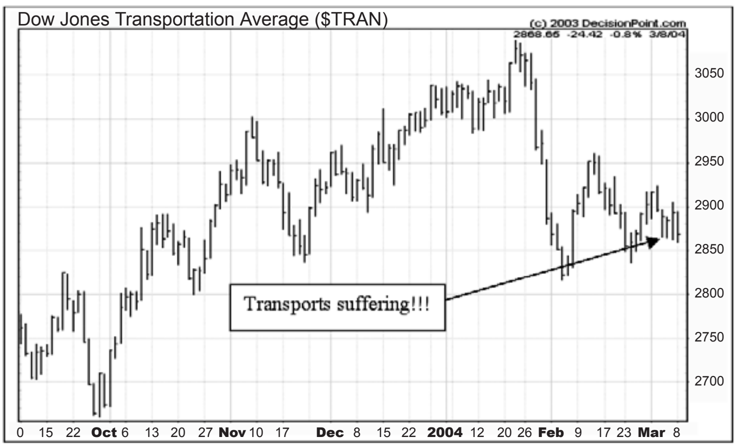
14 March 2004

"SHOW ME THE MONEY"…

UPCOMING FORUM – I am pleased to announce that our next FREE Investment Forum is scheduled for 20 March 2004. The session will cover a wide range of subjects such as global markets, investment opportunities, estate planning, basics of investment and risk management. Please refer to the enclosed invitation for further details. For the benefit of those who do not receive this report on a monthly basis, please go to our website to register and to find out more about the upcoming event.

www.bridge-water.com

THE PICTURE – We continue to believe that the US stock market is in the process of forming a major top. Last month, I explained about the non-confirmation by the Dow Jones Transportation Index. Even though the Dow Jones Industrial Average had bettered its previous high recorded in January, the Transports had failed to better its own highs. According to Dow Theory, any movement in one index if unconfirmed by the other is often meaningless and often deceptive for predictive purposes. We still wait and see whether the Transports are going to better their 22nd January-high of 3080. To be honest – it looks more and more doubtful. If this is true, we can expect the markets to start weakening over the weeks and months ahead. You see, everyone is now convinced that "everything will be fine" until the November elections. The problem is that big, large interests don't wait for trouble to happen - they start dumping their stock way before trouble arrives. This is exactly what may be happening now.



BRIDGEWATER Suite 4202 and 4309 Tower One, Lippo Centre, Hong Kong
Tel: (852) 2525 3639 Fax: (852) 2525 3679 Email: contact@bridge-water.com www.bridge-water.com
A registered Investment adviser with the SFC *A member of the Hong Kong Confederation of Insurance Brokers*

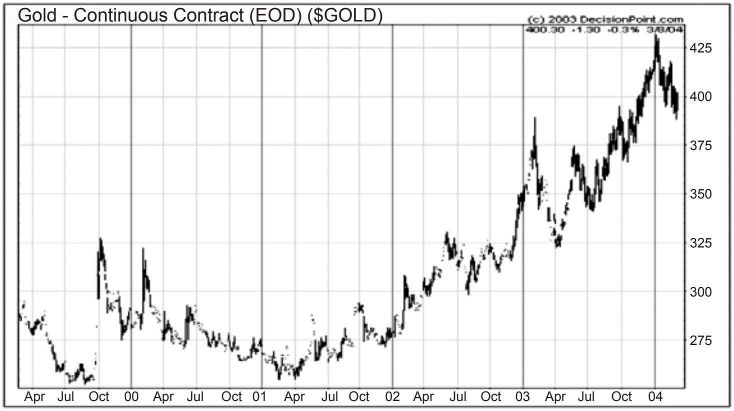
According to a latest study, 92% of all financial institutions and 95% of all individuals surveyed believe stocks will be trending higher over the coming 12 months. Moreover, cash held by equity mutual funds is at a record low. Managers are fully invested as they position themselves to profit from advancing stocks. Advisers have remained bullish for 44 weeks. According to Investor's Intelligence, 59.6% of advisers are bullish and only 18.8% are bearish. However, despite this bullish sentiment stocks continue to be grossly overvalued – How else can you justify the S&P 500 selling at almost 30 times earnings?

Our opinion is that we are nearing the end of a powerful bear-market rally which started nearly 18 months ago. But, please don't confuse the recent advance to a new bull-market. Despite the Fed holding short-term rates at a 45-year low and pumping oceans of liquidity into the system, none of the major averages have surpassed their all-time highs. You have to wonder what it will take for the Dow, S&P and Nasdaq to achieve this feat!

COMMODITIES & METALS – Long-term readers know that global money supply has been surging. In an effort to "kick-start" the world economy, Central Bankers have been printing money like there's no tomorrow. This excessive supply of money has rubbed off on the majority of commodities and metals. The logic is simple – An oversupply of any item puts downward pressure on its value. In this case we are talking about paper currencies being churned out by various countries. As its supply continues to increase, paper money's value will decline and it will take more and more paper to buy the same amount of goods and commodities. You can be rest assured that Central Bankers will continue to flood the system with more and more liquidity. The debt overhang is too huge for a contraction in money supply to be allowed now. The outstanding debt in the US alone is close to US$ 34 trillion! As more and more money is created, hard tangible assets will continue to power ahead. Take a look at the 10-year chart of the CRB Index below. This index reflects the movement of a basket of commodities.

As you can see, commodities "took off" in early 2002 and the CRB has recently bettered its 1996-peak. Conclusion – commodities are now trading at a multi-year high.

Next, take a look at Gold's 5-year chart below. You see the same advancing pattern.



Finally, take a look at the 1-Year Silver chart provided below. Silver has appreciated by over 50% in less than a year. Metals are flying – get your dental-work done NOW!

In a nutshell - fund managers, institutions and the investing public continue to ignore the area which is in a strong bull-market. No, they would rather chase the lagging Nasdaq. This sort of sentiment is solid proof that commodities and metals remain in the early stages of a multi-year bull-market. You see, a bull-market climbs a wall of worry. As a sector or market starts to rise after a very long (bear-market) slump, the great majority of investors continue to remain extremely cautious and skeptical. They simply don't believe that the item's primary trend has changed. This is exactly what is happening in the tangible assets universe.

We strongly believe that tangibles will continue to outperform financial assets over the next few years. After all, large and smart interests who know what's happening in the world today are shouting - show me the money, show me what you've got…

Metals have recently finished correcting and this is an excellent opportunity to add to gold/silver positions. Warren Buffet, George Soros, Bill Gates and Li Ka Shing seem to think so. That's why they've built up huge positions in this sector.

DOLLAR – The US dollar is in a long-term bear-market, which may only end once the US has managed to wipe-out its quarterly current account deficit. Although the dollar has dropped substantially over the past 2 years, US deficits remain at a record-high. This suggests that the dollar's bear-market has a long way to go. Below is the 10-Year US Dollar Index chart. You can see that the dollar has lost over 30% of its value since early 2002. On a short-term basis, there is more than a 50/50 chance that the US dollar may decline all the way to test its 1995-support which comes in around the 82 level. At present the Index trades at 87, so you may be looking at a further 5-6% decline over the weeks ahead.

As the dollar weakens further, major world currencies and gold/silver will continue to rise. In order to protect their diminishing wealth, dollar exposed HK residents are advised to allocate part of their assets to foreign currencies and gold/silver.

Finally, we would sincerely advise you to liquidate your US and European stock positions without further delay. This doesn't include gold/silver funds and select Asian equities. At this stage an ideal mix would be Euro denominated cautious hedge funds, gold/silver holdings, natural resources and limited Asian equities.