

MARKET STOCKS YOU SHOULD OWN WITCH™

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Market Witch is a compendium of theory, context, and information about the equities markets and the factors which affect them. Market Witch offers the broadest and most comprehensive perspective of any financial monthly you can buy. We focus upon what occurs in our culture, and others, that affects the equities markets, how we profit from it, and how you can, too.

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TOO MANY ANTS, NOT ENOUGH PICNICS: THE SHORTAGE IN METALS, BASIC MATERIALS AND SPECIALTY CHEMICALS

Re-Examining IBM
and
Diversity is for Rich People: A Quick Course in Slamming

Plus our BUY LISTS and Much More

It's April, it's Easter, it's Passover, it's Daylight Savings Time, it's Spring. And it's back to Krispy Kreme and coffee and unemployment lines for Americans without jobs. John Chambers, CEO of Cisco, should be running for President- but he isn't. Elsewhere in the world, economies are booming. Particularly in Asia and the Far East. Fortunes in yuan and rupees are being spent on infrastructure and IT investment in India and China, where new middle classes are forming. And fortunes will be made in Japan, from which those new Asian middle classes will be serviced.

It's a fugue state in America. Here are some things to ponder: the trade deficit last month was higher than ever. The deficit was \$481 billion in 2002 and \$542 billion in 2003, a worsening of nearly 12%.

What new employment *is* available is mostly temp employment and experts say it'll be that way until at least 2006. Gasoline prices are at a new peak despite huge amounts of available oil reserves, and this constitutes the equivalent of an enormous additional tax on unemployed and underemployed Americans as well as on US airlines. Every penny increase at the gas pump equals \$1 billion in lost consumer spending. That's \$20 billion recently. More this summer.

44 million Americans have no health insurance, and that's just the 'official' number which is attached to employment/unemployment/job seeker figures which are skewed as people who are still unemployed simply are dropped from government rosters after a certain time has passed. We think it's 50-55 million.

An additional mortgage rate drop in March has caused a new flurry of refinancing and new home apps among those who are employed. Demand for refinancing is up most recently 40%. Housing starts are still booming as America morphs to become a third world country, a land of haves and have-nots, with no middle class. Destroy the middle-class American Dream, destroy the country.

Meanwhile, Japanese and Chinese banks and companies are buying up US T-bills like there is no tomorrow, purchasing from Japan with money borrowed at zero interest rates and from China at not much higher, creating *huge* equity in those countries in preparation for the boom already underway in those countries and a buildup of infrastructure that will support it. *That equity, purchased at-zero or near-zero interest, then can be loaned out or borrowed against at a profit. So we are allowing now-wealthy Asians to mint money with our T-bills.* These guys are buying up 80-90% of US T-Bills every time there is a sale. Southern California real estate prices are being supported by Asian money. Japan now stands to make a fortune selling products and services not only to the USA but also now to booming middle classes in China and India as well. This means that the Asian banks and companies- who can borrow their money in yen for example- at zero interest- are now the supporters of the American economy. And for probably the next fifty years they- not us- will be financing the global economy.

Is this a bad thing? Looks like it at first. But not necessarily. If we "owe" Asian banks 50 million US dollars, we're in trouble. But if we "owe" them \$500 billion in T-bills, we have *them*...

...Because they will have to do everything in their power to make us comfortable and prosperous enough to make sure those loans are ok, and those notes are valid and those interest coupons can be clipped. They have to make sure WE don't default. And that means it's in their best interest to make sure *OUR* economy booms.

Meanwhile, as all this happens, watch US investment banks like Goldman, Bear Stearns, and Lehman make fortunes doing Chinese and Indian IPOs. Who stands to make the most? Possibly Citicorp, which has had a

presence in China/Asia for nearly 100 years and is trusted by the Chinese. That means developing and expanding Chinese businesses will likely go to Citicorp to do IPOs and M&A. You can use Citicorp as a surrogate for investing in China. Plus Citicorp pays a fat dividend.

But meanwhile money- American dollars from outsourcing- is pouring into the economies of India and China, making those countries prosperous and establishing the kind of middle-class base and upward mobility ambitions that existed in the USA during the 1950s. Highly educated, highly technologically educated workforces in those countries are reaping the benefits of both tech educations and their low wages relative to American workers' former incomes. This \$\$\$ is having amazing effect in what we might call nouveau consumer China.

China is second only to the US in number of Internet subscribers, with 80 million online. It will very shortly become number one. It costs \$4.20 a month for an Internet connection in China. China's PC business- notably Legend- is roaring. China's web portals- Sina, Sohu, Netease, Shanda, Tom Online, and Linktone- are teeming with users already profitable. Foreign web companies like Yahoo and eBay are making acquisitions to expand their operations in China. An auto industry is in the pioneer stages. China will soon have 500 million cell phone users and the cell phone systems they use and are 3G rich-content systems and much faster than anything available here. These figures are still a tiny dot of bright creation in a sea of people: 300 million people using the Internet in China are a tiny fraction of the overall population, much of which is still rural and agrarian. But get online yourself and look at photos or videos of some of China's new major-player cities- like Shanghai, for example. Shanghai makes Manhattan look like 1847 San Francisco. Similar conditions are developing in India.

More importantly however this gold rush of wages is beginning to affect the infrastructure development of both China and India, as it will for some time to come: at least a decade, perhaps two decades. Middle class people do not just want an Internet screen name. They want roads bridges cars schools houses buildings resorts consumer products and all the rest of the stuff once-wealthy America has come to love.

And although we've been talking about gold stocks in these pages for a year or so, with an eye toward the very possible end of the American dollar as the world currency of choice, what's required in the case of infrastructure development are not the jewelry and monetary metals platinum gold and silver. No, this requires industrial metals: aluminum, manganese, titanium, copper, nickel, chrome tin, lead, various alloys, iron, and steel. Most of all, steel.

Here's an example statistic: if China were to consume per capita, the same amount of steel that South Korea

and Taiwan consume, that would be sufficient to grow the Chinese steel industry at a 5% compound growth rate for the next twenty-five years. Industrial infrastructure for the production and manufacture of stuff from raw materials, PLUS the freighters- the ships themselves- the great oceangoing beasts that move all these raw materials and all this manufactured heavy machinery around the globe- are both in great shortage. Building additional oceangoing freight capacity itself require MORE steel. A similar thirst for raw materials is about to occur in India.

And although we focus on China a great deal these days, Europe too is not in as much economic trouble as we are and is storming ahead into the 21st century.

Italy, for example, is in the last stages of architectural design of a bridge that will link the Italian mainland and the island of Sicily. Construction will begin in 2005 and the project is scheduled for completion in 2010. The suspension bridge is 3300 meters- or a little less than TWO MILES- long and a thousand feet high. This little project showed up in the Spanish magazine *Muy Interesante* and in the German magazine *PM* recently but was completely off the radar screen in the United States. Do you have any idea how much steel it will take to build this?

All this global activity-which WE are not participating in- is causing shortages of key metals, raw materials like iron ore aluminum ore and coal, and specialty chemicals for use in manufacturing, and industrial minerals. So we can look at American companies like Alcoa (and Canadian Alcan) and Nucor and US Steel, plus specialty chemical companies like 3M and Dupont an Ecolab, which all stand to make a fortune from all this...

...but the truly interesting action is in middlemen like publicly-held commodities trading firm Noble Group SA, of Singapore, which last year had a gross profit increase of 48%,

...and the huge basic materials companies like Anglo American PLC, (gold, platinum diamonds coal ferrous and base metals and industrial minerals) which has just posted 1-year net income growth of 50.8%...

...and London-Melbourne based Rio Tinto (NYSE: RTP), which mines zinc, copper, etc. and which also pays a fat \$3+ dividend.

Yet another company to watch is mining giant BHPBilliton (NYSE:BBL) the world's top producer of manganese and chrome and also heavily-involved in aluminum copper gold silver and steel as well as oil.

These last three stocks are undervalued by at least 15% and possibly a lot more. And if you think these commodities are in short supply now, give it a year or two. And watch these stocks rise in value. Because following the US 2004 election the American economy will begin its upward momentum again we will want some of these basic materials too. We may not be able to get them.

Watch The Dragon eat all the steel. Will China use it all up? Yeah, for a while. Can we get more? Probably; there are still vast untouched natural resource reserves out there in Russia South America and the Middle East/Asia, but it will take huge infrastructure to tap them. That requires more steel. And it will make some countries rich: Russia, for example. And Iran, which has the world's second-largest copper mine. But not us? Well, it may make us rich too: because probably twenty cents of every dollar China earns in the new China boom will come back to the USA as investment in our equities markets real estate markets and office buildings.

Meanwhile, there will be a shortage of steel- and many other commodities as well- for *a while*. Ten years, perhaps. Maybe twenty. Or more. Until the last great natural resource geographic regions- Iran and Siberia, for example- are opened up to gold-rushing and development.

We can make money on this. Safely, and over a long period of time. But remember that it's a situation that may become very difficult for the United States. Here's why: by the time the US economy is sufficiently recovered to invest again in improvements in its own infrastructure that will in turn make the United States globally competitive, steel will have become too expensive for the US to be able to afford to modernize. This may leave us in the same relationship to the world of 2010-2015 as Appalachia is to the USA now.

Meanwhile, here in the USA: As the new century dawned we spent two *Market Witch* issues in the Spring of 2000 looking at what we called at the time "The Four Most Important Companies of the New Decade: IBM, Nokia, Corning and Wintel (Microsoft and Intel) and Why They'll Rule." We regularly talk about and feature Corning in these pages, but we have not talked about the other three in years. So let's look now and see how these companies are doing and whether they still can hold that title. Let's look first at IBM.

