

INFORMATION LINE

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Perspective

Labor Day is behind us, and so is the sun, sand and lazy days of summer. It is time to roll up our sleeves and get back to work.

Over the summer months, the precious metals and foreign currency markets have basically marked time.



Michael Checkan

The charts remind us of a yo-yo, moving up and down in range...looking for a direction in the short-term.

Of course, in the long-term, the charts show the direction clearly...a classic commodity bull market. To our readers, this is not news. We have seen a steady flow of purchases of both precious metals and foreign currencies on the dips throughout the summer.

It's a simple formula. Dollar strength equals buying opportunity!

We welcome you back with a jam-packed issue. As always, there is some commentary on the dollar and the economy in general. In addition, you will find three articles from guest writers. The common thread here is that they all have written on topics that you will find everyday in the mainstream press. They all look at their respective topics from a unique perspective that you are certain not to find in the mainstream press.



Glen O. Kirsch

Dr. Edgar Gunther has us all Re-Thinking Retirement. Chris Aarons focuses on the difference between absolute and relative performance when evaluating hedge funds. And, Bill Staton takes a look at interest rates and real estate bubbles.

Looking ahead, we will be placing a growing emphasis on retirement assets. There is a reason for this. Retirement assets represent a significant portion of wealth for U.S. investors. However, this nest egg, although extremely important in the consumption

...continued on p. 3

Rethinking Retirement?

By Dr. Edgar Gunther

In June 2000, I wrote "The Era of Older Americans" for *Information Line*. Its central idea was that an increasing number of older Americans were working past traditional retirement age because they wanted to remain active and working gave them a sense of well being and usefulness in addition to providing a supplemental income. I particularly admired Dr. William Sunderland who recently died, aged 104. When he turned 100 he was named by Congress as the oldest person still at work a full 8-hour day editing articles for a medical journal. In his obituary, *The Economist* wrote, "Congress was hoping that Dr. Sunderland's enthusiasm for work would eventually be matched by thousands, even millions of elderly Americans." It should be noted that he was not a workaholic but a rounded individual. He believed in a sensible diet, used his exercise bicycle regularly and most summers took his Stradivarius violin to Germany to play with professional groups.

Other Americans who chose to retire without working could easily afford a modest retirement until around the end of the 1990s: Their mortgage-free homes had appreciated many-fold and their inflation-indexed Social Security payments, company pensions, accumulated savings and Medicare coverage provided the economic base for a worry-free retirement. In fact, the vast majority of Americans did enjoy until that time a higher level of well-being and a more satisfying lifestyle than at any time in the past.

The dramatic events since 2000 have undermined the characteristic optimism of most Americans of all ages. It should not come as a surprise that 9/11, the wars in Iraq and Afghanistan, terrorism around the world and domestic problems like the steady hollowing out of our manufacturing base, huge budget deficit, a growing negative balance with our trading partners and stagnant earnings coupled with increasing indebtedness have given way to feelings ranging from

bewilderment to outright pessimism among Americans already retired or facing retirement.

There is very little we can do to overcome these problems apart from pressuring Congress. What we can and should do, however, is to ignore the high pressure promotions of the financial, banking and insurance industries, the pharmaceutical companies and health-care providers which with their dire predictions sow unease and confusion.

Most important, in my opinion, is to **reinvent** retirement. Ros Altmann, a specialist in pension economics and a governor of the London School of Economics, argued last year in the *Financial Times* that the goal is not how to provide care for the elderly but to rethink how people work as they age. "We are not facing a pension crisis. What we face is a retirement crisis. Retirement should be a process, rather than an event, a journey rather than a destination. Individuals could have a whole new phase of life that previous generations never envisaged; gradual and flexible retirement."

And that brings me to what is called the social security reform which I intend to discuss in detail in another article. In the meantime, I hope that the majority of Americans continue to think that there is nothing wrong with Social Security that a few changes, along the lines suggested by Ms. Altmann, can't fix. After all, there is plenty of time to do what is necessary since the system will not run a deficit until 2041. Instead of messing with success, Congress should

...continued on p.3

In This Issue

- Rethinking Retirement – p. 1
- Metals & Currencies – p. 2
- Inside Story – p. 3
- Bits & Pieces – p. 4

Currency Corner

“I Wanna Believe!”

