

INFORMATION LINE

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Perspective

Every coin has two sides. Together, they make up the whole coin. Taken separately, they are of no value. Combined, there is value. The same can be said of the



Michael Checkan

develops more clearly.

different positions people take on various topics of discussion. Taken individually, opinions represent only part of the whole. When all arguments are considered, the complete picture

This issue of Information Line clearly illustrates this point. We, the editors, have always tried to take an unbiased view. We equally engage both sides of the coin in an attempt to reach a more clearly defined perspective of the complex issues that affect our financial well being. With regard to the future of the Dollar, you will find two different opinions presented in this issue by Steve Beckner and Robert Vrijhof. We think both views have merit and are worthy of consideration.

As we go to print, the Euro is hovering near the levels that sparked joint intervention on behalf of the Euro by the major industrialized countries (to include the United States) last October. You might consider



Glen O. Kirsch

this as a warning signal that future interventions may occur. That intervention marked the all-time Euro low versus the Dollar. And, since the Swiss Franc has been moving in tandem with the Euro, you may consider these levels as attractive for foreign currency Tax Swaps, which are best executed at the Dollar highs.

If intervention, or the mere threat of intervention, conspires to push the Euro higher from current levels (indeed many still are calling for parity to the Dollar by year's

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The Incredible (Un)Shrinking Dollar

by Steven K. Beckner

Who can figure the Dollar?

Perennially, as the U.S. current account deficit has steadily mounted, reaching a record \$435.4 billion or 4 1/2% of GDP last year, there have been predictions that the Dollar simply must depreciate as part of the solution to this "unsustainable" trade gap.

There are those at the Federal Reserve and the U.S. Treasury who have resigned themselves to this inevitability, if not the desirability, of some Dollar depreciation. Their only hope has been that when it comes, the decline will not become a freefall.

The International Monetary Fund, always ready to opine on its members' nations currencies, has been saying for some time that the Dollar, Yen and Euro are "misaligned" because of their external imbalances.

In its latest semi-annual World Economic Outlook report, the IMF was at it again. Calling the Dollar "overvalued," it foresees a "significant" and possibly "disorderly" depreciation. Under an "imbalance adjustment scenario," the IMF staff assumed the Dollar will "steadily depreciate over the next three years by a cumulative total of 20% against the Euro and the Yen, and 15% against the other industrial countries."

In a "harder landing" scenario, the IMF envisions "a further significant fall in U.S. equity valuations and in consumer and investor confidence in the United States and Japan, associated with a substantial and abrupt depreciation of the U.S. Dollar against other currencies."

Another potential source of weakness for the Dollar, some fear, is that the paydown of the national debt, by reducing foreign investors' holdings of U.S. Treasury securities, will lead to a net reduction in their holdings of all Dollar assets.

Fed Chairman Alan Greenspan acknowledged the possibility that

"foreign investors may reduce, on net, their holdings of overall Dollar assets as Treasury securities are paid down" in an April 27 speech. And he said, "By itself, such diminution in the demand for U.S. Dollar assets would tend to raise interest rates for U.S. borrowers and, conceivably, put downward pressure on the Dollar's exchange rate."

"However," Greenspan added, "the evidence of the past year and a half gives little support to this notion: Foreign private investors, on net, have run off their holdings of U.S. Treasury securities, while they have built up their holdings of private Dollars assets by an even larger amount, and the foreign exchange value of the Dollar has appreciated."

So, notwithstanding predictions of its demise, the Dollar continues to reign supreme, even at a time when the U.S. economy has slowed to a crawl and the Federal Reserve has cut interest rates 250 basis points, while the European Central Bank has cut rates only 25 basis points. So much for the rate spread theory of exchange rates.

The great "upward potential" of the Euro, so often trumpeted by European officials, remains a pipe dream.

What accounts for it?

The same IMF has its own theory to explain the Euro's stubborn weakness against the Dollar, centered on capital flows into U.S. equities.

"With the advent of the Euro and hence a common monetary policy

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Currency Corner

The Euro on Center Stage

by Robert Vrijhof

Is that a light at the end of the tunnel or, are those headlamps from a truck coming toward us? We have asked ourselves this question numerous times since the beginning of this year.