Toward the end of Lou Gerstner's reign as CEO of IBM we began to back away. IBM was heading in a direction that would make it essentially a service and consulting firm and would back way off as a manufacturing corporation. As Sam Palmisano took over, that appeared to continue...for a while. But today, although IBM's service and consulting business is the largest in the world, what interests us is that IBM quietly took over as THE most trusted provider of servers and began, from projects straight out of its R&D campuses, to get a foothold in the IT storage system universe as well. IBM has additionally become the world's #2 provider of software, just behind Microsoft. And IBM now is one of the world's biggest producers of semiconductors, chasing down Intel in the process. Intel still leads and AMD is second but IBM now is third in semiconductors and still growing. Who actually manufactures the chips that Nvidia designs? IBM does. But Blue also builds mainframe computers, and a continuing line of laptops and desktops that, while less profitable for IBM than the PCs of some other PC

makers, are the general public's most status-y and trusted brand. Friends who use them and college-age kids who use them tell us IBM Thinkpads are touchy, and break. We use mostly use Compaq here at MW. Our arty friends love Apple. But to the general public, the IBM Thinkpad brand is like Jaguar or Cadillac. It's that way with many of IBM's 1000s of products; check out all those IBM monitors next time you're at the supermarket. To just about anyone who has a business and needs IT support, but is not a dyed in the wool tekkie, the safest path is always seems to be "Phone IBM." And once there, it then seems odd to have IBM's formal black machinery installed and then use someone else's software, software that's less trusted whether it actually is less trustworthy or not. This pleases us. You all know we like monopolies. Plus we like companies that actually manufacture stuff. We did not want to see IBM become a service institution. And it didn't.

2003 sales at IBM were \$89.13 billion with net income from it \$7.58 billion. In addition, right at the depths of the Second Great Depression, year 2003, when most other IT companies were foundering or were on the ropes, IBM had 1-year sales growth of almost 10%. IBM earned \$4.34 a share last year, has a *low* p/e of about 22, and is leveraged but also has a reasonably low debt-equity ratio, about one third what Intel's is for example. Blue also has a fat dividend and long long history of blowing right through difficult times.

IBM does not own the data storage industry yet. In software, EMC has 32% of the market, Veritas has 22%, Computer Associates has 9% followed by IBM and then HP. But data storage software has an 18% growth rate even now, in a sluggish even motionless recovery that may not show us much movement for another year.

But data storage is about to move into boom times as an aspect of the worldwide broadband explosion which will bring necessity for short-term storage of all those trillion of pixels and long term storage of an amount of data that may increase by a factor of 20 over a ten-year period. Coming soon or here already: all-video Internet, 3D graphics, voiceover improvements, computers that talk and nearly think, video Internet telephone systems, online movies, and all the other components of rich-content Internet communication. All that and more will require data storage of proportions we cannot even fathom. As IBM continues to enlarge its market share of servers and many other aspects of computer hardware it is hard to imagine Blue will not be also able to sell its own storage system software into those systems. More important even than that is IBM's enormous R&D budgets facilities and technicians, from which we expect to see hardware innovations in data storage that will make today's systems seem like IBM's 'do not bend fold or mutilate' paper punch card computer storage systems from the 1950s and '60s.

So we're pro-IBM because of the company's servers and data storage systems.

IBM caused a sensation a couple of years back with the introduction of its “blade” servers: complete servers packed onto thin card that plug into bookshelf-style racks in a cabinet about the size of an upright home freezer. Blade servers are initially pricey. But they are space-saving, cheap on electricity, and you can add or subtract units according to whether you need the massive calculus and crunching power and speed necessary to run a pharmaceutical R&D department or whether you are keeping tabs on a Krispy Kreme franchise. Plus they are apparently absolutely workhorse reliable. And of course they work better in tandem with IBM’s own patented software, which keeps the “blades” working in concert so that none sit idle waiting for the next zero-one task.

Servers are now a \$46-billion dollar industry in the US, and that’s in the depths of a Depression; when IBM introduced these innovative “blades” a couple years back, things in tech-land were so bad the product made barely a ripple. But as time passed IBM quickly defined a new market, the market for blade servers, which is now the fastest-growing segment of the server market, and then dominated it with a current 35% market share. Additionally, IBM spends more than \$1billion a year on server R&D. Dell can’t do that. Neither can HP right now. Neither company can compete with IBM in this market. Intel can’t either because IBM is just plain better at building the more complex systems with tandem software that rich-content rich media Internet need to run on and huge data operations must have. IBM now has 31.6% of the entire server market. Dell has 29.3%. Both are closing everyone else out. But IBM owns the high end of this market.

Sun and HP both are fighting back. In summer 2004 HP reportedly will begin to market a high-end server with 128 processors, up from 64. And Sun Micro is experimenting with servers containing chips that can run two programs at once, which gives an 80% gain over processing one task at a time. These units are said to reach the marketplace some time this summer. But IBM’s lead is so huge it’s questionable whether anyone will buy them. And of course Sun, like others can’t spend a billion a year on R&D. A sleeper competitor: Sony, which is spending \$3billion R&D dollars a year and is very interested in the chip/microprocessor/ server world.

But IBM already has 1000s of products, not just servers. And IBM spends five billion dollars a year on R&D.

Here’s where some of those dollars currently go:

- Software research
- “Middleware” research (transitions between grids, systems, and incompatible software. LANs, etc. etc.)
- Breast screening technologies
- Global security
- Hacking

-Robotics

-Solar water disinfection systems

-Nanotechnology

- And a myriad of other things. Type in “current IBM research and development” on Google and you will find 1,410,000 pages of references. Does this company own the decade, or what?

As we write this, IBM trade at about \$92. Hoover’s ValueEngine system fair-values IBM at \$106, which means the thinking there is that IBM is undervalued by about 12%. We think IBM’s fair-value right now is in the \$116-120 range.

COMPASS POINTS

-Are We at Risk after the Spanish Train Bombings? For a few months we’ve told MW readers that although the upcoming 2004 election is currently about jobs and the economy, it may very well turn into a referendum on whether the US continues to fight a war against Islamic aggression or gives up and loses the war. In which case we would possibly eventually be nuked with a funky hammered-together Jihadist weapon some years down the road. Only about 50% of America backs the war. Can’t win a war with only 50% of a country’s population behind it. Nearly 2_ million people crowded Madrid streets in a memorial demonstration of rage and anguish after the rush hour train station bombings there. In total, 11 million Spaniards across the Iberian peninsula hit the streets for the memorial: one third of the population of Spain. The Spanish authorities are ready to storm the Islamic world and obliterate it. Much of man-in-the- *calle* “Jose Rioja” Spain is pro- appeasement and thinks Spain made a big mistake in choosing to back the United States.

The bombings have been viewed as reprisals for Spanish complicity and the Spanish street, now furious at their government for backing the US and the Iraq war, threw the ruling (and more or less conservative) party out and placed socialists in charge of the government. Basque or Al Qaeda? An initial reasonable assumption was that the deed was the work of the Basque ETA, or ETA with Al Qaeda assistance though it looks more and more as if the deeds were done by the AQ or by AQ wannabes. Al Qaeda quickly claimed responsibility, adding that the train bombing was punishment for Spanish support for and complicity with the American actions in Afghanistan and Iraq. Splinter or subgroups of Islamic radicals abound. These groups all know each other and interact converse and trade terrorist weapons technologies. In any case it probably was the second stupidest thing the International Islamic Jihad has ever done because it will eventually cause European solidarity with the USA among virtually ALL European governments and will give Islamic radicals no quarter and no sanctuary.

Other European countries in addition to Spain would very much like to be out of the terror loop, but heads in the sand will make this issue worse not better. Additionally the Spanish bombings give any European government that wants it, especially France, a free ticket to crack down on its domestic immigrant Muslim population in any way it sees fit, fair or unfair. Do not forget that while we are busily fighting out a domestic policy crisis in an election year here in the good old USA, the Islamic world goes right on fighting a war against us and against anything secular, democratic and Western that stands for or represents modern Western society. Is the United States still at risk for an event such as the Madrid railroad attacks? Absolutely, or worse. *Particularly at risk: New York City.* There's a flurry of concern now over the vulnerability of Amtrak. We don't think Amtrak is at risk. But NYC most assuredly is.

Japan now has admitted via diplomatic channels that a Japanese company supplied Libya with technology essential to the production of nuclear weapons. A Japanese diplomat also noted that the parts necessary to build a uranium conversion plant-which is what Japan sold Libya and shipped there at some point in the 1980s- are so large and so expensive that it would have been difficult to ship them out of Japan without the Japanese government's knowledge and tacit complicity. Libya admitted in December 2003 that it had active programs for nuclear weapons and pledged to scrap them. In a little noted event last month, a freighter sailed from Libya bound for the USA carrying a cargo of 500 TONS of the nuclear equipment Libya had used in its nuclear weapons program: a cargo bound for safekeeping/destruction here in the US. How MUCH of this stuff is out there? And for sale on the black market? Meanwhile, Iran has refused to cooperate with international nuclear inspection agencies and has stonewalled further inspections of its nuclear programs. The most informed people *MW* can find tell us that, for reasons that are too long and complex to explain here and which belong in *MIT Technology Review*, it would literally be impossible to obtain the materials to create a mobile nuke plus get them into the USA and assemble them, or to get an already-assembled mobile nuclear device into a major port city like NYC. We are not so sure that's true, especially if the target were a port city like NYC or LA. NYC, the world's financial capital, is a symbolic target and it's really THE only American target Islamic Jihadists are after, although LA would do in a pinch. But no one is going to get a nuclear weapon into a Manhattan-bound van or on the subway or onto an LA freeway. Getting a nuke-laden 4-wheeled vehicle together and moving it into NYC would be an impossible task for terrorists. But assembling a primitive nuclear weapon's components on an inbound offshore freighter and then getting the ship close to Manhattan would be difficult but by no means impossible. Especially if the correct components are available on the black market and if the generous folks in Pakistan or Iran

were willing to assist with enriched nuclear material that can easily be created in Iran Pakistan or North Korea as a byproduct of electricity production in an atomic power plant.

