INFORMATION LINE

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Perspective

Colin Powell made a plea to the United Nations, troops are being deployed to the tune of 215,000, and the war of words escalates to a crescendo. War appears to be imminent.

Michael Checkan

If you listen to the main-stream press…the "war premium" is the only reason for the strength of gold and the weakness of the U.S. dollar. We think this is shortsighted. More significantly, the driving force for the appreciation of gold over the past few years has been the weakening U.S. dollar and the poor performance of traditional investments.

Certainly, "war premium" accounts for some of the appreciation, but we feel this is more the "icing" rather than the "cake." The investor of 2003 does not have many good choices. Interest rates are anemic. U.S. bonds have about run their course. Holding U.S. equities in 2002 caused investors to lose share value and locked them into 20% depreciation in the dollar against major currencies. The seeds for this correction began to germinate in March 2000, well before the tragedy of 911 and long before war with Iraq was the topic at dinner table conversation.

Glen O. Kirsch

Like it or not…admit it or not, we are in a bull market for gold specifically and commodities generally, and a bear market for the dollar and equities. Rather than ignore it, why not profit from it?

In this issue, we have a commentary from Dr. Erich Stoeger, Chairman of Euraxxess, AG. He shares with us some of his views regarding the depreciation of the dollar and the opportunities that arise as a result. Also, we have articles from Jim Sinclair and Tony Langford. Jim brings the story of the developing

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Your Investment House As You Know It – Is It On Fire?

Dr. Erich Stoeger

At the beginning of 2003, uncertainty in investment markets is prevailing. We lived through three traumatic years of equity market declines where some darlings in portfolios lost 60 – 80% of value. Presently low interest rates make bonds very unattractive.

World economies can't seem to escape bad news, and they remain in agony, stifled by looming war scenarios in the Middle East and North Korea. The U.S., as the world's largest economy, is ailing and faces drastic balance of payment and budget deficits, prompting a severely declining U.S. dollar. This bad situation could be further accentuated by the forthcoming cost of some 50 to 200 billion dollars for a military campaign.

Times of such insecurity are characterized by agonizing over investment decisions and diligence in seeking prudent advice. The best investments in the new millennium so far have been non-traditional investments: real assets like property (becoming vulnerable now) and gold (plus 26% in 2002, tendency rising) – and for dollar based investors, foreign currencies (Euro plus 18% in 2002, tendency rising).

The most recent sharp drop in dollar value was based on the widespread conclusion of market players that the U.S. decided to say farewell to the era of a strong dollar which it was not able nor willing to support anymore. This was detected in earlier statements by the new U.S. Secretary of the Treasury, Mr. Snow.

The value of the dollar, in reality, is determined by large capital flows and the market sentiment. Major central banks in the second half of 2002 started to increase their euro positions to the detriment of dollars, in order to hedge their risk exposure in view of deteriorating fundamentals of the dollar. Asian central banks were particularly active. They represent about 55% of world currency reserves. Previously they had kept 75% of their reserves in U.S. dollars. And, this move to a more balanced weighting is far from being completed. Therefore, the pressure on the dollar from Asia can be expected to continue. It was also noticed that countries like China, Taiwan, India, Japan, Thailand, Vietnam and the Middle East were significant buyers of gold.

The other big trend which established itself is the outflow of monies from equity markets, especially the U.S. equity market which was a favourite for international investments during the past seven boom years. This past inflow into the U.S., to a great extent, was the backbone for the dollar to maintain its strength despite the ever-increasing trade and balance of payment deficits. Now, this capital flow has reversed.

So, where are these monies going? Many analysts see the commodity markets, including gold, as the beneficiaries. The thesis is that commodities are cheap in absolute and relative terms. Particularly in comparison to equities where P/E multiples are still too high and with almost no hope for short term improvement. On the other hand, commodity markets are narrow, particularly in physicals where supply cannot be increased quickly to accommodate short-term needs. This could mean a hotbed for commodities when facing increased investment capital. Gold is already trading at six year highs. It is also worth noting that the Shanghai Gold Exchange just opened its doors again after 53 years.

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In This Issue

Currency Corner

Get The Edge in Hedge Funds

By Christopher Aldous

Down by more than 10% for three years running? Yields at forty year lows? A running return of little over 1% and no protection from inflation? Not hedge funds, but equities, bonds and cash respectively.

