will.

a) European Dow Jones:

It seems to me that the European markets are following the American dream of a new Stock Market After-Bubble. It is still too early to judge whether or not this will happen. Again, I cannot agree with those investing in these markets, because...as they quote: "there is no other alternative!"

My scenario is on of an ongoing Bear Market correction in which I don't want to see anybody locked in. Leg 2 of this Bear Market, should be equal to leg 1 ! See how it already happened during the 1st leg down: a, b & c





When looking at the charts, technically breakout is surely possible as several stocks already did. The question being how these markets can continue to go up as I also think of the fundamentals: historically low interest rates, reversed yield curve (UK), high hidden inflation, high growing unemployment, bad export figures, and you name it...

b) **Britain:** (FTSE 100)



Chart above: This is the long term P&F chart of the Fointsie and not of the SPIC 500! They look dangerously similar. Note the reversed Head and Shoulder pattern...which for some reason, I don't buy. Personally, I think that the actual correction is just "a bear market rally" with a new down leg to come that will equal the 1st one. Note the perfect 5-step down wave.

Britain plays the role of "the bird in the cage" . In other words, a lot of times, it will show the way to other markets in the world.

In 1996, the New York Federal Reserve did a study on what indicators were the most reliable predictors of a recession. The only one of six indicators that was reliable was an inverted yield curve.

The Bank of England has been steadily raising rates to keep inflation in check and to rein in the white-hot housing bubble. Since inflation is rising, they should continue to raise rates. But with an inverted yield curve and a very strong pound, raising rates might not be wise, as that could push the country into recession.

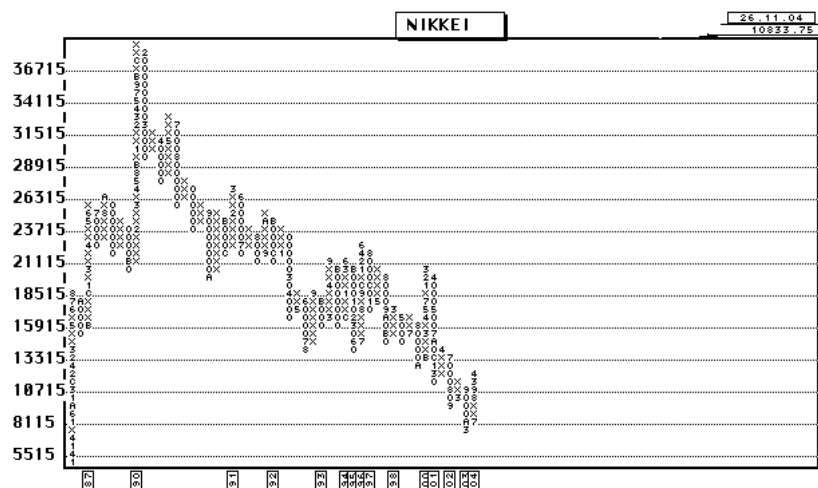
7. Japan:

Will this happen to the rest of the world?

Not very exciting...! Still in a steady downtrend.

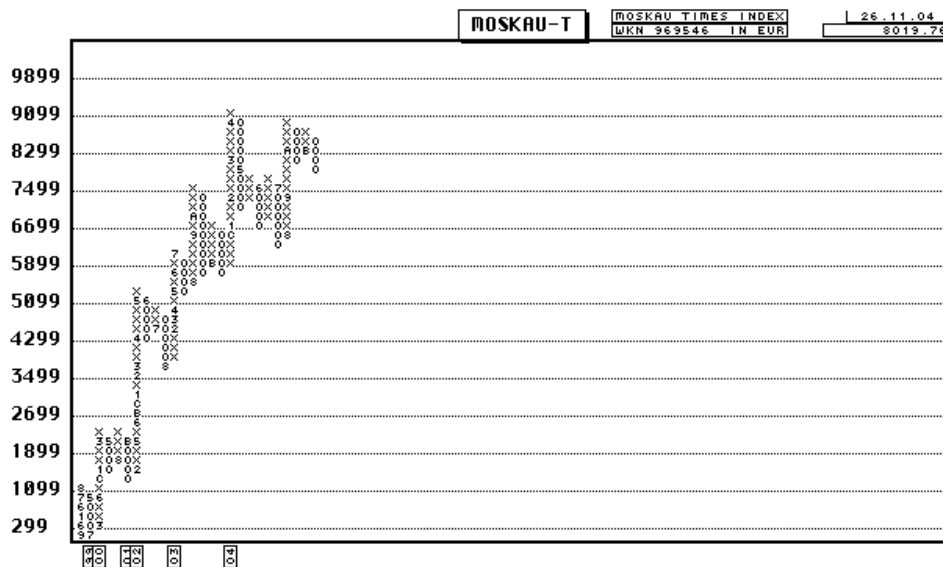
Note:

