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BRIDGEWATER

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SARS – SERIOUS ACUTE RECESSION SYNDROME!!!

CURRENT AFFAIRS – Over the past few weeks all we've heard is horrendous and gloomy news both at home and overseas. HK residents have been stunned by the deadly virus and our heartfelt sympathy goes out to those who have been affected by the little devils! Similarly, numerous innocent Iraqi civilians have lost their lives and once again let's hope they have a better future.

IMPORTANT ANNOUNCEMENT – Market Truth has become incredibly popular and we have been approached by various publications and institutions who want to distribute this report to their own client-banks. We've always tried to stay away from spewing pure baloney and we say it as we see it! I guess investors have realised this and every month we have several investors who contact us and trust us with their hard earned money. In a nutshell – Market Truth has become a huge source of business and it now reaches out to 23, 000 investors on a monthly basis. Therefore, we have decided to turn this into a free service and we will offer a total refund to all our paying subscribers. Dear subscribers, we sincerely thank you for your support and promise you'll have your money back soon!

BACK TO THE MARKETS – Bush & Co have invaded and conquered Iraq. This is history. But the markets are not concerned with what has already happened. The markets always look AHEAD and discount the FUTURE. Remember, at any given point in time the level of the stock market is a summation of the hopes, fears and aspirations of all market participants put together as far as they can see into the FUTURE. To put it simply, the stock market deals with the FUTURE.

So, the question we should be asking ourselves is "what future event/outcome is the market currently looking at"? That is the billion dollar question.

Last month, I had stated that we didn't think a new bull-market could be born due to the war. A few weeks later, the war is behind us and I'm sure the market action has disappointed the investing public. But, what do you expect? After all you're dealing with a primary bear-market which could easily turn out to be one of the nastiest of all times. Don't blame us for it, blame Sir Greenspan. He's the one who's responsible for the biggest credit bubble ever created!!!

This has been a frustrating market, both for bulls and bears alike. You buy stocks and the market drops, you take a short position and you get a bear-market rally. That's why we never trade or churn our clients' money for short-term gains. Remember, over the short-term the market can do absolutely anything.

BUY & HOLD – BIG money is made by following the BIG moves – it's as simple as that. If you had simply bought stocks in 1980 and held them until the year 2000, you would have done very well indeed. During this period, the DOW rose from around 800 to an intra-day high of 11, 834. An incredible climb!!! But how many people you know stayed fully invested during this period? Not many I suspect.

Similarly, BIG money is lost by going against the BIG moves… NASDAQ anyone???

We are in a bear-market and the primary tide of this market is down. In its own time, the market slowly but surely will head lower, much lower. During bear-markets, stock prices and values deteriorate over time. So what's the worst thing you can do? In our opinion, the worst thing you can do is to "buy & hold for the long term"!!! This concept is pure propaganda churned out by commission-hungry stock brokers and fund houses. After all, you have to remember that the finance industry is a business which survives by selling investments to the investing public. So they're not going to advise you to liquidate your mutual fund and equity holdings. Its up to you to open your eyes and protect your capital.

Over the past 100 years, equities have done very well over the long-term. But, there is a catch. The catch is that equities perform very well over the long-term ONLY if you buy at the right time. The key is to buy close to major market bottoms. For instance, if you'd bought stocks in the early 80's, you'd still be in the money today. On the other hand, if you'd bought close to major tops over the past 100 years, you'd have had to wait for 20 years on average to get your money back. Frankly, that's an awfully long wait and requires tremendous patience. Today, most retail investors continue to hold their stock for the long-term. In the large scheme of things, we believe we're still in the early stages of this bear-market and the major devastation lies ahead, somewhere ahead. So our advice to you is to dump your stocks BEFORE others lose their patience. Just a thought…

ISSUES – The unemployment rate in the US is climbing. Surprised? You shouldn't be. China and India represents two-thirds of the world population. These two countries have over 2 billion people, majority of them are extremely poor and are willing to work for very little wages. The level of English is very good in India and the work force is very competent. Similarly, China is also blessed with a competent work force willing to work for very little. Net Result – US is losing jobs to China and India. Businesses are closing down their factories in the US and are opting for the low cost environment offered by Asia. Manufacturing is moving to China and the IT and service industry is moving to India. If this trend is not reversed, unemployment will become a major problem in the US. But we don't see how this trend can be reversed so easily. Globalisation, dear readers, globalization!!!