Despite the competition, there are few asset classes which have received as much bad press as hedge funds. A couple of high-profile frauds or 'blow-ups' have given hedge funds a reputation for being volatile, risky and dangerous, with a 'fast and loose' approach to investment.

The reality is, of course, very different. A hedge fund manager's principal objective is normally to produce positive, or absolute, investment returns at all times – a particularly attractive characteristic in falling markets. This is achieved by employing a variety of sophisticated investment techniques, such as short-selling and arbitrage, which are not available to managers of heavily-regulated mutual funds.

Clearly, some hedge fund strategies are riskier than traditional 'long-only' equity investments. Individual hedge funds tend to have high minimum levels of investment, typically around $1m and limited liquidity which, in the worst cases, means that you can only buy or sell annually. Investments in single hedge funds are therefore arguably inappropriate for all but the wealthiest investors, who are able to buy a wide range of funds and thereby diversify their risk.

For would-be hedge fund investors who are not mega-wealthy, the best solution is funds of hedge funds (FOHFs) which invest in a wide range of underlying funds. FOHFs usually offer better liquidity than individual hedge funds and are often listed on recognized stock exchanges. Through careful portfolio construction, managers of FOHFs can combine a variety of hedge fund strategies to mitigate the risks associated with individual funds and can thus achieve consistent positive returns in all market conditions. Because everything tends to fall when the tide is going out, the **Absolute Fund**, which is managed by our own company, keeps a portion of its overall portfolio in 'short-bias' funds as an insurance policy. The main characteristic of short-bias funds is to maintain a permanent short exposure to equities and thus produce positive returns when equity markets are falling. **Absolute Fund** management also tries to avoid unpleasant surprises from our underlying hedge fund investments by avoiding start-ups or strategies which invest in illiquid securities or use 'secret' systems which cannot be analysed. These disciplines, together with wide diversification across 40 funds, has ensured that the **Absolute Fund's** performance has been positive in each of the

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	YEAR AGO	CURRENT	
Swiss Franc	.5907/Franc	.7319/Franc	▲
British Pound	$1.4171/Pound	$1.6173/Pound	▲
Japanese Yen	.0075/Yen	.0083/Yen	▲
Euro	.8757/Euro	$1.0741/Euro	▲

The Hard Stuff

The Islamic "Gold Dinar"

By Jim Sinclair

Contrary to widespread belief, Malaysia's introduction of the "Gold Dinar" as a settlement currency could hardly be construed as an act of revenge against the perpetrators of a crippling raid on Asian currencies several years ago. While the impact of the raid, by a well known US currency trader and philanthropist is still being felt, its real impact may actually be the germination of the seed that will unify Islamic economic power and change the global monetary system forever.

The strong support within Islamic countries for the introduction of the Gold Dinar is, in reality, a planned offensive against the US dollar as a settlement currency for oil. It is perceived on their part, and correctly so, that the Islamic world is controlled through the use of the US dollar as the main settlement currency. When I say "controlled," I mean whatever happens economically in the USA is exported to these countries via the dollar.

A review of the trade balances of Malaysia and its intra-Islamic trading partners, suggests the introduction of the Gold Dinar, as now contemplated, could tie up approximately 200 tonnes of gold production, equal to 10% of new mine supply. If Malaysia went to convertibility with a 15% gold cover, that alone would utilize more than 300 tonnes of new production. Either way, this is the wildest of wild cards for gold in the longer term. If recent reports prove correct, Malaysia will be adopting the Islamic Gold Dinar in mid-2003 in its foreign trade section.

The idea to adopt the Gold Dinar originated with Malaysian Prime Minister, Mahathir Mohamad who conducted bilateral talks in 2002 with several Islamic countries including Bahrain, Libya, Morocco and Iran in an effort to convince them to use the dinar as a payment mechanism in their commercial dealings with his country.

The entire system is built on the concept that Islamic governments keep the gold in a central bank and use it as a settlement currency instead of depending on foreign fund markets and foreign financial corporations. Little gold would actually change hands because bilateral payment arrangements would ensure that imports would be balanced by exports and the differences would be settled in Gold Dinars. Dinars would be used exclusively for international trade and not as a local currency for a variety of practical reasons.

Islamic countries see the Gold Dinar as a way to minimize the hegemony of the US dollar and the impact of currency speculation because unlike paper currencies gold preserves its value through the value of the metal itself.