The retracement after the top of the Nikkei. At this point the same is happening in Euroland and the US.



From a valuation perspective, Asia remains as attractive as ever from a relative-return standpoint, in the sense that in pure multiple terms it is still significantly cheaper than America, Europe and Japan. The MSCI AC Asia ex-Japan Index is now trading at 10.7x I/B/E/S consensus 12-month forward earnings, compared with 16.5x, 14.6x and 15.6x respectively for the MSCI USA, Europe and Japan indices (see Figure 8). It should be remembered, however, that in the particular case of Japan the relatively higher PE ratio is compensated for to a large extent by the potential operating leverage for earnings if and when that economy moves out of deflation. For this macro-economic event should lead to a meaningful increase in top-line revenue growth, of which there are already hopeful signs. Thus, sales of large Japanese corporations with capital over ¥1tr rose by 5.5% YoY in the first half of this fiscal year (April-September 2004), according to the Ministry of Finance. This is, significantly, the best top-line growth since FY90 (see Figure 9). This is why Japan remains *GREED & fear's* favourite stock market among developed economies.

8. Moscow: Probably one of the most exciting markets is the one of the former communist republic of Russia.. It is like a never ending story that keeps going and going....and apart from a strong stock market, the Ruble is also doing extremely well...



THE

REAL ESTATE MARKETS

"But bubbles generally are perceptible only after the fact. To spot a bubble in advance requires a judgment that hundreds of thousands of informed investors have it all wrong."

Testimony of Chairman Alan Greenspan

Before the Joint Economic Committee, U.S. Congress

June 1999

My feeling is that whenever the housing market starts to settle, or roll over, the purchase-more-stuff-on-house-equity phase of consumer spending might also then be coming to an end, thus creating a double debt whammy of unpaid "stuff" needing to be paid off just when housing prices are losing value and turning south, and possibly your job being outsourced to India or China or the Czech Republic.

The world is sitting atop the biggest property bubble in history with the biggest bits in China and the US, in my view. If there is one statement that marks a bubble in Real Estate, it's the "they are not making any more land" comment. It's an indication that real estate is viewed as a one-way-speculative bet.

The Tipping Point

When we interviewed the Prudent Bear's Marshall Auerback last November, he and his colleague Doug Noland are watching the housing market and secondarily

the equity market for signs of a tipping point for the economy and as a result from the dominance of inflationary to deflationary pressures. That makes sense to your editor because no free market sector in the U.S. economy is more important in keeping the U.S. economy alive than housing. As suggested above, any major rise in interest rates are likely to prick the housing bubble. Since mortgage rates are priced off of the 10 Year U.S. Treasury bond, that is one market along with the 30-year Treasury that we will be watching intently in 2005.

The fate of the bubble is no longer under the control of policymakers. I am watching the equity markets and the real estate markets, but especially the real estate markets for evidence of a tipping point from an inflationary environment to a deflationary environment. Certainly we think a decline in housing is likely to be the Key, but leading to a housing decline is likely to be rising interest rates so I am watching British (the bird in the cage) U.S. interest rates go up very carefully. Also, some other key markets in addition to housing and stocks I want to watch are the dollar with a view of what impact a declining dollar may have on interest rates.