By: Glen O. Kirsch

When I was growing up I can remember vividly when I learned, once and for all, that Santa Claus was make believe and not reality.

I was crushed!

I had for a couple of years been telling my parents I was wise to their game. As a child approaching puberty, every adolescent struggles for individuality and independence. So, Santa bashing was the thing to do. I told my parents, “I know there is no Santa Claus so quit pretending he exists!” But, no sooner had those words left my lips when some little voice inside of me said, “Oh, please don’t let it be true.”

When my parents finally relented and admitted that Santa didn’t exist, the innocence of childhood was forever shattered. I felt like saying, “Don’t tell me the truth ... I wanna believe.”

You are probably wondering what does the belief in Santa Claus and foreign currencies have in common?

In many ways we are all children way down deep inside. We want to believe things that are not necessarily true because reality can be too painful.

So when we discuss foreign currencies and their potential for appreciation we are really talking about the demise of the almighty dollar.

How has this happened to the dollar ... the world reserve asset? Only 50 years ago the dollar was as good as gold! When you look at the facts, the truth jumps out at you. However, this is where the denial enters the picture. Like the Santa myth, you can believe what you are told or face reality. Truth is a bitter pill to swallow.

The dollar is on a long-term course of decline. This is the result of years of monetary mismanagement. We have our elected officials to thank for this mess. It doesn’t matter whether it’s the Democrats with Viet Nam or the Republicans spending the Russians into bankruptcy. The problem crosses all party lines ... binge spending at the expense of our monetary security.

Today we see the media, administration, and Alan Greenspan trying to lull us into a false sense of security. Why worry - everything is OK. Sure unemployment is improving ... depending on how you calculate it. Who cares, it changes every 30 days. Inflation is low and it should remain low and as a result we should see only moderate interest rate increases. Let’s face it; higher interest rates are in the cards. We can’t finance the debt ourselves. We need foreign capital to bridge

...continued on p.4

	YEAR AGO	CURRENT	
Swiss Franc	.7849/Franc	.8102/Franc	▲
British Pound	\$1.7765/Pound	\$1.8342/Pound	▲
Japanese Yen	.0091/Yen	.0091/Yen	-
Euro	1.2073/Euro	\$1.2500/Euro	▲

The Hard Stuff

Are Hedge Funds Different? Absolutely!

By: Chris Aarons

Investor A: “My mutual fund outperformed the S&P 500 by 15% over the last five years”.

Investor B: “Really, that’s great. My hedge fund only made 10% per annum”.

Of course Investor B shouldn’t be too worried, he’s actually done better. The S&P 500 still hasn’t managed to climb back to the levels it reached five years ago; even Investor A’s 15% extra wouldn’t have been enough to produce a positive result.

The conversation between our two investor’s highlights an interesting distinction between the way people can think about their investments. Absolute performance versus relative performance. Whilst it’s great to beat a benchmark like the S&P 500, it doesn’t mean you’re making money. What makes most hedge funds different from the average mutual fund is that their focus is on achieving an absolute result. Our Investor B may not be happy, but he is making money.

Recent press reports on hedge funds have suggested the existence of a hedge fund bubble. On some measures the evidence for a bubble is undeniable. The growth in the number of hedge funds in existence over the last five years has been meteoric. This exponential growth has led some pundits to speculate that it is surely only a matter of time before investors’ enthusiasm for hedge funds wanes.

Whilst it is possible that the rapid growth in the hedge fund industry won’t continue at the same pace, it does seem that they are part of the evolution and innovation that characterise the financial markets. Part of this evolutionary process, particularly on the part of investors is the recognition that absolute returns aren’t such a bad idea; particularly when equity markets are no longer just a one-way bet.

Hedge funds can also be innovative in the ways they allow investors to participate in their strategies. My colleague Richard Swagrzak wrote in this publication earlier this year of the possibilities: “Many funds offer shares based in non-dollar currencies, often euros or sterling by holding a non-dollar asset, a dollar-based investor has made a currency bet, in addition to a bet on the fund’s investment strategy.” Not only are investors able to expose themselves to the hedge fund manager’s strategy but should the U.S. dollar decline, they also get the benefit of the exposure to a foreign currency.