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	YEAR AGO	CURRENT	
Gold	$300.30/oz.	$362.20/oz.	▲
Silver	$4.44/oz.	$4.58/oz.	▲
Platinum	$480.00/oz.	$686.00/oz.	▲
Palladium	$377.00/oz.	$260.00/oz.	▼

Wealth Management

By Anthony J. Langford

Preserving wealth and growing your money through intelligent investing are often tasks as difficult, if not more difficult, than earning it in the first place. Many intelligent and gifted individuals have earned their fortunes in a business or profession only to needlessly lose it, or a significant portion of it, in the investment arena. Losses can be avoided and profits can be earned with just a little common sense and due diligence on the part of the investor. One must be vigilant against potential treachery. To paraphrase an old saying, "An ounce of caution is worth a pound of losses."

Finding and selecting a competent money/wealth manager can be a daunting task. Interview potential wealth managers in person. Personality, compatibility and proven competence are essential elements in selecting an investment advisor. Remember, you are interviewing a person who might be the manager of your hard won fortune. Ask detailed questions and demand precise answers. Do not allow yourself to be fooled by commonly used industry doublespeak. If uncertain about an issue or point, ask the prospective manager to elaborate and clarify. Remember, there are no unacceptable questions, only misunderstood answers. Never assume.

You should insist on knowing the manager's detailed financial track record, net to the client, for each of the past five (5) years. Ask what the manager's credentials and experience are. Request that the manager's full fee structure, including all expenses billable to the client, be explained in full. Learn if your money would be held separately or commingled with other clients' funds. Ask the manager how he or she would invest your money given today's economic environment. Find out how often the manager communicates with clients and what his or her preferred method of communication is. Determine what the prospective manager's overall investment philosophy is and whether his or her philosophy is compatible with your own view. In particular, find out what you must do to remove this particular manager and how long it would take you to retrieve your money.

Wealth managers typically work for an investment firm. In some instances, he or she will own the investment firm. Check the investment firm for any pending legal actions by clients or investigations by governmental agencies.

Learn about the firm's reputation and longevity. Make sure the firm has been in business for at least five (5) years. Ask the prospective manager to provide references.

If, after examination, you have any feelings of trepidation or questions you believe were not satisfactorily answered, continue your search. One should never, ever hand over his or her money unless perfectly and completely satisfied that it will be safe and skillfully managed. No exceptions!

M & L Consulting is a firm specializing in offshore asset protection, wealth preservation, wealth management and client education. The firm's principals are David Melnik, Q.C. of Toronto, Canada and Anthony Langford of Austin, Texas, U.S.A. If we can be of assistance to you, or if you would just like to talk to us, then you may call either Tony 512 453-5527 or David 416 488-7918 for a free initial consultation.❐

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Now that the historic bull market mania in stocks has come to an end, and with the U.S. dollar mired in what appears to be a long-term downtrend, it is very important to adjust your portfolio structuring to the demands of 21st century wealth management.

Consider making an investment in a learning adventure outside your home market and get away from main stream opinion. Go global and re-evaluate your investment thinking. Your opportunity to do this is the EUROPEAN WEALTH PRESERVATION PARTNERS INVESTMENT CONFERENCE, sponsored by EURAXXESS, and held in Zurich, Switzerland from May 4th – 9th. It will be well worth the trip.

You can expect exposure to one of Europe's safe and great global investment centers and you will receive an economic and geopolitical education, advanced offshore strategies, investment allocation and asset protection, personal financial planning tailored to the new needs of investors. More information is available on-line at **www.hollandworldseminars.com**, or by calling toll free **1 888 565 8779** in the U.S. and from outside the U.S. **+ 828 681 8779**.

(Dr. Erich Stoeger is Chairman of EurAxxess AG, an international financial services company in Zurich, Switzerland. EurAxxess offers coached access to international bank accounts, discretionary portfolio management, tailored life insurance solutions, precious metals in bullion or certificate form and international company structures. EurAxxess also specializes in assisting U.S. investors in internationalizing their Individual Retirement Accounts. EurAxxess can be reached at +(41) 1-980 4281, fax +(41) 1 980 4255 or info@euraxxess.com. Link: www. euraxxess.com).❐

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movement toward the use of the Gold Islamic Dinar as a form of payment for oil from the Middle East. Tony speaks to wealth protection and preservation with some common sense guidelines for choosing an asset protection attorney and manager. Last but not least, find an upcoming schedule of seminars at which Michael will be speaking.

