

### **OUTLOOK – SECOND QUARTER 2003**

The new “reality show”, “War in Iraq”, has been a boom for CNN and the television networks and a complete bust for retailers and other venues attempting to entice the consumer. Every market pundit has also tied this war to the stock market saying, “The market is weak because of uncertainty about the war... and will surely rally when the war is over.” We believe that a deteriorating economy, combined with the realization that corporate profits have not only continued to be doctored, but are in fact lower than what companies are reporting, is, in our opinion, the true reason for the poor performance in the stock market. In fact, even as the U.S. has walked into Baghdad and statues are being toppled (signals that the war is over), the markets have been declining.

On the surface, the major exogenous issues are numerous: war, oil, terrorism, accounting fraud, the post-bubble carnage, the risk of deflation due to excessive debt levels, the potential for massive U.S. dollar devaluation and the high level of duplicity surrounding the Middle East and Far East. Below the surface we have massive stimulus by the Federal Reserve Board in the U.S., a consumer who continues to increase their leverage by re-financing their homes to spend their money and a U.S. Government that needs \$40B PER MONTH in money from foreigners to finance their spending. As the strategist from Scotia Capital said, “Unfortunately, the investing environment has become very complicated in recent years and we believe it will remain this way for several more years. The easy returns of 1980’s and 1990’s are behind us.”

It is a challenging environment. There may very well be substantial market declines ahead of us. On the other side of the coin, there may also be substantial periods of rising prices. The attached chart shows the 1963 to 1979 era, which depicts the era we believe we are currently in. The chart shows that the market went up and down 20%, 30%, or as much as 50% a number of times during this period. It is extremely difficult to predict which phase lies directly ahead. The same commentator noted, “Investors must use a structured, disciplined portfolio system” in order to succeed. Our methodical approach to using options will deliver what you need – a consistent disciplined approach that will deliver well above average returns over the long term.

The CEO Fund is a great example of what a systematic approach can do for results. As has been discussed before, we are subject to investment restrictions imposed by regulators such as CCRA. Elysium is working hard to broaden the CEO Fund approach to include registered retirement savings accounts. In addition, we are introducing the CEO Fund approach to the world of fixed incomes via the CEO Income Fund, which will be introduced to you later this year.

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