Is there such a thing as the ‘suitcase nuke’ of urban legend fame? We think so. A good idea of what one looks like can be seen in the 1990s film “Stargate.” Such things are not as mobile as you think; it would take not a baggage porter but a forklift to move one. Who has built one? Possibly Israel, maybe us, probably the former USSR. Could Islamic scientists build one? People we speak to say no. Could they have bought one? It’s possible. Do Islamic Jihadists have one now? It’s unlikely, but possible. A purchase would have to have come from a disgruntled member of the USSR military or scientific community or via a very sophisticated and undetected theft and that makes possession much less use of one by the AQ very unlikely. In addition, The Bush team is no less willing than the JFK administration to stare down trouble, and to retaliate and not even blink. And while it would be very sad to blow up Iran or Northern Pakistan and ruin all those valuable minerals metals and other natural resources, that would quite possibly happen if Jihadists were to cause any form of nuclear trouble.

Meanwhile, lesser explosives like Semtex or C-4 are readily available almost everywhere on the black market, probably even in your own state or even your own city. Go to Google and look up “plastic explosives” and you’ll find 138,000 references... And remember that it’s not just a “small number of radicals” who are against the west; it is ultimately the majority of Islamic culture. Terrorist groups cannot operate without the support of their culture, without the support of their indigenous people. Terrorist groups are The People’s Army. To say you are fighting “terrorism” instead of totalitarianism is like saying you are fighting “kamikaze-ism” and not Japanese Imperialism. To assume that terrorists are against you and the people are for you is nuts. A recent Al Jazeera poll indicates that 60% of those questioned believe that recent US sanctions toward Syria represent “the second stage of the US bid to control the Middle East.” <http://english.aljazeera.net>.

Meanwhile back in Spain the newly-victorious leftist party, the Spanish Socialist Workers Party, has pledged to pull Spanish troops out of Iraq. This is an enormous success for AQ; they were able to directly and immediately affect the direction of a major, major Western World election and turn the political direction and foreign policy of that country against the United States. This is obviously a huge mistake on the part of the Spanish and in the long run it is an appeasement. It means Spain will no longer do battle with the Arab world. It’s a step in the direction of the Moorish takeover of the Spanish peninsula a thousand years ago. But it’s hard to tell that to people who’ve just been blown up. It means that the Bush administration no longer has a political ally in Spain. And it means that in the European theater, the Arab world is winning. It also means that AQ may try to

“influence” the American election or others in some violent way.

The years come the years go, none of this changes. Here is the first paragraph of the October 1, 1998 *Market Witch*, an issue dedicated to risk aversion.

“ Fundamentalist radicals call for the assassination of the American President. Rogue nations (North Korea, Pakistan, others) have The Bomb. Russia, one of the world’s most extremely wealthy countries in terms of natural resources (diamonds, gold, metals, lumber, natural gas, oil, etc) refuses to work, feigns poverty, begs money from the IMF and is rife with gangsters. The US plows along, technologically superior and internationally vulnerable.”

Is this a war of cultures? Yep. Is Al Quaeda on the run or disintegrating as Spain cleans up the train bombings with arrests and the US begins an offensive in Pakistan and Afghanistan? Will the death of AQ’s #1 man, Bin Laden and #2 man Egyptian Al Zawahiri OR THE #3 man Ali Akbar Wowiezowie signal AQ’s death? This remains to be seen. What is called “Al Quaeda” actually is a per centage of the population of the entire Islamic world.

-Election Year Spending Ain’t Like it Used To Be: There is much hand-wringing among the Democrats about the Republicans having so much money to spend on the 2004 presidential election. The current ‘urban legend’ figure is that the Republicans have \$150 million to \$200 million. The Dems are supposed to have much less *although that remains to be seen*. Dem poverty is supposed to be a terrible thing while the Elephants have so much more campaign money, contributions from the rich, from corporations etc etc. But *Market Witch* collects ancient magazines from the 1930s 40s and 50s and here lies an interesting tale. An article in the July 1940 *Fortune* magazine (“The Presidential \$\$\$”) tells us that during the 1936 election total state national and local expenditures by both parties totaled *fifty million dollars*. In today’s money, even by conservative standards that would devalue the money by a factor of X15 to X20, the 2004 election should cost both parties comparatively a combined total of \$750 million to a billion dollars. So campaign spending is way less than what is was, comparatively, during 1936 in the depths of the First Great Depression. *Fortune* includes in this article a full-page graphic “political pinball game” called *CAMPAIGN-O* which outlines all the sources of political money, lists all of the various agencies who spend all of it, and shows the expense categories they spend it on. By these standards, if the Elephants spend \$200 million and the Donkeys spend \$100 million, the 2004 election will be an economic bargain. *Fortune* notes that in 1936 the Republican National Committee spent \$8,893,000 while the Dem National Committee spent only \$5,651,000 but the Elephants still lost. For additional comparison, the Republican National Committee spent \$150,000 to elect its first President, Abraham Lincoln. We’re looking to

see if *Fortune* magazines from the 30s and 40s are archived electronically rather than kept in piles on our office floor, because they are extraordinarily useful and informative.

-Oh No, Outsourcing's Not a Concern, Not at All: Utah residents who have questions their welfare benefits will be routed to a customer-service center in India as part of a \$7.8 million dollar package the state of Utah put together. Utah had been handling the calls through a company in Wisconsin until recently, when state officials approved a moneysaving deal with eFunds, a company which fields more than 900 call centers.

- Americans' Taste, America's Beer: St. Louis' Anheuser-Busch now is within a few basis points of owning half the beer market in the United States. Busch which markets various forms of Bud, plus Corona and Michelob, reported a 49.8% market share in its 2003 annual report published in March, and may already have cleared the halfway mark 50% as you read this. Stock: Anheuser-Busch (NYSE: BUD).

-In Other Monopoly News: The European Union will attempt to fine Microsoft \$613 million dollars for unfair practices that limit competition. Microsoft will appeal and if the appeal fails will write off the fine as a cost of doing business. Most government attorneys and other people who challenge Microsoft can't even explain what MSFT does with its Windows operating systems that's wrong, they just know that it is. It has to do with math models and programming structures that steel-trap people back into Microsoft systems and won't let go under the guise of offering choice. It makes most people's heads and eyes hurt even to talk about it. But because the technique is so subtle and seems so innocuous it's very hard to fight. Very bright people can't even explain exactly what it is they want Microsoft to change. Will the European Union win in an appeal fight? Don't count on it. If they do, then what? MSFT pays a fine. Windows goes right on.

-We Bring Good Things to Light: General Electric has agreed to purchase bomb-detection machine maker InVision Technologies for about \$900million (or about \$50 a share) to expand its explosive-detection and security technology businesses. The acquisition will add to GE Infrastructure's resources in providing airport, mass transit, border and power plant security. GE is also improving security solutions for chemical plants military bases big entertainment facilities like Ravenna and sports arenas like Soldier Field. GE has been off our list for several years; we were not comfortable with GE's CEO Jack Welch, whom we thought was a poor leader, and when Welch got it down to two candidates for a successor, when Welch picked one we thought the better of the two went to 3M. But GE CEO Jeffrey Immelt is steadily getting this company back on track and we're putting GE back on our Basics list after a long absence. We read by the way that this sort of explosive-detection technology is similar to the way a CAT scan works, which of course is prime GE medical technology.

-Marketing of the obvious: Pizza Hunt introduces the square pizza that fills the box and allows quarters with different toppings. The company, YUM! Brands, which markets Taco Bell, Kentucky Fried Chicken, Pizza Hut, A&W Root Beer, Long John Silver's and others, is leveraged, possibly overvalued and pays no dividend. But this holding company, originally a spinoff from PepsiCo, holds a handful of the most potent brand names in the western world, and may become a buyout candidate if its stock falls to where the company's debt/equity ratio says it should be. A couple of obvious purchase candidates would be Coca-Cola or Anheuser-Busch. Meanwhile, the Atkins diet is a fad, carbs will not always be out of favor, and eventually YUM! will move into a growth pattern again as potential new market stabilize politically.

-Pharmaceutical Wars in Europe turn Political: We usually tout Swiss-based Novartis (on our BASICS list) for its veterinary med product line, but the company's Consumer Health Unit fields such brands as ExLax Maalox and Gerber Baby Foods and its CIBA Vision Unit includes eye drops contact lenses and lens solutions. Novartis wants to buy French pharmaceutical company Aventis. French pharmaceutical company Sanofi wants also to buy Aventis. Sanofi doesn't have the money to do it. Novartis does. A Novartis-Aventis merger would immediately create the number two drug maker in the world (behind Pfizer) and would create a company that would be the world leader in cardiology products and cancer treatments, and big clout in diabetes products. The French government now says Novartis can buy Aventis over its dead body. Is this legal? Can the French government do this? Novartis is the strongest economic performer among the top ten drug companies of the world. Stay tuned. Stock: Novartis. NYSE: NVS.

-A New Generation of America's Favorite Lawn Mower: Honda, which has a hand in virtually every aspect of consumer small-engineering, has agreed to provide Honda 4-cycle small engines for a new generation of Lawn Boy mowers, the familiar green lawn mowers that are America's favorite yard cutter. The new Lawn Boys will show up in your local hardware store or dealer this spring. Lawn Boy has been owned by Toro for a few years, a company that is always on our "Basics" list.

-The Big Three Minority Groups: Largest is now is Latino. 2nd largest is African-Americans. *The 3rd largest minority group in America is: members of the AARP, thirty-six million people.* It's a number that has powerful implications both for the immediate future (the 2004 election: Greenspan very subtly demolished Bush's credibility recently with this group by suggesting that a budget deficit the size of Ralph Nader's ego will cause a necessary shrinkage of future SS benefits) and for the decade and the one after, as more Americans who can't afford it try to retire and, finding themselves in dire poverty, and vote to get something done about it.