During times when currency directions may be uncertain, as Richard pointed out investors can: “consider now a hedge fund

...continued on p.3

	YEAR AGO	CURRENT	
Gold	\$397.30/oz.	\$442.00/oz.	▲
Silver	\$6.14/oz.	\$6.99/oz.	▲
Platinum	\$841.00/oz.	\$911.00/oz.	▲
Palladium	\$219.00/oz.	\$187.00/oz.	▼

INSIDE STORY

Is the Housing Boom Over? Have Interest Rates Bottomed?

By: Bill Staton, MBA, CFA

Even though some sort of bubble / mania / craziness / irrational exuberance seems obvious in housing markets across the U.S., and people of all stripes seem to be becoming real-estate barons practically overnight with no previous experience, if this is THE actual peak, it probably represents the first time (at least in the last 100 years) when THE peak is talked about and written about almost everywhere.

The peak of the U.S. stock market in late 1999/early 2000 was only obvious to a few keen observers such as us. Few were warning about a bubble then, but that is certainly not true of real estate today in this country, especially housing prices. It is possible that all these disparate observers have picked the top, but based on our knowledge of economic and market history (which we believe is extensive), that's extraordinarily unlikely.

Our contrary thinking runs in the same path about interest rates. For close to two years, we (and almost every economist, money manager, financial writer we know of) have been thinking interest rates are going to rise. That remains true now for them, but we have major doubts that rates are going to rise anytime soon. In fact, there's an excellent chance they'll go lower still.

The Economist suggests, "Think the unthinkable: America's long-term bond yields may be heading down, not up. HSBC's chief economist foresees (assuming anyone can do that) the yield on 10-year Treasuries dropping at least another half point sometime next year. Stephen Roach of Morgan Stanley, a reformed bond bear, agrees. Fed Reserve Board chairman Alan Greenspan has suggested, in his own obtuse way, that long-term yields might remain low for a surprising amount of time, even assuming the economy continues to grow

The July 11, *Barron's* interviewed three "consensus-bucking seers" who say, "The great bond bull market, which started in 1981 with yields at record levels, isn't over yet." The trio asserts that the fall in long-term bond rates "reflects sea changes

continued from RETHINKING RETIREMENT - p. 1...

deal with a real and urgent problem, namely healthcare for all Americans.

In the meantime, apart from cash and equivalents, I am invested in an internationally diversified portfolio and annuities, reflecting my preference for low risk. If you are retired or preparing for retirement, you should consider a Swiss franc-denominated annuity since the dollar is presently at an advantageous level against the Swiss franc. It's an opportunity not to miss.

Dr. Gunther, aged 84, was executive vice president of a financial group. He left in 1978 to combine partial retirement with a flexible work schedule. An inveterate traveler, he lived for 35 years outside the US until his return home in 2000. Starting in January 2006, he will publish a FREE monthly report dealing with retirement. To subscribe, contact him at edgar_gunther@hotmail.com

in U.S. and global economic dynamics that could persist for years". For numerous reasons they opine that an integrated global market such as today's existed from 1871 to 1949 "when long-term Treasury bond rates averaged 2.8% [vs. about 4.5% today]; annual inflation, 0.7%".

The more we think about it and examine the evidence with a jeweler's eye, the more we're coming to believe they're on the money.

Bill Staton, MBA, CFA, America's Money Coach®, is chairman of Staton Financial Advisors LLC (a money management firm serving high-net-worth individuals and small businesses whose clients have never had a down year). *Bloomberg* magazine recently named Staton Financial one of America's "Top Wealth Managers".

He leads *Lifetime Riches* seminars, is a professional speaker, and offers FREE trial issues of Bill and Mary Staton's *E-Money Digest / Guided Portfolio Service* at <http://www.billstaton.com/ezone.htm>. You can receive Mary Staton's FREE Weekly On Wealth (WOW!) email newsletter at <http://www.dollarbillclub@billstaton.com>. Please email Bill with questions or comments at bill@billstaton.com.

continued from PERSPECTIVE - p. 1...

stage of life, is vastly ignored. Part of the reason these assets are ignored is that investors are not aware of the vast opportunities that are available for retirement funds...to include: precious metals, foreign bank accounts, offshore insurance products, and overseas asset management.

In our opinion, investors should devote as much or more time managing funds flagged for retirement as they do their personal funds. Surely, the same fundamentals apply. Therefore, it is dangerous to just put funds in a mutual fund, forget about them, and believe that your retirement needs will be met. There is more work to be done here.