Without question, these are indeed interesting times…both economically and geopolitically. Those that keep their heads and remain focused on the fundamentals in times like these will most certainly weather the storm. As we go to press, ominous clouds are gathering on the horizon. A storm is clearly brewing. Find shelter with the likes of gold, silver, euro and Swiss francs, and wait until these financial storm clouds pass.❐

BITS & PIECES

Where's Michael?

By Michael Checkan

The worst of times for the "paper worms" is the best of times for the "gold bugs." I am neither but instead fall into the category of being an advocate of "hard money." So, this will take me to many parts of the world again this year in order to deliver my message. I hope you will join me at one or more of these conferences.

First is the European Wealth Preservation Partners Investment Conference to be held in Zurich, Switzerland on May 4th-9th.

Next is Mark Skousen's British Isles Investment Cruise all around the British Isles on June16th-28th.

Later in the summer is the Jyske Bank Investment Conference to be held in Copenhagen, Denmark from August 20th-24th.

Next is 4th Annual Anglo Irish Global Investment Seminar to be held in Vienna, Austria scheduled for September 7th-13th.

In the fall, is the Freedom Fest 2003 to be held in Las Vegas, Nevada from November 6th-9th.

For more information about these investment conferences, email me at rcheckan@assetstrategies.com.❒

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In my opinion, the Gold Dinar is the major wild card in the entire history of gold and its establishment constitutes open rebellion against the IMF and, in fact, is strictly forbidden under IMF rules. The advent of the Gold Dinar might well be the "Nadir" of the IMF and World Bank.

When the next bull market in equities begins, I have no doubt that it will be gold that will stand as the foundation to that event and not more paper foolishness from any central bank or international derivative traders. The real millennium begins when gold revitalizes world economies, not through convertibility, but rather through its real role in the monetary system, the Gold Dinar being a notable example.

Mr. Sinclair is a prominent gold commentator, analyst and former principal in several dealerships and clearing facilities for commodities and foreign exchange. He currently serves as Chairman and CEO of Tan Range Exploration which has 11 joint ventures with Barrick Gold in the Lake Victoria goldfields of Tanzania. For more of his commentary on gold please see his Chairman's Corner at: http://www.tanrange.com/s/Home.asp.❒

I Need Your Help!!

By Kathy Cansler

I am the managing editor of ASI's Information Line and I need your help! I am responsible for the production of the newsletter which means I have to keep Michael, Glen and Rich on time with the writing of the publication. Also, I am responsible for the delivery of the newsletter to you on a timely basis.

I would like to see you receive the guys' "pearls" faster through the use of email. But, I can't convince them until more of our readers provide their email addresses. So, to help me convince them to have your issues of Information Line delivered faster, please let me know your email address by calling me toll-free at 1 800 831 0007 or email me at kcansler@assetstrategies.com. Thank you.❒

"In spite of all romantic poets sing,
This gold, my dearest, is a useful thing."
Mary Leapor (1722-1746)

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past four years and that its biggest loss in any one month has been no more than 1%.

But what about returns? Most FOHFs did not beat the stellar returns of gold in 2002. Nevertheless, most well-managed FOHFs did succeed in producing a return which was at least equal to cash, which obviously compares very favorably with a fall in the FT World Share Index of 23.1%. Since the beginning of the millennium, the HFR Funds of Hedge Funds Index is up by 10% versus a fall in the FT World Share Index of nearly 40%.

These numbers speak for themselves, but magnitude of profits is not the only consideration. Risk is also important and this usually measured by the volatility of returns. For a well-managed FOHF, the level of volatility is typically a fraction of that of equity markets. In the case of The **Absolute Fund**, volatility (as measured by monthly standard deviation) stands at just 2.8% over the last four years, identical to the volatility of government bonds. For equities, volatility has been about 16%.

In a nutshell, investors seeking consistent positive returns coupled with low volatility and liquidity should look no further than a well-managed fund of hedge funds to help them navigate what may well be several difficult years to come in conventional asset classes.

Christopher Aldous is the CEO of Absolute Fund Management Ltd., London. Absolute's website is www.absolutefund.co.uk.❒

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