-Class Wars: Krispy Kreme posted an increase in quarterly earnings of 45%. The North Carolina-based company posted a record quarterly profit of \$16.4 million. KKD opened a record 35 new stores during its most recent quarter, including its first south of the border, in a suburb of Mexico City. Just after these announcements in mid-March the share value immediately fell when an “interpretation” of an analyst from JP Morgan grouched that individual store gross margins had declined. Two things are going on here. This was likely an effort to surreptitiously assist those with large short positions, who stood to get creamed. But also these ‘experts’ need to spend more time in places like Tulsa going to school board meetings and children’s sports events and church picnics and talking to used car dealers pawnshop owners and barbers to gain a better understanding of who lives in America and what Americans do. We’ve mentioned before that both Krispy Kreme and Harley-Davidson are objects of class warfare (and shorting) among the Wall Street effete, who despise what these companies represent and in effect hate what America really is. And would be happy to see both these companies and the Americans who support them with such fanatic dedication disappear because they are such a national embarrassment to the elite. Krispy has within the last year become one of the most widely recognized and admired brand names on the planet, and the company will slowly and steadily expand until there are Krispy Kreme hot lights in two or three dozen countries. As the stock stays in the \$30s, following a peak of \$49, which was a killer profit-taking point, the company continues to expand, the p/e continues to fall, and the company’s balance sheet continues to strengthen. If you have a problem with the company’s NASCAR/hillbilly image, do not buy the stock. To get wealthy slowly and safely, buy it. Do *we* own it? Oh yeah, lots of it. More than 70% of KKD’s outstanding shares are held by mutual fund owners and institutions including American Century, Putnam, and Merrill Lynch. These are people who may wear Hush-Puppies instead of Armani suits, and who may not order flavored martinis after work but who know what they are doing. This company is *who we are*, people. Meanwhile, Krispy says it will soon market a low-sugar doughnut for diabetics and dieters. This is similar to what Hershey has done with a few chocolate products. The product is set for introduction late this year. Does it matter? Overall, probably not. It may just be KKD throwing a public relations bone to the “obesity” hysteria. HOWEVER: a low sugar KKD would immediately make this product available to an additional twenty-five million American diabetics and that is not a small addition to a customer base. A true low-fat Krispy product may not ever appear. Meanwhile, Krispy is focused on its global rollout, as it fast becomes one of the most important brand names on the planet, and its currently downtrodden stock, in the mid to low 30s is a steal.

-Same As it Ever Was: Vladimir Putin was re-elected President of Russia in what was essentially a one-

candidate election and is moving everything back toward Big Kremlin government and central control of everything. There's no independent press or TV. Recent *Financial Times* profiles characterize the Russian people as no longer primarily interested in issues of democratization. They want stability. A regular paycheck. They're more interested in earning money and maintaining their indigenous culture and keeping it from being destroyed by videogames, DVDs, thongs, golf clubs, Jif, Barbies and MTV. Meanwhile, ex-KGB chief Putin has positioned himself and consolidated his power so that, like other Russian leaders before him, who before Russian "democracy" were called "premieres" he'll be "President" via "elections" for a long time to come. In high-tech South Korea, which we featured last month during discussions of a "broadband-wired nation", the President was impeached on charges of illegal electioneering and incompetence. In the US, John Kerry refused to apologize for calling his Republican adversaries "the most crooked, lying group I've ever seen" while speaking near a microphone he did not know was live.

-Republic of South Africa gold powerhouse AngloGold Ltd. will change its name to AngloGold Ashanti at the company's April 8th ^{shareholders} meeting following the company's purchase of Ghana's Ashanti gold and its huge reserves. Stock ticker will remain NYSE: AU. AngloGold Ltd was formed in 1998 from a consolidation of the original Vaal Reefs Mining Co. founded in May of 1944. The company currently mines or explores for gold in 11 countries including the US, Brazil, Australia Argentina and Mongolia as well as taking care of business in Africa. A composite averaging of production costs as we read it in the annual report shows AngloGold Ashanti producing gold at a cost in the low to mid \$200s per ounce, so um, as you can imagine they are making a profit. As things become more not less chaotic in the global picture we expect gold to be at \$460 an ounce shortly and in the \$500s by the end of the year. This will continue until Europe ceases its appeasement stance toward Islamic radicalism and joins the US in a war to end it. Additional incidents like the most recent Spanish one will cause gold to spike dramatically. We do not expect gold to fall in value again. We don't expect to see \$350 gold again in our lifetimes. Falling gold prices would have to be predicated on political stability. We don't see that happening any time soon. Plus, what strong economic growth that does exist now is causing prosperity in countries (notably China and India) that value gold and other tangibles like real estate above paper currencies. This will cause demand for gold to rise.

-Why Everyone is So PO'ed: A recent study shows that the high-protein Atkins diet causes a dramatic falloff in the level of serotonin in the body's blood system. High serotonin levels cause people to be happy. A high-carbohydrate diet causes levels of serotonin to rise fast and stay high. A low serotonin level causes rage and mood

swings. We may find it's better for Americans to be fat n happy (oops; "obese") instead of fashionably svelte and shrieking at people. Meanwhile, various big supermarket chains and Wal-Mart wannabes have cut costs by eliminating all their baggers, forcing cashiers to scan and price stuff plus prepare it for you to take home. Result: slower service longer lines, a much higher rate of price mistakes, and customers having to stand in line and go through the process again in order to correct the increasingly numerous errors that are not in their favor.

- So much for Dr. Atkins: Panera topped a Southern California market research firm's annual ratings list for customer satisfaction, in a tie with tiny In-N-Out Burger, a small burger chain based in Irvine that has been a SoCal fixture since 1947. Panera has 600+ restaurant/cafes in 35 states and will eventually be wall-to wall, with locations in every state. About 70% of the Euro-style cafes are franchises. PNRA has been on our Strong Buy list for about 18 months. Right now it's undervalued.

-Are We Becoming More Devout? Or Simply Weirder? It's probably incendiary to even speak of religion these days. America has become as Christian Fundamentalist (see "America's soon-to-be New Majority, *Market Witch*, April 2003) as the Arab world has become Islamic Fundamentalist. But what has been called Mel Gibson's 'sacred snuff film' "The Passion of the Christ" already has taken in some \$300 million. We were always under the impression that Christianity was about miracles and the performing of miracles, not about being an S/M devotee. Two firestorm issues continue to appear but they're both easily put out with some thinking. Are Jews responsible for the death of Christ? If so, so what? Christ was a Jew. The Jews, if they killed Christ, killed one of their own, killed another Jew. Blaming Jews is like saying that if the Jews killed Christ it is a terrible thing but if the Swedes killed Christ, or the Ukrainians, well then, whew, that's not as bad. Case closed.

And all this emphasis on Christ's death. A great many Christian Fundamentalists, Mr. Gibson among them, use Christianity as a bludgeon with which to guilt-trip others into submission. This is little different from Islamic Fundamentalism: in the Islamic world you are blown up if you don't do what people tell you. In the western capitalist world of Christian Fundamentalism, you are told to buy a ticket. Either way a preoccupation with death is a preoccupation with death. Christ was apparently a divine being so loved by God that Christ could perform miracles, could heal lepers, could cause the blind to see, could raise the dead. The value of Jesus lies in an exemplary life, a truly perfect one, and one which glorifies God not man. Jesus' death and the manner of it is far less important than Jesus' life. To dwell on Jesus' death is to dwell upon the satanic and to ignore the key issue of this life, which is that love is the strongest force in the universe. But as we mention often, the Outlaw Economy is enormous, and it grows every time someone loses a job and can't find one that pays as well. And porn is a big part

of the Outlaw Economy. Is “The Passion of the Christ” porn? We think so. Of course we also think that “The Wizard of Oz” is porn. In part thanks to brilliant marketing, “The Passion of the Christ” has just become the largest-selling R-rated movie ever. It will very probably become a perennial, one of those films re-released annually at Easter or even Christmas. Will Hollywood jump on a wagon train of Bible-epic religious films as happened in the late 1950s and early 60s? See also: “The Gospel of Debbie” by Paul Rudnik (New Yorker’s The Back Page) in March 15th New Yorker, <http://www.newyorker.com>; recent translations from the ancient teenage Aramaic from the writings of Debbie of Galilee. There is no question Mel Gibson is a marketing genius. It is hard to argue with three hundred million dollars at the box office. Whether Mel Gibson is a religious leader is another issue entirely. The success of this film however confirms that religious folk- evangelicals, born-again, holy rollers, revivalists, fundamentalist Catholics etc- not only are the largest and most powerful ethnic group in the country, they have become a truly powerhouse economic force. They have their own music literature film art foods, dress codes, language dialect, and social structure. So in some ways Gibson’s film can be viewed as the first ethnic religious “crossover” film.

-Brown and Williamson, a subsidiary of British American Tobacco and makers of Kools, will market flavored cigarettes: Kools in Caribbean Chill, Midnight Berry, Mocha Taboo and Mintrigue. Is the tobacco industry trying to induct a new generation into the habit? Of course. Brown and Williamson and RJ Reynolds Tobacco Holdings are merging. The merged company, to be called Reynolds American, will be on our Strong Buy list. The merger is expected to close by mid-year.

-Natural Gas? We Don’t Need No Stinkin’ Natural Gas: In a milestone contract-signing, Saudi Arabian government officials gave oil execs from several countries the rights to explore for natural gas in Saudi’s southern desert, home of the world’s fourth largest reserves of natural gas. The Saudis have never before invited foreigners to make competitive bids for right to explore these regions for natural gas. The winning companies-Lukoil of Russia, China Petroleum and Chemical Corp, also called Sinopec, and a consortium of companies from Italy and Spain. Each company has an 80% stake in its contract; Saudi state-run oil concern Saudi Aramco will hold 20 points of each project. The contracts are of forty years duration and are active immediately. Each company has said it expects to invest several billion dollars to develop any natural gas finds. *Conspicuously absent in these landmark contract bids and negotiations were American firms. Why? Because Saudi next door neighbor, pro-American Qatar, (or Qatar; both spellings are correct) now hosts US CentCom and is home of the world’s largest military base. Qatar has essentially become the 51st American state. See “America’s New Arabian-Peninsula State”, Market Witch*

March 2004, <http://www.marketwitch.biz>. And while Saudi Arabia has the world's 4th largest reserves of natural gas, Qatar has...the world's third largest.