You may recall from our last article that appeared in January's Information Line, we then thought the year 2000 had been a difficult year but, as we all know by now, the first few months of 2001 made 2000 look like an easy ride. The biggest surprise in this turmoil, however, has been the enormous strength of the US Dollar. However, for the first time since the introduction of the Euro, Euro interest rates are higher than Dollar interest rates.

Economic growth in Euroland is currently stronger than growth in America, and the U.S. trade balance deficit is going through the roof. The question now arises, whether the US will change their strong US Dollar policy. As we have said before, we still believe the US Dollar will weaken toward the end of this year. The US Dollar has not been able to break out of the current trading range of 1.69 - 1.75 and is currently trading at 1.73 or .5780 cents to the Swiss Franc. Surprisingly, this level was the same as in May 2000.

If you have been thinking about diversifying some of your assets into Swiss Francs and/or Euros, we would urge you to do so now. We are currently invested in Eurobonds but we are purchasing the shorter maturities, 2003/2004, and we do not expect significant interest rate decreases in Euroland. Therefore, we do believe we will see higher bond prices.

World stock markets have rebounded from their recent lows and some serious bouts of profit taking. We would however not be surprised to see strong stock markets during the second half of the year 2001. We have lowered our cash position during the past few weeks and bought some fundamentally strong blue chip companies in Euroland and Switzerland. We are still holding our positions in Japan and one in the Far East, but our Japanese holdings are still positive. The Japanese market is up 25 % from its low. We are not contemplating, at the moment, to reenter this market but, we are watching it very closely.

In conclusion, the Euro will begin to circulate as a "cash currency" on January 1, 2002, and will be used in all day-to-day transactions throughout Euroland. This will be the culmination of a 20-year unification process, and could be the final straw that sends the Dollar lower and displaces it as the world's reserve asset.

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	YEAR AGO	CURRENT	
Swiss Franc	.6084/Franc	.5548/Franc	➡
British Pound	\$1.5112/Pound	\$1.3942/Pound	➡
Japanese Yen	.0094/Yen	.0083/Yen	➡
Euro	.9614/Euro	.8494/Euro	➡

The Hard Stuff

Learning the Lessons of History

by Glen O. Kirsch

Recently, the Financial Times Weekend Investor section featured John O'Hara, MD of investment management for Goldman Sachs who stressed the strength of returns in commodity futures over the past six months. FT pointed out that other commodity funds had even greater returns than the mid-teens experienced by Goldman Sachs. "Commodity futures funds tend to do very well in times of financial stress," Mr. O'Hara said, pointing to higher returns as volatility increased in the equities market. The article stressed the principle of diversification and the role of commodities, (like gold) which have a negative correlation to the equities market as "an important part of that strategy."

The adage that "one who does not learn from the lessons of history is doomed to repeat them" certainly could apply to parallels between the current political situation in Washington and that of the late seventies and early eighties. Back then, the PRICE OF GOLD SHOT UP TO \$800/oz in the midst of recession, an energy crisis, and the transfer of power to a new conservative Republican (Reagan) from a liberal Democrat (Carter) on the promise of a huge tax cut. Then, just as now, the tax cut was enacted. Ultimately, three TAX INCREASES were passed during Reagan's tenure with one additional increase during George H.W. Bush's term.

Are we heading for a similar scenario? Well, no one has a crystal ball, but consider this: Gold is universally priced in the US\$. A strong dollar equals expensive gold everywhere except in the US. The current strength of the dollar is largely based on the boom in equities (now past) and interest rates that are attractive compared to foreign rates. Lower US rates make foreign investment less attractive which, in turn, makes the Dollar weaker, which lowers the price of gold in, for example, India and Japan, the world's leading consumers of gold. Foreign investors and jewelry manufacturers, finding gold prices more attractive, will increase their demand. Higher demand always results in higher spot prices in the US. Almost all precious metals experts agree that the price of gold is influenced to a great extent by the strength of the US\$. Influences which have always caused the dollar to weaken are economic recession and federal budget deficits. Common sense tells us that, with the current economic slowdown and the almost certain federal tax cuts, the projected budget surpluses will turn instead into deficits.