1. Japan property : Japanese real estate used to be the most expensive in the world. How many times did I hear that Tokyo had no more office space left and that in this city you could find hotels with rooms as small as coffins? After all Japan is an island and Real Estate is clearly in short supply. *But in 1990 it all happened.* The Stock market came down, the Yen came down and so did the Japanese Real Estate Market. Prices have in average fallen to $\frac{1}{4}$ of the 1990 value, and I am not so sure it's all over!

2. In the UK, property triggers the alarm bell. Does the reversed yield curve and the weaker Sterling start to take its toll? ..story of real estate boom in the 90's

3. In Spain, the market has dried up and prices should start to slide any time now.

The bank of Spain has repeatedly issued warnings to borrowers and to lenders about the risks of over-extending credit. It is particularly worried about the impact of a rise in Euro interest rates or an increase in unemployment on the ability of Spanish families to repay their debts.

4. France, has been discussed in an earlier edition

5. The Netherlands:

The office market has a dramatic vacancy of 10% ! The market has become extremely expensive with plenty of wind inside the bubble!

6. In the US,

I hope I'm right about interest rates staying low. Else, a deflationary bust like the 1930s will be upon us. Debt will be the cause. All the assets that this debt drives will be consumed by the demolition: stocks like Fannie Mae, Freddie Mac and loan guarantors and banks writing derivatives (a type of financial security whose value is dependent on another security) on these loans.

Real Estate has lost the basics of stones and mortar. Instead, it has become a huge latex balloon. In 1928, in Florida, Real Estate was more expensive then it is today. For the same reasons that are used today! An European real estate appraiser would open big eyes if he was to see what is sold for "how much". Most real estate in Florida surely is not built to last multi generations as it is in Europe. However, prices and even "rental prices" have lost any common sense. Even if one discounts for an overvalued Dollar, and convert prices in Euro, I would still be reluctant to buy or rent this poor quality.

WASHINGTON (Reuters) - U.S. housing starts unexpectedly plummeted 13.1 percent last month, the biggest dive in nearly 11 years, as groundbreaking activity fell sharply across the nation, a government report showed on Thursday. Housing starts slid to a seasonally adjusted annual rate of 1.771 million units in November from an upwardly revised 2.039 million clip a month earlier, the Commerce Department said. Starts have not fallen so precipitously since they tumbled 17 percent in January 1994.

Wall Street economists had expected starts to ease only slightly to a 1.980 million unit pace from the 2.027 million rate initially reported for October. Low mortgage lending rates, which averaged around 5.7 percent in November, had been supporting the housing sector despite five short-term interest-rate rises from the Federal Reserve this year. Permits for future groundbreaking, an indicator of builder confidence, also proved disappointing, slipping 1.5 percent to a 1.988 million unit pace. Analysts had looked for a 2.000 million permit-issuing rate. The department said starts fell 14.2 percent in the Northeast, 19.4 percent in the Midwest, 13.2 percent in the West and 10.4 percent in the South, the region that boasts the lion's share of housing activity.

We are seeing rising real estate values approaching 20 pct per year in many regions of the US. However, There are signs that the building industry is offering large incentives to sell their inventory in not a few markets of the US. One example is the Las Vegas market....

Any talk of a major dollar crisis before the real estate bubble peaks is premature. The growth of debt in the household sector has reached the key 12 to 17 percent rate that precedes housing and economic downturns. This is happening now. So, what is the time scale of the onset of the real estate bubble collapse? I said that I expected this collapse in 2005. I stand by this prediction. It will take some more interest rate rises; I expect that a

further one percent rise in the US 10 year Treasury will be the end of the real estate bubble. Unless we first see a reversed Yield curve as in Britain. That will happen in 2005.

The biggest problem with FNM is one that is not even mentioned by analysts.....Investors have been remarkably sanguine about FNM's problems in 2004. Will 2005 be a repeat of 2004? Investors in FNM's securities past,present and future are certainly betting on it.

Derivatives show their destructive potential. With interest rates on the rise and enormous directional trades in place by hedge funds, investments banks, etc., it's likely that derivatives earn Warren Buffet's moniker of being "financial weapons of mass destruction" in 2005.