The Demise of American Literature: Pamela Anderson has been handed \$250,000 to pen a pair of romance novels with the help of a hired ghostwriter. Publisher Simon and Schuster has recruited an experienced author to um assist. Says Pamela: "All the plotlines and characters are mine. Now people might have a hard time writing me off as a bimbo." Pamela: ever hear of Jackie Collins? Or Jacqueline Suzanne?

-Boom times for Pampers and Pringles: Proctor and Gamble, makers of these and 100s of other consumer products and brands, is doing a gold-rush business as America hunkers down, eats potato chips, colors its hair, brews Folger's coffee, writes fruitless job apps and goes to bed for amusement because there's no extra money for more expensive entertainment. Proctor and Gamble, at \$105, announced a 2:1 stock split effective May 21st and increased its dividend to \$1 annually for post-split shares. Following the split, PG is a strong strong strong buy.

-The Dames They are a' Changin': Three four five years ago it was considered cute and funny and even socially acceptable throughout much of America to say "Ellen Degenerate" rather than "Ellen DeGeneres"... and everyone in the bar studio stadium or country club would laugh. But last month Ellen DeGeneres was nominated for twelve (12) Daytime Emmy Awards including nominations for best talk show and best talk show host. And this month's *Esquire* magazine reveals to us that among a very upscale but very heterosexual sampling of American women, nearly 20% now identify Ellen DeGeneres as the funniest woman who ever lived. Among those answering the same research questionnaires thirty-five per cent report that they have tattoos and more than twenty-five per cent test positive for hidden piercings. Our own research during March into The Fall of Martha, which included questioning what we think was a much broader cross-section of women than the women *Esquire* talks to, reveals that a majority of women think that for Martha to do prison time is a Bad Thing. Typical responses we got were "Why isn't OJ Simpson in prison?" "Why isn't Kenny Lay in prison?" And *Forbes* magazine tells us that of the world's 552 current billionaires, fifty-three, or almost *exactly* 10%, are women. See <http://www.forbes.com> and <http://www.esquire.com>. One last femstat, this interesting set of figures drawn from the work of USA Today: Per centage of men in their 50s who have sex at least once a week: 33. Per centage of women in their 50s who report having sex at least once a week: 17. Think about it. Do the math.

-The Doughboy Gets a New Home: J.M. Smucker (NYSE:SJM), always on our BASICS buy list for its stability, dividends and strong family ownership, will buy out International Multifoods Corp (IMC) for about \$500 million and in doing so will own Pillsbury baking products and Pet evaporated milk and a list of other

consumer products. Smucker's use of the Doughboy trademark (which dates back to 1965 and probably climaxed as a facet of one of the "Ghostbusters" movies) would be under IMC's perpetually-renewable 20-year royalty-free license lease from the Pillsbury company, now a unit of General Mills. Smucker most recently bought Jif peanut butter and Crisco. SJM caused a flap a couple of years ago when it attempted to patent the peanut butter and jelly sandwich and was laughed into backing down. But it's a terrific and worry-free company to own shares in. J.M. Smucker last month was named number 1 on *Fortune* magazine's list of the best companies in America to work for.

-Young Americans are Getting their News From: Comedy Central. Research from the Pew Center for People and the Press indicates that a sizably high percentage of the 18-29 age group gets much of its news not from Tom Brokaw or Peter Jennings or Dan Rather, but from Jon Stewart. *Comedy Central* is fast becoming the most-trusted news source among this age group. Newsday studies show Jon Stewart sitting atop a list of the top 20 talking heads players who will most influence the 2004 Presidential election, topping Tim Russert, Ted Koppel and a long list of others.

-Hot New Fad Among Teens: Movieke. No one sings, but film score background music provides ambience for acting out key scenes from hit films. People watch, people take turns. Soon: Clubs?

-Poor George: Bush inherited the Rhinestone Depression, the Second Great Depression, not from Bill Clinton, whose Rubinesque economic policies were exemplary, but from rightist conspirator/errand boy Alan Greenspan whose interest rate hikes in the late 1990s destroyed the American economy. Greenspan has already put such a severe shot across George's bow with the Social Security crowd recently that George is no longer able to look forward easily to a second term; yet Bush, uncomprehending, would give aging, Ayn Randian Greenspan yet another term as Fed chief. But that's only the beginning. Bush is now under fire from far-right elements as diverse as *Field and Stream* magazine, for attacks on the sanctity of waterfowl wetlands and other conservationist/EPA issues and from the Xstian Right for his failure to "do something about this Gay Rights thing" *sooner*. Gay "marriage", "civil union", "equal rights", *whatever*, is inevitable: not immediately, but eventually. And George's bringing up a constitutional amendment against the creation of a "gay middle class" (which would be the first negative constitutional amendment since the failed Prohibition) has drawn ire from almost all quarters. George, like his father, has ignored the plight of the jobless American Mainstream because he's utterly out of touch with it. Meanwhile, George is focused upon the most important nation building exercise since the end of the Second World War. George has had to do this because while Clinton's economic efforts led

to a boom, Clinton also downsized the US military and intelligence resources and failed to handle the developing international problems which led directly to 9/11 and which George has then been called upon to fix. George's efforts in the Middle East will determine America's position in the world and Islam's global socioeconomic status in the global economy for the next half century. But only half the country is behind him on it. The other half of the nation believes it is 1969 and "the troops should be brought home" and the John Kerry Dems instead of getting behind patriotism seem to be fanning an atavistic 1960s peace movement, to their detriment. Because much of the nation, the part that doesn't pay any attention whatsoever to the *New York Times*, still is fervently patriotic, remains consistently enraged over 9/11, and still very much wants to take the entire Middle East down in revenge: Syria, Iraq, Iran, Pakistan, all of them. Check out the new Navy recruitment poster: "Life, Liberty, and the *Pursuit of all who threaten it.*" Bush cannot be elected on a War ticket when no one at home has a job. Kerry *possibly can* be elected on an FDR-style jobs ticket or a Clinton-style "it's the economy, stupid" ticket but probably *not* on a 1960s Viet Nam Protester ticket. Bush needs to push ahead with his overseas adventures but also fix the economy and he can't because he doesn't understand the economy and has no empathy for the American people. Kerry, a Massachusetts Yale blueblood, also has little empathy for or connection with working class America and his choice of VP running mate may well determine what success he has in gaining the White House for the Dems. Kerry's most potentially-electable option would be to ask Hillary to run as VP, which would be in effect re-electing the Clintons, but it would make Kerry a figurehead. Kerry (or someone in the Dem pantheon) understands how to fix the economy (using an FDR model) but doesn't understand that the USA - and half its people- are strongly patriotic and nationalistic and utterly committed to the war against Islamic totalitarianism. Bush became the laughing stock of the country by changing the definition of "manufacturing jobs" to skew the failing stats so that a fast food job now is a "manufacturing job: the "manufacturing" of a cheeseburger. In addition, Bush, who was *not* elected, and had no strong mandate as an incoming President, chose to govern from the extreme right even though he obtained the presidency in what was essentially a bloodless coup, and this has utterly backfired. But Bush is still viewed by his country as a strong and decisive leader who actually believes what he says. Our own interviews and studies put Bush's chance of election to a second Presidential term right now, as of Spring 2004, at approximately one in five. People who believe otherwise are probably out of touch with the opinions of the Real America, the America that lives outside Southern California, outside Washington DC and off Manhattan island. *However:* seven months remain until the 2004 election and as Alan Greenspan has so eloquently stated, "things can turn on a dime." Bush, who inherited a

Depression from Greenspan, and inherited a War from the counterterrorism inactions of Bill Clinton, will likely bequeath the start of a booming economy to John Kerry as the US economy roars to life in 2005 after several years of lying fallow with low low interest rates. And Kerry, who will have done nothing substantial at that point, will get to take credit for it. Poor George, poor John. Poor us.

-And Some Competition for IBM's R&D from: Toshiba. Toshiba has brought from its own R&D department a hard-disc drive that is about the size of a postage stamp and has a capacity of up to four gigabytes, and will be utilized as components of cell phones and digital camcorders. The disc part of the unit is slightly smaller than a US quarter. Toshiba currently fields a 1.8 inch HDD (hard-disc drive) with a smaller memory capacity that is used in a number of products including Apple Computer's fast-selling iPod digital music players. Toshiba will begin production of the tiny disc drive late this year. At which point you will be able to hold more information in a unit the size of your wristwatch than you could in a desktop computer of the late 90s. Will this eventually give us superpowerful servers the size of a medium pizza box?

-Attention K-Mart Shoppers: Martha Stewart is a felon. Big Deal. Actually it is a big deal, but not in the way you might think. Yes, justice has been served, sort of. Yes, Martha was- probably still is- a power abuser. A very arrogant and very wealthy person has been taken down a peg, and it is fast becoming a national pastime to "piñata" people, institutions, products, companies, etc. But there is a very fine line between punishing Martha for her arrogance and making an example of her, and in so doing accidentally turning Martha into a sympathetic figure, someone the downtrodden identify with as an outlaw, patron icon and folk hero. Never forget this: America likes to see the mighty brought low but America *LOVES* outlaws. America *LOVES* pirates. If Martha actually *does* time, she can very easily emerge from the Big House as Willie Nelson or Johnny Cash or Heidi Fleiss or Hank Williams Jr. or Bonnie Parker in the eyes of the American people. Martha is already a very tough cookie, behind a very glossy but contrived "lady next door" veneer. Rip that off and you may have a lady pirate, and a folk hero. She may very well move from being a former celebrity to a legitimate outlaw legend. It depends on how her case is handled. The government needs to keep Martha a "criminal" in the eyes of the public. Can they do it? A majority of American women already think she is taking the fall for white-collar criminal men who are still free. Plus: how much \$\$\$ do you think she will donate to the Democratic National Committee???? Meanwhile Martha's magazine has just won a pair of American Society of Magazine Editors' annual National Magazine Awards, one of them for overall editorial excellence.