The historical lesson? Gold is probably as attractive a buy as we are likely to see for a long time. Wise investors will diversify their portfolios to include a significant portion of gold as

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	YEAR AGO	CURRENT	
Gold	\$289.45/oz.	\$266.00/oz.	➡
Silver	\$5.07/oz.	\$4.33/oz.	➡
Platinum	\$540.00/oz.	\$588.50/oz.	⬆
Palladium	\$659.50/oz.	\$620.00/oz.	➡

INSIDE STORY

The Last Great Tax Shelter

by Barry Strudwick

Retirement experts predict a chilling future where two-thirds of all Americans retire at less than half their current standard of living. If you don't want "Will that be paper or plastic, please?" to be the way you greet neighbors in retirement, *now is the time* to take control of your destiny and start planning for yourself.

Here's where *The Last Great Tax Shelter*® can make an enormous difference in funding your retirement. It lets you turbo-charge the growth of your retirement savings accumulations by letting your money compound *tax-deferred*. Better yet, it's also an IRS-approved way to effectively get at your money and spend it – including your investment gains – *without ever having to pay either income or capital gains taxes*.

The Last Great Tax Shelter is a concept borrowed from the high-end deferred compensation plans enjoyed by elite executives and big money professional athletes for decades. Now you can take advantage of a tax loophole known as "inside build-up," which allows excess money deposited in a life insurance contract to compound tax deferred. Best of all, the new type of insurance policies we use have *no commissions or sales charges*, so virtually all of the "friction" that has traditionally been a part of dealing with the insurance industry has been eliminated. Finally, this is all combined with the ease of no load mutual fund investing and an asset protection wrapper as well.

The Last Great Tax Shelter

"Inside build-up" is where excess money deposited inside a life insurance policy compounds tax-free. You can even self-direct the accumulated balance into a series of investment funds which are usually "clones" of popular mutual funds. The "tax wrapper," of the life insurance policy produces the functional equivalent of a self-directed IRA account funded with

after-tax dollars. In addition, there is the added benefit of effectively paying your term life insurance premiums with pre-tax dollars. Better yet, it's now possible to buy these policies "consumer direct" on a "no load" basis. This makes certain all your money is working for you and not paying an agent's greens fees.

Here's How It Works

By setting aside \$25,000 each year for 20 years until retirement, the funds in the policy will accumulate to \$1,200,000 even if you only average a 9.75% return. This reflects \$700,000 of untaxed "inside build-up" above the cost basis of \$500,000. With a choice of over 30 funds including offerings from the Vanguard, Rydex, Fidelity, T. Rowe Price, and the Berger fund families, you might earn much more than this.

The real benefit of the variable life strategy comes into play when you decide to take the money back out of the policy. Because of the special tax rules Congress has given the life insurance industry, my calculations show you could pull out \$132,500 a year tax-free for the next 15 years utilizing a series of policy withdrawals and loans. Not only did your money accumulate tax free but you were able to withdraw it tax free!

Things To Consider

Like most great ideas on paper, there are some caveats here, which we can't cover in this brief article. To power you up the learning curve, I've put together a 15 page *Special Report* that comes complete with two audio CDs that answers most of your questions. A personalized example of how the strategy could work for you is included in the price of the report, which is \$24.95 and can be purchased by emailing (taxshelter@noload.com) or call (410) 727-6444 or fax (410) 783-9070.

If you have any questions, you may contact Barry Strudwick at Strudwick Wealth Strategies, 12 East Eager Street, Baltimore, Maryland 21202.□

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end), the precious metals should benefit. A weaker Dollar would translate into a stronger Rand and Australian Dollar, and forward selling of precious metals would become less attractive. Additionally, a weaker Dollar would increase demand for precious metals (which are bought in Dollars worldwide). The combination of higher demand and decreased forward selling would be bullish

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a hedge against further decline in equity markets and as an alternative asset with a viable profit potential.

For centuries the safest haven against the perils of financial stress, political upheaval and social uncertainty has been gold. Historically, gold has outperformed every other asset class as a hedge against inflation.