Mais les menaces qui pèsent sur les retraités californiens ne s'arrêtent pas là : la bulle immobilière y atteint des proportions phénoménales, du fait de l'affluence d'acheteurs asiatiques, et l'accession à la propriété pourrait devenir mission impossible pour la population locale si les taux longs se mettaient à leur tour à grimper, amorçant un rattrapage jugé inéluctable par rapport au loyer de l'argent -- qui sera porté à 2,5% dès le 2 février prochain, sauf chiffres de l'emploi catastrophiques demain.

De nombreux futurs retraités comptent bien matérialiser d'ici peu de fantastiques plus-values immobilières -- latentes et donc purement virtuelles -- pour arrondir leurs fins de mois et sauvegarder leur niveau de vie somptuaire. Ils pourraient même précipiter leur décision de vendre si Arnold obtenait gain de cause, car il ne fait de doute pour personne que les régimes de retraite passeraient de rente à taux fixe à revenu à taux variable (comprenez : ajustable vers le bas).

Les agences immobilières californiennes pourraient donc être les premières victimes d'une victoire de Schwarzy sur les socio-démocrates de Calpers.

Les prix des maisons américaines ont grimpé de 13% au troisième trimestre 2004 -- dont un bond stupéfiant de 42% dans le Nevada, 27% en Californie et 23% à Washington DC. Les prix ont nettement grimpé sur les côtes ces sept dernières années, avec des gains de 143% en Californie, 103% dans le Massachusetts, 92% dans le New Jersey et 89% à New York. Les régions de l'intérieur ont généralement été plus stables, si bien que les gains moyens depuis 1997 sont plus modérés : 65%. Néanmoins, l'inflation des prix des maisons allant en s'accroissant, on dirait que les Etats-Unis vont atteindre le milieu d'une bulle. Au Royaume-Uni et en Australie, des bulles plus avancées sont des facteurs-clé pour la performance économique et la politique monétaire. Les Etats-Unis suivront probablement le même chemin.

Parmi les causes de la bulle, il y a le fait que les gens semblent avoir oublié que les prix des maisons peuvent chuter aussi bien qu'augmenter. Et les risques d'une chute significative sont plus élevés aujourd'hui qu'ils ne l'étaient ces cinquante dernières années à cause du bas taux d'inflation des prix à la consommation et de la menace de déflation. Entre les années 50 et le milieu des années 90, la chute des prix à la consommation, la déflation, avait pratiquement disparu partout. Le monde se consacrait entièrement à combattre la hausse des prix, l'inflation, qui était devenue le principal problème économique. Mais à la fin des années 90, la bataille contre l'inflation était gagnée, et la déflation était apparue dans plusieurs pays asiatiques, dont le Japon.

Will Real Estate lead Deflation ?????La déflation est une menace nouvelle et troublante pour nous tous, née dans une ère d'inflation continue. Quasiment personne encore vivant aujourd'hui -- pas même le vénérable M. Greenspan -- ne participait activement aux marchés ou à la politique dans les années 30, la dernière fois que les USA ont subi une déflation. Et pourtant, durant le 19e siècle et jusque dans les années 30, la déflation était courante, et même normale, tandis que l'inflation ne se produisait d'ordinaire qu'au plus haut des booms économiques et en temps de guerre.

Aux Etats-Unis, la déflation n'est toujours qu'une hypothèse, mais au Japon, c'est une douloureuse réalité. Les bulles boursière et immobilière japonaises ont rapidement éclaté au début des années 90, et les brèves hausses qui ont eu lieu ensuite n'ont pas vécu longtemps, se soldant par de nouvelles crises. Dans cet environnement morose, l'inflation a peu à peu atteint le zéro, puis la déflation s'est installée à partir de 1995. A la fin 2004, le niveau des prix japonais avait chuté d'un total cumulatif de 10%.