-America's Most Important Manufactured Product May Be: Money. Bear Stearns earned \$2.57 a share last

quarter. Estimates were for \$2.05. Lehman Bros reported record earnings of \$2.21 a share; analysts had expected \$1.62. Goldman Sachs Group earned \$2.50 a share last quarter, compared to \$1. For the same quarter a year ago. Analysts had been expecting \$1.65 Stocks: Bear Stearns, Goldman Sachs Group, Lehman Bros Holdings.

-Ohio: Epicenter of *Something*, But We're Not Exactly Sure What: The Movie Set of "Deliverance" Perhaps? Ohio lost more manufacturing jobs than any other state in the US during the past three years. A Republican governor, Bob Taft, now more or less in hiding from the media, tried to float and fund a project to bring high-tech companies to Ohio- a state with few high-tech workers and a low education level, thus offering no high-educated workforce to would-be Ohio companies- and failed. The state's budget is on the ropes; on the same day the governor announced a 6% state budget cut to lower expenses, a worker in a state warehouse picked up the wrong pallet with a forklift and sent \$46,000 worth of newly-stamped license plates into a metal shredder. A new book just published and of interest to the scientific community, *The Ants of Ohio*, now is obsolete because it notes the 117 species of ants that live there and a 118th has just been found. A law has recently been passed allowing residents to carry concealed weapons, and the state is scrambling to make and post signs to keep pistol-packin' Ohioans from carrying heat in restricted areas like hospitals and government buildings. Meanwhile, the central Ohio police and the FBI have just spent nearly a year chasing a freeway sniper. A suspect now has been identified as Charlie McCoy and has been captured in Las Vegas. After McCoy was finally identified by police and had his photo posterred on the local newspaper front page, the house where he lived with his mother was egged. When the authorities extradited him from Nevada to Ohio where he will stand trial they had to sneak him in for fear of vigilante justice. It is possible in the state's capitol city to be arrested and put in jail for riding a bicycle while drunk (BUI). The Ohio State Board of Education reportedly has recently approved teaching "creationism" in 10th grade science classes. Creationism may or may not be true but it is essentially religion masquerading as science and crosses way over legal guidelines for public schools; a highly visible Supreme Court fight is certain to follow. In other action, the State of Ohio kept a 25-year old in prison for 18 months following the discovery of an obscene diary he had written that was never intended to be published or posted online but was something he had written for his own amusement. A landmark decision by a wise country boy, Ohio county judge David Cain, of the Franklin County Common Pleas Court, freed the imprisoned and will probably put Judge Cain in the history books. Cain ruled against 'thought police' and said that it's important for government to "resist the temptation to engage in pre-emptive strikes." Bush now visits Ohio constantly because he must win it to be re-elected. So many people have lost jobs there however that Kerry should not have to do much to win the state. Meanwhile in an

Appalachian hamlet in the southern part of the state a 7-year-old girl was sexually assaulted and then thrown down a shallow well to drown. Authorities arrested the live-in boyfriend of the girl's mother as a suspect in the crime. Said a local: "I can't hardly believe it." The US census bureau says that Ohio has lost more people between the ages of 15 and 44 than any other state during the past three years. Each year the turkey vultures (or 'buzzards' as they're called out west) return to Ohio from wherever it is turkey vultures go for the winter, and this is an event that is celebrated as a miniature version of Pennsylvania's famous groundhog day, immortalized on film by Bill Murray et al. But people between the ages of 15 and 44 are fleeing Ohio in droves. Can you blame them? Yet right in the middle of all this backwoods funkiness are: a huge Anheuser-Busch presence plus the national headquarters of Wendy's, NCR, Nationwide, The Limited (Victoria's Secret), Honda USA, Abercrombie and Fitch, Kroger, Proctor and Gamble, Federated Department Stores, LTV Steel, and Cardinal Health, which has just been listed in *Fortune* magazine Fortune 500 as Ohio's largest company, with revenues of \$56.7 billion for its fiscal 2003.

-Multitasking: Note the emphasis now on "automatic" watches, watches that wind themselves via the kinetic movement of your wrist or your arm. These watches have become popular because we are so busy that no one has ANY margin for error in their lives. No one has a margin for error on any given day, even on a weekend, that will allow a wind-watch to run down and an electric watch's battery to fail. Automatics are a neat technology but the need for them is a sad state of affairs.

-Let's Go to the Auto Show: Americans have renewed their love/lust for horsepower. Speed is overtaking Green on the nation's roads but hybrid vehicles are gaining a foothold. All-wheel drive is increasingly common in sedans. Pickup trucks overtook cars about three years ago as the best selling vehicles in America. They've fallen back a little but are still enormously popular. There five full-size pickup brands, three American, Chevy Dodge and Ford, and two Japanese, Nissan and Toyota. SUVs are falling back a little; most favored are exotic, high speed luxury sedans: Jag, Lexus, Cadillac, BMW, Chrysler, Aston-Martin, Maserati, Mercedes, etc. Favorite colors are still silver, black, white, blue, and red. Mr. Average New Car Buyer is 46 years old, male (almost 70%) and favors driving characteristics, handling and performance over other factors (like safety features, durability, fuel efficiency, or design or resale value). In what is rapidly becoming a have/have-not society, more than 25% of new car buyers pay cash.

-Worst Unemployment in America: Oregon, Alaska, Michigan, Washington, Texas, South Carolina, Ohio, Illinois and California. Ohio's right in there in the top 10. Doesn't look at all good for the Elephants that Texas is

number 5 and California Illinois and South Carolina are on there too.

-A Minority Group Larger than even the Latinos? American teenagers now number 40+ million. They currently control much of the cultural fad momentum in the country and much of its spending money as well but have no political clout. That may change: there are rumblings inside the California State Legislature to give teens the vote as part of an 'improving citizenship' campaign. A proposed amendment to the California constitution would give teens 14 and older _ vote and 16 and older a _ vote as part of a statewide "training wheels" citizenship package. *Market Witch* interviews with young people suggest this is an idea whose time has come. Action-figure Gov. Ahnold, who has become a national bellwether, is said to be for it. *Who and what would teens vote for?* Like every other group, it's a mix. Interestingly enough, however, teens are *less* 'liberal' less 'radical' less 'progressive' than you might think. Note: as the proposed legislation reads now, Calteens would be able to vote in state, but not national, elections.

-Mortgage Rates vs. the Market: 30-year mortgage rates fell to their lowest since July of 2003 last month. The brightest of our own *Market Witch* advisors say that benchmark 30-year home loan notes will stay low for at least another 24-36 months. Stocks: Toll Brothers, Lennar, D.R. Horton, Centex, and NVR. But a huge negative aspect of this is that money from booming foreign economies in China and India that would ordinarily go straight into the US equities markets will be going instead into American real estate. This will cause real estate price hikes for underemployed Americans who are already strapped for cash. Consumer debt increased by nearly 9% in January; total American outstanding consumer debt now stands at a record \$2 trillion. And it will *INCREASE THE LENGTH OF RECOVERY TIME FROM THE SECOND GREAT DEPRESSION. IT WILL ADD A COUPLE OF YEARS TO THE TIME IT WILL TAKE FOR AMERICA TO GET BACK ON ITS ECONOMIC FEET.*

-Never Mind the Rust-Bucket Car, Skip the Resume-Writing, Let's Spend the Weekend in Space: The House passed legislation establishing guidelines for America's future space-tourism industry. A House bill passed 402-1 which gives regulatory authority over space tourism to an FAA Office of Commercial Space Transportation. This office would be able to reduce red tape required to issue permits to test experimental racket. The theory is that the bill will encourage private sector to view space as a sort of economic frontier and will take advantage of private-sector high tech ingenuity. Additionally, space entrepreneurs will, the theory goes, develop aerospace technologies that will provide valuable additions to our national security. The bill established regulations for tourists' medical conditions and for space tourist flight crew training. Space tourists also would have to be

informed of the risks of space travel and commercial space launch companies will have to carry liability insurance. This bill now goes to the Senate for consideration. Meanwhile, back here on the ground, American entrepreneurs have recently brought you: an astonishing variety of erotic nipple jewelry, a dog toy in the shape of Osama Bin Laden that squeaks, <http://www.politicalpettoys.com>, and a baseball cap that says wwdotcom my ass! on it for the 75 million Americans who think the Internet is the equivalent of dog crap on the front lawn. The 1 in the 402-1 was from a Republican congressman from Texas. Yet although we make fun of consumer space travel and space tourism now, it will very likely happen and happen fast. See “Blastoffs on a Budget” by Joan Horvath, *Scientific American*, April 2004, <http://www.sciam.com>. Spaceships, Inc. and the race to build low-cost private-sector launch facilities.

-The Rise of the Big Three Consumer Megabanks: The Fed approved the merger, set for this month, of Bank of America and FleetBoston Financial Corp., creating the third largest US bank, one worth almost exactly \$1trillion. The new bank, with 5700 offices in its merged form would trail only CitiGroup and merging JPMorgan Chase and Bank One. Boston will lose its last major hometown bank. America will lose: banking competition and local control of financial activities. On the other hand these Big Three will be able to not only compete but to dominate world markets with the one product America can still manufacture: cash.

ARTICLES OF THE MONTH

“Into Thin Air” by Jennifer Reingold, *Fast Company* magazine, April 2004. Cover story in an unusually good issue of a provocative and often brilliant magazine. A study of the outsourcing of upscale high-tech jobs to low-wage countries. Complete with forty pocket bios and snapshot stories of forty now-jobless victims. The rage/anguish index in America over lost jobs has reached crisis proportions. Can a President Kerry bring back outsourced jobs? Will offshoring-engendered unemployment cause a backlash against Chinese and other foreign products and some form of legislative protectionism? If America’s economy won’t improve until the “next big thing” happens, what is the “next big thing” and when will it show up? Tough questions and we are not sure yet what the answers are. As of April 2004 it looks as though the election may come down to the issue of 1930s poverty...and jobs. It may also turn out that the election is a referendum on the “War on Terror.” The election still is seven months away and the terrorist event in Spain has turned things in a different direction. *George W. Bush may be thrown from public office like a body from a speeding car in a Quentin Tarantino movie. John Kerry may be repudiated as a dumb rich patrician stentorian peacenik of a senator on a snowboard whose finest hour was at some point during the late Simon and Garfunkel war-protest era. Either way, the people in this article and millions like*

them are in anguish and fighting for their financial lives. Read this.