Look for more articles on this subject in the future. As mentioned earlier, the passing of Labor Day reminds us that there is much work to be done. Get ready to roll up your sleeves!

continued from HARD STUFF - p. 2...

gold-based share class. Instead of investing an amount of dollars or euros, the investment is in troy ounces of gold. In the same way as for a currency share class the fund's returns can be hedged against the dollar price of gold, making use of well-established commodity contracts. The return the investor sees is expressed in the amount of gold held."

Whether you believe in a hedge fund bubble or not, there is no question that investors are focussing more and more on absolute returns. At the same time investors are looking for ways to mitigate unwanted risks and focus their investment "dollar" on the exposures they want. Funds that offer multi-currency and gold share classes are a way to achieving this.

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BITS & PIECES

Where's Michael?

By Michael Checkan

It is very important to take regular breaks to relieve stress. It will help keep your mind fresh and your thinking straight. Stay hungry in your vocation and avocation. Live everyday like it's your last. One day, it will be.

With this in mind, I am currently making plans for an around the world trip in the fall. The intended business/pleasure trip will take me to London, Zurich, Vienna, Bombay, Singapore, Perth, China/Hong Kong, Macao, and Los Angeles.

The high point of the trip will be, "The Far East Offshore Investment Tour-November 10-20". Consider traveling with me to Beijing, Shanghai, Hang Zhou and to Hong Kong. I expect to uncover many financial opportunities in China, a country becoming the manufacturer of the world-making half the world's shoes, 60% of its cell phones and 80% of the kids toys sold in the US, just to name a few categories. And we'll cap off the tour with a two-day offshore asset protection and investment seminar in Hong Kong.

During the tour, we'll stay at only the finest hotels, including the Ritz Carlton in Shanghai and the world famous Peninsula Hotel in Hong Kong. We'll also have a private tour of the Hang Zhou Opera...have dinner at the China Club in Hong Kong...visit the Great Wall and Tiananmen Square-explore Shanghai's Xin Tian Di district...relax with an evening cruise on Victoria Harbor followed by a farewell gala dinner on Lama Island...and much more.

For more information, to reserve your space, or with questions regarding your flight, accommodations, insurance or other travel needs please contact: Karoline Bowman at AESU Travel. Telephone: Toll-Free 1 800 638 7640 ext. 116 or 1 410 366 5494 ext. 116 Fax: 1 410 366 6999 Email: karoline@aesu.com

"The first chief function of money is to supply commodities with the material for the expression of their values, or to represent their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus serves as a universal measure of value. And only by virtue of this function does gold, the equivalent commodity par excellence, become money."

Karl Marx (1818-1883)

Check Out These Upcoming Events You Won't Want To Miss!

- September 21st True Wealth Gold Conference, Long Beach, CA
- featuring Rich Checkan
- October 13th-17th Del Pacifico, Costa Rica
- featuring Barry Strudwick
- October 31st-November 3rd New Orleans 2005 Investment Conference
- featuring Michael Checkan

(Be sure to read the information in this issue regarding the Del Pacifico and New Orleans events.)

A New Look for an Old Friend

Anyone who has read our newsletter over the years is familiar with Weber, Hartmann, Vrijhof & Partners (WHVP), in Zurich, Switzerland. We often feature commentary from these "Swiss Gnomes" as we will do once again in our November/December issue.

The offshore asset management team at WHVP has recently launched a new and improved web site at www.whvp.ch. If you cannot wait until November for their "Pearls of Wisdom," visit them via the Internet. □

continued from CURRENCY CORNER - p. 2...

the gap and higher interest rates will be necessary to compensate the foreign investor for the exchange rate risk!

Make no mistake, we are at war in Afghanistan and Iraq and we are living through the burdens of a modern day crusade. But remember we are also experiencing an economic war with China, India, Euroland, etc. with monetary repercussions just like a military conflict.

Subsequently, like believing in Santa, we are told everything is OK, but our intuition tells us something is wrong. So hope springs eternal, and we keep believing all is right!

We have been sending the same message to the readers of Information Line since 2000. Buy foreign currencies on dips until there is an improvement in the dollar fundamentals. The proverbial *snowball in hell* has about the same chance.

"Yes, Virginia, there really is a Santa Claus," and the dollar is still as good as gold! □

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