Un monde d'inflation très basse et de déflation potentielle rend les bulles immobilières actuelles plus dangereuses que par le passé, et, du point de vue de l'investisseur et du propriétaire, cela signifie que les maisons sont un investissement plus risqué. Après les bulles de prix passées, les ajustements des prix immobiliers étaient limités, en termes nominaux, par l'inflation sous-jacente élevée. En effet, aux Etats-Unis, l'indice de prix national n'a jamais chuté en termes nominaux. Il y a eu un ajustement de 10% des prix réels dans les années 1990, mais il a été caché par l'inflation des prix à la consommation, qui était élevée à l'époque. Dans certaines régions, l'ajustement des prix réels a été plus important, et les prix nominaux ont donc chuté eux aussi. Les prix des maisons en Californie, par exemple, ont chuté de 10% en termes nominaux au début des années 90, avec un déclin de 24% en termes réels.

Quel effet aurait une chute des prix de l'immobilier sur l'économie ? L'effondrement de la bulle boursière des années 90 a effacé environ 5 000 milliards de dollars de la richesse des ménages. Il faudrait une baisse de 33% dans les prix de l'immobilier pour obtenir le même impact. Un déclin de cette ampleur ne peut être écarté si les ratios de valorisation des maisons -- comme le ratio prix de la maison/bénéfices ou le ratio prix de la maison/loyers -- revenaient à leurs anciens plus bas cycliques, mais cela ne se produirait probablement que dans le contexte d'une récession sérieuse et d'une nouvelle hausse du chômage. Cependant, les effets d'un déclin du prix des maisons sur la richesse des ménages s'avèrent généralement plus virulents que ceux provenant de la baisse des marchés boursiers, si bien qu'une chute de 10%-20% "seulement" des prix de l'immobilier présenterait à M. Greenspan ou à son successeur le même genre de casse-tête que les conséquences du krach boursier.

Mais un krach immobilier aurait d'autres effets également. Lors des précédentes crises immobilières, l'investissement résidentiel a sévèrement chuté : - 40% entre 1980 et 1982, et -24% entre 1988 et 1991. Ces chutes sont visibles dans les chiffres de mises en chantier mensuelles, qui sont en général divisées par deux durant les récessions. Mais elles n'ont que brièvement baissé durant la récession de 2001, et sont depuis revenues près de leurs sommets passés. Les investissements résidentiels représentent environ 5% du PIB -- si bien qu'une sévère récession immobilière suffirait à elle seule à faire baisser le PIB américain de 1% à 2%.

The Delray Beach Real Estate Boom

Un marché haussier crée des génies, nous rappelons-nous, et le boom de l'immobilier de Delray en a créé toute une ville.

"Oui, c'est vrai, les prix semblent absurdes", a continué notre ami. "Mais les gens continuent de venir. Ils semblent prêts à acheter même à ces prix plus élevés."

Et pourquoi pas ? Ils peuvent acheter un petit morceau de paradis et s'enrichir par la même occasion. Un appartement de 750 000 dollars dont la valeur augmente de 20% par an accumule 150 000 dollars de "richesse" additionnelle chaque année.

"C'est bien mieux que ça", a expliqué notre ami. "Ils ne paient pas 750 000 dollars. Ils versent juste un dépôt de 10%... Ils peuvent même vendre l'endroit un an plus tard sans jamais y emménager. Ils gagnent 200% sur leur argent en une seule année. Evidemment qu'il y a de quoi se sentir génial"...

Plus le boom continue, plus les acheteurs prennent confiance. On les a prévenus que le marché pouvait s'effondrer à tout moment. Mais aussi fine que soit la couche de glace, elle ne semble jamais céder. Au lieu de cela, ils filent vers les profits -- s'enrichissant pendant que les rabat-joie n'obtiennent rien. Y a-t-il meilleure preuve de génie ?

"Plus les prix montent, plus les gens sont certains qu'ils vont continuer à grimper. On commence à croire qu'il y a quelque chose de spécial dans cette situation -- une chose qui la différencie d'autres exemples de marchés boom-krach. On commence à croire que le boom durera éternellement. Ou bien on est persuadé que même s'il y a un krach, il sera modeste. Après tout, les gens veulent vraiment emménager à Delray. Et il y a des raisons de croire que cela pourrait s'étendre à tout le pays -- comme à Sausalito ou South Beach. Ici, c'est une jolie petite ville, et l'océan est littéralement à deux pas. Pourquoi un appartement ne vaudrait-il pas un million de dollars ?"

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