<http://www.fastcompany.com>.

“*PC Technology is the Spark that Ignited Outsourcing*” by Thomas Friedman, article syndicated many and various places. Friedman outlines Globalization 1.0, 2.0, and 3.0, in a short brilliant piece and provides comment about much of what we’re addressing in *MW* this month. Because Friedman is a columnist and his work is syndicated often and widely it is difficult to provide a link to this one particular column so with apologies to Friedman we’re simply going to summarize it.

All this has happened before. There are not one but three eras of globalization: Globalization 1.0, Globalization 2.0 and Globalization 3.0.

Globalization 1.0 lasted from the late 18th century until WWI and was characterized by the invention of, the expansion in use of, and the decrease in cost of moving freight via steamship and the railroad. Friedman ignores the rise of the air freight industry that followed America’s huge industrial buildup accompanying WWII, but airfreight is a subset of earlier product-moving and commodity-moving technologies and very much falls into the Globalization 1.0 category.

Globalization 2.0 lasted from approximately 1980 until 2000 and was based upon dramatically-falling telecom costs and the rise of the personal computer.

We’ve now entering the era of Globalization 3.0 which is characterized by three forces:

(a) the massive installation of undersea fiber-optic cable and the increased bandwidth available, making it possible to transmit and to store huge amounts of data cheaply.

(b) the enormous number of personal computers available throughout the planet.

And (c), the convergence of a variety of software applications, from e-mail, to Google, to Microsoft Office, to the myriads of specialty software outsourcing programs, that when combined with all those laptops and desktops and all that bandwidth make it possible to create GLOBAL WORK FLOW PLATFORMS. And, need we add, engendering a global work force. These platforms can chop up any service job- accounting, radiology, consulting, software and engineering- into different functions and then thanks to scanning and digitalization outsource each individual function to teams of specially-skilled workers around the globe based upon which team can do each function with the highest skill at the lowest possible price. The project then is reassembled into a finished product.

What does this mean? Two things: first, whether you adore George Bush or despise him and want an FDR-style administration in the White House, George Bush will take the fall for two things he didn't cause: globalization and outsourcing. And blocking the gateway to Globalization 3.0 is Islamic Totalitarianism, and we will not be able to truly enter this new era until it is defeated. Second: it means that from now on, if you want a job, any job, working for someone else, you had better not only have skills and education, you had better have connections.

QUOTE OF THE MONTH:

“No two countries that each got a McDonald's have ever fought a war against each other since they each got a McDonald's.” Thomas Friedman, explaining his McDonald's theory of socioeconomics to Tim Russert.

“We're electing a President, not a priest.” -Monica Lewinsky.

ON THE REFRIGERATOR DOOR

“Creeping Global Villagism” by Aline and R. Crumb, *New Yorker*, March 22, 2004, <http://www.newyorker.com/>. Think you can still expatriate to some idyllic place like rural France and live happily ever after, free from the effects of mainstream global life thought mores and rituals and safe from industrial hiphop? You can't. It's too late.

BOOKS OF THE MONTH:

The Coming Generational Storm by Laurence Kotlikoff of Boston University and Scott Burns, a writer for the *Dallas Morning News*, MIT Press, Feb. 2004. It's 2030, a date less far away than you might think. 77 million Baby Boomers are alive, frail and elderly. There will be fewer working taxpayers available to support SS and Medicare as we know them now. We're now learning a projection shows Medicare bankrupt in 2019. The author warns that if we continue on the path we're walking now we'll see skyrocketing tax rates drastically lower retirement benefits high inflation a depreciating dollar and a politically unstable USA. These conditions are about to change, and the USA is about to take a completely different path beginning in 2005. But it will take several years and perhaps a decade to turn this corner toward a prosperous (and probably way more socialistic) country. Meanwhile this is an important guideline and shows what may happen if we blow it.

Against all Enemies by Richard A. Clarke. A second book by a second Bush administration defector (first was Treasury Secretary Paul O'Neil) alleges the Bush regime were warned Al Quaeda in January of 2001 and didn't do anything. A sour-grapes book? Or the truth? If we get a nuclear incident on American turf, will we then know? No. If no terrorist incident happens in the US ever again, will we know the truth then? No. Can one person be

blamed for 9/11? We don't think so. Mr. Clarke has formidable credentials; he is former White House terrorism advisor to both leftist (Clinton) and rightist (Reagan, Bush I, early Bush II) administrations. But something in Clarke's demeanor and text has an agenda-based insincerity. Mr. Clarke is fiercely vitriolic against Bush, but, reading some of this, it seems that Mr. Clarke's rage might be more accurately directed toward the ridiculous chains of command and the layers of power-mad bureaucracies that enshroud any administration, and should not.

Listen, people: None of this is new. Jack Kerouac was writing in *On the Road* about "Arabs coming to New York City and blowing things up" in 1948, almost six decades ago. All this has been going on since the founding of the Israeli State in the late 1940s. Meanwhile, the Arab culture itself is not a technological one: these are people who cannot build a flashlight, much less a nuclear weapon. But they are a culture which excels in moving goods, they excel in building what we in business call supply lines, or in building what we also call "black markets" and there is no question that nuclear technology is available in on a black market. Our point is that NO ONE in American government OR ANYWHERE ELSE took the Arab world seriously, no American administration from Truman on up through Clinton and Bush II. The Islamic culture has been an amusement, a romantic backdrop, an amusement. But its threat has been in American popular literature and film for decades, and was blatantly obvious in the 90s. Perhaps our politicians should read more books and watch more movies. A much stronger voice than Clarke's in this year of change is probably that of Howard Stern, who has the power to move the election by influencing his 8 million fans, and who also may put satellite-radio on the map depending on what he decides to do and who else throws him off the air.

Surprise, Security and the American Experience by Yale historian John Lewis Gaddis, Harvard University Press, 2004. John Quincy Adams, FDR, and George Bush as Presidents who, defending the country under surprise attack, made transformative foreign policy changes that in each case remained in effect for decades following their respective administrations. Bush's emphasis on pre-emption and deterrence, coupled with the move of US CENTCOM from sleepy Tampa Bay to Qatar, at the tip of the Arabian peninsula and smack in the middle of the Arab world (see *Market Witch*, February 1, 2004), place him among a tiny and truly elite group of American leaders, each the victim of circumstance. The most important book of the year so far.

The Call of the Mall by Paco Underhill, Simon and Schuster, NYC 2004. "Shopping" as Americans have known and experienced it for the _ century following the invention of the "mall" or "shopping center" after WWII is a creation *by* men and *for* women, who for decades have been the homemakers and consumers who

actually *bought* stuff. That burden has changed during the last decade and consumer purchasing is much closer to 50-50 than it once was. But we are ancient, primitive creatures and anthropological patterns still are valid: men see “shopping” as hunting and gathering. With a purpose and a goal. Kill the elk, buy the suit. Women see “shopping” as a social event: pick the berries, find the bridesmaids’ dresses, bring them home and show them to others. Better still take friends to the berry patch with you and chat while you’re picking. But the post WWII American shopping system, created *by* men and *for* women, will now have to *change because men designed it for women and they themselves hate it*. A book packed with anecdotes and data and suggestions and pictures of sociological shift which offers a strong sense of the direction we’re heading in. See also the brand new Conde Nast magazine called *Cargo*. <http://www.cargomag.com>.

FURTHER EVIDENCE ON THE WWW DOT COM MY ASS! INDEX THAT NO CULTURAL PROGRESS IS BEING MADE, KRISPY-KREME AND HARLEY-DAVIDSON RULE, AND THAT AS AMERICANS WE ARE WHAT WE ARE:

-“Redneck Woman”, by Gretchen Wilson, Epic Records, March 2004, destined to become the country song of the year, probably the anthem of the decade. Upcoming album “Here for the Party.” Astonishing. Go on a self-exploratory journey. Listen and learn about your people, America, who you are and where you come from. If the Statue of Liberty could sing, this would be her song. We are advised by our attorney that we cannot repro the lyrics here and please not to provide a link to the song or the video of it because the legalities of the music business are just too complex to deal with and are in mid-change. But you can go to Gretchen Wilson’s website and listen to “Redneck Woman” and think about outsourcing American jobs to India and “retraining” millions of Americans just like this American girl for new jobs. Or you can turn on your radio to any country station. Or turn on CMT on cable or satellite TV. As they say in Nashville: Hell yeah.

- Jesus Christ Movie Star is replaced by flesh-eating zombies as “The Passion of the Christ” which was expected to rule at least through Easter at the box office is overtaken by “Dawn of the Dead.”

TRADITIONAL INVESTMENT SKILLS: SLAMMING: PUTTING 33% or 50% OF YOUR ASSETS, or MORE, into ONE STOCK. WHEN TO DO IT, and WHY.

It may be the wrong time to talk about this. Or it may just LOOK LIKE the wrong time to talk about it. Market conditions are quite frankly awful, no one can afford anything but the basics, the economy is in the toilet,

no one has a job, all the action is in Southern California real estate and that's being supported by wealthy Asians fleeing dictatorships and unstable political systems, the only money available to be made seems to be in old-line consumer products companies that are expensive but also pay dividends, no momentum investing opportunities whatsoever are in sight at the moment, anywhere. Tech is a disaster because the government is not supporting any progress toward a more evolved IT/telecom consumer society with jazzier and more upscale toys and creating tech 'fronts' that in turn create waves of venture capital spending and are met with tidal waves of consumer spending for products that change the course of society. Nothing's happening, let's put all our money into something like PG or MO or Thornburg Mortgage and get our bond-rate equivalent dividends, etc. etc. whoopee.