Wise investors know that now is the time to invest in gold.□

for precious metals. Look to this month's Hard Stuff for more analysis on the current precious metals market trends.

Clearly, these are interesting financial times. As you wade your way through all of the information at your disposal, remember that every opinion has a counter-opinion, and every coin has two sides. Don't think that your only option is a "coin toss." There's more value when you take both sides into consideration.□

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You may have questions regarding Eurostocks you are currently holding and after the recent turmoil we have been through, we invite you to call. We will be happy to offer you our advice regarding your stock positions.

Please contact us at: Weber Hartmann Vrijhof & Partners Ltd., Zurichstrasse 110b, CH-8134 Adliswil/ Zurich, Tel # 011 41 1 709 11 15, Fax # 011 41 1 709 11 13, email: whvp@dial.uunet.ch or whvp@active.ch.□

BITS & PIECES

A Few Things to Consider When Planning Your Vacation

by Claus von Sickingen-Hohenburg
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In the February/March issue of "Information Line," I mentioned the importance of asking travel companies about the size of the group before booking a trip.

Because there is no unified international rating system for hotels, terms like "luxurious" or "first class" are very often misused. Travel companies often take the liberty of describing a "1st class" hotel as "luxury" hotels. Hotels described as "first class" may be "tourist" class, at best.

Just as in real estate, location is very important. You don't want a hotel at the edge of town; your hotel should be steps away from interesting sights and shops. It's always a good idea to invest in a reliable guide book, like Fodor's or Cadogan, to obtain information about hotel standards and location.

The best hotel in a particular area is often a matter of opinion. At Ashby & Sterling, we offer our clients a promise: *If you do not agree with our hotel selection, you pick the hotel and we pay the bill.* It is a guarantee no other company in the world gives you. **Claus can be contacted toll free 888-377-8023 or by email info@ashbysterling.com.**□

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across the Euro area, returns across Euro area stock markets have become more correlated," its WEO report says. "As a result, investors (particularly those in the Euro area) who wish to diversify their portfolios will tend to move some of their original intra-Euro area investments outside of the region, consistent with the recent increase in net equity investment from the Euro area to the rest of the world."

"As there has been no shift in underlying conditions in Japan, no similar impact would be seen on the yen, explaining the differential behavior of the Euro and the Yen currencies, although the explanation does not help explain the strength of the U.S. Dollar," the report continues. "It also implies that the weakness of the Euro may continue for some time, as the stock adjustment driven by the desire for portfolio diversification is gradually achieved."

My own theory for the indomitable Dollar is much simpler. It is that the U.S. is a very attractive place to invest and is likely to remain so for the foreseeable future. A big reason for this is that the Fed, the principal guardian of the Dollar's purchasing power, has established lasting credibility that it

PMCP Update

We are pleased to inform you about some important improvements to the Perth Mint Certificate Program (PMCP).

- The minimum to open an account is \$10,000, lowered from \$25,000.
- The minimum for a coin certificate is now \$10,000, lowered from \$25,000.
- The minimum for a bullion certificate is now \$25,000, lowered from \$100,000.
- Add-on minimums will remain \$5,000 or more.

To request an account-opening kit, call (800) 831-0007.□

"Gold and love affairs are difficult to hide."

Proverb

will maintain a reasonable semblance of price stability indefinitely. The young ECB has not, so far, been able to achieve such credibility, despite its oft-stated commitment to keeping inflation under control.

That Fed credibility, together with a far more dynamic U.S. entrepreneurial spirit, unscathed by European-style taxes, regulations and welfare burdens, makes Dollar assets highly desirable for investors all over the world.

And it's hard to see that changing meaningfully for the time being, unless, the Shadow Open Market Committee warned recently, the Fed's policymaking Federal Open Market Committee, loses sight of its price stability goal and allows inflation to reaccelerate.

Steve Beckner is senior correspondent for Market News International and is heard regularly on National Public Radio. He is author of "Back From the Brink: The Greenspan Years." Those wishing to purchase a copy of his book can e-mail him at beckner@mktnews.com or purchase through Amazon.com.□

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