



# Capital Drain



Rick's investment opinion newsletter

January 2005

v.1 no.2

Hi,

I got some great feedback from a few people, with suggestions which I will certainly implement. Soon.

I'm new to this newsletter business. If you'd like me to write more or less about any topic here, or anything else, please let me know.

In my opinion:

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Executive Summary:

- Corrections vs. Market Timing: I stand by last month's opinions, despite the chaos of the start of the new year.
  - The US Dollar will likely be devalued ~30% over the next 3 years OR QUICKER. Maybe much quicker.
  - Investing in non-US stocks and bonds is a reasonable alternative in its own right.
  - Investing outside the US then coming back after a 30% devaluation books a 30% gain OVER the local-currency return.
  - Some overseas investments are better bets than others.
  - US interest rates will rise-- US bonds will fall.
  - Real estate will be vulnerable to a "soft spot" or correction.
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Why I hate this time of year:

The short days, cold, and clouds are bad enough, but for investors New Years is a special nuisance.

This is the time of year when thundering herds of investment managers make portfolio changes to manage their taxes. In December, they're likely to sell losers for the tax advantage of the loss in the outgoing year. In January, they're likely to take profits on the previous year's tenuous gains, selling those stocks which they feel are held aloft only by luck and habit.

In addition, this is the time of year when we're most likely to see panels of Wise Men opining on Bubblevision on why the coming year will be better, with all new, positive dynamics, etc. They are routinely far, far too optimistic in their projections, if not just completely mistaken in their visions of their brave new investment worlds.

All this causes a lot of volatility in investment prices, completely divorced from any fundamental changes.

Since last I wrote, gold and the Euro have dropped, and the dollar has risen.

Is the game over for the Out of Dollars investment scenario? Hardly. Should I dump my non-dollar investments? No.

All the fundamentals I discussed last month (<http://www.ricks-cafe.net/CapitalDrain.html>) remain true, some of them becoming more so.

Changing one's strategy based on 15 trading days going the wrong way is not advisable. It is important to keep an open mind and a sharp eye on the fundamentals, and change one's mind if those facts change. If the facts remain, however, it is folly to give in to the urge to time the market to avoid a little dip in the middle of an otherwise favorable trend.

True, the race is not always to the swift, nor the contest to the strong, but that's the way to bet.

The swift and the strong remain non-dollar high-quality bonds and stocks, diversified around the world.

I'd like to cut this short so I can send it out today. I will send another, expanded version soon. Also, I am very remiss in not sending out the model portfolio letter. That one will be next.

One final word: if you do nothing else based on this opinion letter, this would be a great time to get out of the riskiest (in the colloquial, not the technical financial, sense) investments: developing country debt, high-yield (junk) debt anywhere, small stocks in developing countries that depend on exports to the US.

Suit your comfort level, but please err towards caution. You may only want to take some profits, sell half, something like that, but in my opinion those are very vulnerable investments these days.

That's about all I have to say for now.

If you have any questions, please please write or phone.

In particular, would you like for me to include links to background articles, or do you prefer the summary-discussion format?

Please feel free to forward this to any friends or associates who may be interested.

Again, for those of you getting this gratis, I intend to charge \$120/year for this newsletter. If you're not sure, you could subscribe for 3 months for \$40.

Special rate for self-unemployed entrepreneur friends: remember me when you break into the black.

Take care,

Rick

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Rick Drain  
P.O. Box 5425  
Redwood City CA 94063-0425

CapitalDrain @ Ricks-Cafe . net  
<http://www.ricks-cafe.net/CapitalDrain.html>

"Our doubts are traitors,  
And make us lose the good that we oft might win,  
By fearing to attempt."  
--W. Shakespeare

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"Delenda est Microsoft"