We believe unemployment will cause havoc on the US economy. As more and more people lose their jobs, the operative word is going to be income. Spending is the last thing on a jobless person's mind and that could spell disaster for an economy which relies on consumer spending. In fact, the whole world relies on the US consumer and you can begin to imagine the effect this will have on the world economy!!!

GOLD - We've had numerous queries about gold so its only fair to touch on this subject. Yes, we still believe that the bull-market in gold is still intact. No doubt that gold has been in a severe decline over the past 2 months, but this is normal healthy correction in any bull-market. Utilise such declines and add to your positions.

Gold is real money and its supply can't be manipulated by central banks around the world. Several paper currencies have come and gone but the yellow metal has been around for 5, 000 years. Remember, gold is real intrinsic value!!! With the Fed pumping the system with more and more worthless dollars every day, gold can only go up over time. Every investor "should" hold at least 15% of his/her portfolio in gold. And, don't look at actively trading, just let the bull-market do all the work for you. Patience, fellas, heaps of patience.

NEW SERVICE – We'll soon be launching a unique and exclusive club created specifically for high-net worth individuals and corporate clients. Members will be able to buy various assets globally through a substantial custodian and Bridgewater will enhance initial allocations by not taking any commission. Neither will there be any hidden charges or costs involved with the purchase or sale of any global financial asset. Managed portfolios will be subject to a flat annual management fee and a performance fee. In order to become a member of this club, minimum portfolio size must be equal to USD 2 million. Watch-out for this space over the next issues.

STRATEGY – In bear-markets, the objective is not to lose money. So forget about 20-30% annual gains, try and preserve your capital. Preserving your capital doesn't mean holding funds in USD/HKD deposits. Remember, if you've been holding your funds in USD/HKD deposits over the past 18 months, you've already lost 20%!!! You've lost money because the value of the USD/HKD has depreciated against other world currencies. So what should you do to avoid the ravages of this nasty bear?

Our sincere advice to you is to invest in the following – cautious market-neutral hedge funds, euro-denominated government bonds and some gold. We've been holding our clients money in all of the above and our managed portfolios have produced real growth in this difficult market. Fair enough, the returns haven't been gravity defying, but positive returns nonetheless.

Recently, we've identified an exceptional fund which invests in top-quality US and European government bonds and some gold. The fund is designed to benefit from a declining dollar and rising gold price. Currently, 10% of the fund is invested in US government bonds, 64% is invested in European government bonds, 13% is invested in gold/gold stocks while 13% is being held in cash. This is a fantastic asset allocation and will do very well over the coming months/years. The fund is denominated in US dollar and it produced a return of 29% last year. Please feel free to contact us for further details.

These are indeed difficult times and strategic planning is essential if you wish to preserve your capital. We have always been honest with our opinion and take great pride in offering unbiased ethical advice. Please do not hesitate to contact us and we'll be happy to assist you with your requirements.

Bridgewater is an SFC registered independent investment adviser. The directors have gained over 33 years experience in the financial services industry.

We are proud to announce that working in conjunction with the BPHR department of the Asian Development Bank, Bridgewater is employed as an external consultant to provide training and guidance to professional staff preparing for retirement. More recently, we have also introduced a mid-life financial planning course.

Bridgewater will not be responsible for any investment decisions made based on this letter alone. We strongly advise that you arrange a meeting to understand the risk/reward profile before investing. You may contact us on contact@bridge-water.com or please phone us in order to arrange a meeting. Until next month, Goodbye and Good Luck!