

## OUTLOOK – SECOND QUARTER 2004

Dr. Marc Faber, a highly regarded investment strategist writes a monthly newsletter entitled “ The Gloom, Boom and Doom Report.” In his March 19, 2004 he states,

*“Credit must be given to Mr. Greenspan. He is the first head of a monetary authority who has not only managed to create a series of bubbles in a domestic economy, the US, but has managed to create bubbles everywhere in the world – in the New Zealand and Australian dollars, emerging market debts, government bonds, commodities, emerging market equities, and capital spending in China.*

*We do not know how the end game of the current speculative wave will be played out and when the burst will finally occur, but a painful resolution of the current asset inflation is inevitable and as certain as night follows day... As I experienced in Asia in the 1990's it wasn't important to be “asset-rich” before the crisis of 1997, but to be “cash-rich” after the crisis, when financial assets had fallen 90%!”*

The one word that receives press each and every day is “China.” The current boom is very reminiscent of the Chinese and Asian boom that took place from 1992 to 1997. The economies were booming, construction was rampant and newer plants were being constructed to provide lower priced goods into the U.S. economy. Ultimately, the speculators took over and the building continued until the “Asian crisis of 1997” kicked in. The start of this appears to be happening as the Chinese Central bank, worried about the fact that most of the banking system is “very fragile,” has been trying to rein in the speculation. Andy Xiu, Asian economist for Morgan Stanley, said, “ What is going on in China is a pyramid game on a gigantic scale. The risk of a global hard landing is rapidly rising.”

Our investment strategy is to cautiously participate in this current environment and to prepare for the upcoming correction. We do not believe it will take place this year. The “Presidential election cycle” as mentioned in the CEO Fund letter is very powerful and Alan Greenspan does not wish to increase interest rates in advance of the election. However, it pays to start down the path and to continue building a defensive portfolio. In fixed income we shortened the “duration” of our portfolio and added “real return bonds” which self adjust to any increase in inflation. We have established option positions that will cradle any fall in certain stocks and gold equities have become a staple in your portfolio. Our investment philosophy will continue to be focused on the long term, while riding out short-term fluctuations.

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