On such a night as this... thirteen years ago, in 1991, *Market Witch* faced conditions similar to these. A Bush was President. The Middle East was a volcano. The economy was in the toilet. Unemployment was not quite as bad as it is now but it was rampant. People were not quite as anguished as they are now but life was for many very difficult and unpleasant. There were major social and technological shifts going on and it was obvious they were going to change everything even if we did not understand them yet. Technology- mostly IBM and Microsoft at that time -had flattened out; everyone who needed a (then very primitive) computer for business or home use had one and no one could figure out what further use they possible could have. There was a war on. No one was making any \$\$\$ investing. Anyone who had made \$\$\$ in Microsoft had already made it. AOL as a mainstream enterprise was a glint in someone's eye. The Internet was the province of a few scientists, guys and gals at MIT and Berkeley and Stanford and Cal Tech. Life sucked: everyone we knew was poor and scrambling. Under these circumstances, we put our life savings, every dime of it, \$32,754, into Harley-Davidson shares. We did this after consulting sixteen count'em sixteen traditional financial planners and financial advisors none of whom could tell us anything that we didn't think was nonsense, all of whom liked their desks their window views and their position in the community. Every single one of them stressed diversity. But Bob Dylan, who didn't have a pretty desk, said: if you ain't got nothing, you got *nothing to lose*. Thirty-two thousand dollars was not going to change our lives much one way or the other. What could you buy with \$32,000?? A trailer, in a trailer park? An exotic vacation? An upscale Joe-Sixpack fishing boat? A small business that would fail? If we lost it all, it was: thirty-two thousand dollars. If we made more, it was: still only thirty-two thousand dollars plus whatever we made. We were not rich and we were not going to become rich any time soon, but we could become better off than we were before by purchasing shares in a company with products we KNEW Americans loved. In 1995, after paying off a

house so that no bank could ever touch us, we sold off enough Harley-Davidson shares to put \$100,000 into Intel. Throughout most of the decade we held only two stocks and those two stocks were Harley and Intel. We came to call this “slamming.” The FIRST slamming theory we discovered was: rich people may diversify once they become rich but if you are NOT rich, diversity is not the way to BECOME rich, FOCUS is the way to become rich. The SECOND slamming theory was: if you don’t have enough faith in a company to put \$100,000 into it, or even ALL your money, then what are you doing putting ANY MONEY INTO IT AT ALL???? The THIRD slamming theory was, if you are rich, risk becomes an issue and risk aversion a goal. If you are NOT rich, RISK is NOT AN ISSUE.

For scale, you might think about an investment like this being your own \$3200, or your own \$320,000. The act of doing it, putting all your money in one spot, and the result, in scale, is exactly the same.

Here’s what Slamming requires:

-Absolute faith that the current economic conditions are temporary, that the concept of “now” is momentary and that a future exists and certain things will be in it. That, as Greenspan once said, “things can turn on a dime.” People in despair over the lack of and loss of jobs in this country now are certain that there will never BE another NEXT BIG THING that requires a massive rave-up in tech or infrastructure spending and will in turn bring in BUCKETS of money. They’re wrong. There WILL be another “next big thing” and maybe even two at once and while we believe the “next big thing” is the global broadband explosion, there is NO QUESTION someone innovative will invent some incredible thing we don’t even know about yet. There are “next big things” we cannot even contemplate yet although Arthur C. Clarke or Peter Drucker may have thought about them. WE are not that smart. So we watch what America loves and buys and wants and we put our money there.

Let the people tell you. Let America itself guide your investment actions. It was obvious to us in 1991 that people were going without food or new clothes in order to get possession of a Harley. It’s obvious to us now that Krispy-Kreme will become a global franchise. Krispy has moved from being a small regional company to one with international brand recognition and it doesn’t have to spend a dime on advertising, word of mouth and buzz takes care of it all for free.

- And certainty that one company, or perhaps two, will bear the burden of an era and move that era along in a direction that is completely obvious to some people but which seems utterly ridiculous to others. *Yet whether people understand it or not, that’s what will happen.* And the willingness to back that one company with your own money on the theory that if the company succeeds, you will too.

As things stand right now That One Company, right now, as these conditions recreate themselves, seems to us to be Corning. NYSE: GLW. People at Goldman Sachs Group call it “glow-worm” because of the ticker call letters. Corning will provide the technology for the global bandwidth boom that will wire the planet. It also will provide the clean air diesel exhaust products that will come online in 06-07 and will be to the trucking industry what Brita filters are to every household in the Western world. But even more important, right now, is the issue of Corning and HDTV. And LCD glass. HDTV (high-definition TV) is coming. We’ll talk more about it in months to come. Worldwide digital TV shipments, for 2004, are estimated by San Francisco’s TRENDSCAPES to be 14 million units. For 2007 that estimate is 58 million units. But HDTVs and indeed ALL LCD television sets (liquid crystal display, or “flat” TVs) are only a small part of what is becoming a roaring flat-panel LCD display business. And Corning has more than 50% of the market for LCD glass. People who should know tell us it’s a market that is growing at 39% a year. Corning is sold out of this product quarter by quarter, and is increasing capacity.

Corning has been through a rough patch as progress in the USA toward a better and more prosperous life ground to a halt four years ago. Corning could possibly still fail: which would mean not the end of optical networking or flat panel LCD glass, but that the ownership of these products would shift to someone like 3M or GE if Corning failed and were to be bought for its product array and brand name.

Here’s a list of stocks we would currently slam or put 33% to 100% of our money in- that is, one to three companies- and feel safe and excited about the future. It’s a long list and possibly we’ve missed a few or left off one or two intentionally, like Altria, and RJR, which have a wonderful dividend but always have some government sword at their throats over tobacco, or GM, which has giant pension fund bills and recall hassles. Here’s a list of 20 or so: Goldman Sachs Group, Lehman Brothers Holdings, FedEx, Thornburg Mortgage, Realty Income, Northrop-Grumman, Anheuser-Busch, Harley, Proctor and Gamble, Hershey Foods, eBay, IBM, Krispy Kreme, Panera, Corning, Polaris, Caterpillar, Chubb Group, Rio Tinto, AngloGold Ashanti Ltd, Novartis, and 3M.

A couple of these are notable because they are REITs. (By the way an astonishing opportunity and a billion-dollar empire awaits right now for someone to found a publicly-held REIT that has holdings not of commercial office buildings or apartments or shopping malls but of extremely upscale single family homes in the luxury real estate markets of South California and South Florida.)

Others are notable because they carry wonderful stability and big dividends. Others are on this list because of

the potential for global rollout and/or increasing markets or market share. Some people really do believe that Krispy Kreme is a fad. We believe it's a fad like M&Ms are a fad. All of these companies are highly visible, have terrific management, strong brand recognition, and growth rates ranging from 'good' to 'astonishing' even in a Depression.

And as we look at the future, it seems just as reasonable and plausible to slam IBM, or Goldman Sachs, or FedEx, or Proctor and Gamble, or eBay, as it does to slam Corning. But Goldman is \$100+ a share, and Corning is \$10. FedEx is \$72, Corning is \$10. eBay is \$70 and Corning is still \$10. And we are just as sure now that a global high speed networking boom is coming that will wire the globe with bandwidth and that Corning will monopolize LCD flat-panel glass as we were years ago that Harley would become a global franchise. And we think Corning's chances of failing are the same as PG's or FedEx's or eBay's: zero.

If you're rich, and you're reading this, buy them all. If you're not rich, think about putting one third, one half, or even all of your investment dollar in Corning. The other two thirds or the other half? Pick anything on the list. One-third Corning, one-third eBay, one-third AngloGold Ashanti? Wonderful. One-third Corning one-third Goldman Sachs one third PG? Sublime. One-third Corning one-third Krispy one-third 3M? Go for it!

Have no more concern about slamming a company that is conservative and has less high side potential than you would investing in a company that has further to go. We would be content and would sleep easy having all our money in Goldman Sachs or PG or IBM. We would sleep just as easy. We simply would not dream as high (a new VW vs. a new Maserati) and we wouldn't be quite so curious about the future.

Meanwhile: if you go visit a 'financial advisor' who wants to tell you about 'diversity' please compliment that person on his or her nice desk, rest assured that person has car payments, credit card debt, a mortgage or two, is terrified of retirement and owes money to the drycleaner, say "thank you very much for your time" and quietly move on.

MARKET WITCH MONTHLY BUY LISTS

A caveat this month: We think the American economy is going to be very bumpy from now until at least after the 2004 election and we are advising you to invest or buy stocks now only to form a bridge into 2005 with very well-established companies that pay dividends or those with huge upside potential for later in the decade. The recent Spanish bombings have made it quite clear to many people who were in denial about the War that it is very much with us and we will have to win it. Most European countries and half of America doesn't want to deal with it,

wants the problem simply to go away.

THE BASICS: SAFETY, STABILITY & DIVIDENDS

Caterpillar, John Deere, Cummins Engine, Briggs and Stratton, Toro, 3M, Polaris Industries, Brunswick Corp, Thor Industries, Tootsie Roll Industries, CrackerBarrel Restaurants, Nestle, Hershey Foods, Coca-Cola, PepsiCo, Wrigley, JM Smucker, NVR, Bear Stearns, UBS, Goldman Sachs Group, Lehman Bros Holdings, American Express, Fifth Third Bank, Wells Fargo, JP Morgan Chase, Lines Offshore Management, Fidelity National, First American, LandAmerica Financial Group, StanCorp Financial Group, Stewart Information Services, Countrywide Financial, Golden West Financial, Transatlantic Holdings, Boston Properties, New Century Financial, WFS Financial, North Fork Bancorp, Thornburg Mortgage, Glimcher Realty Trust, Northrop-Grumman, General Dynamics, United Technologies, Clorox, Altria, Proctor and Gamble, Colgate-Palmolive, Sysco, General Mills, General Electric, Constellation Brands, Diageo, Allied Domecq, GM, Johnson Controls, Union Pacific, Microsoft, IBM, Computer Sciences, RJR, Dow Chemical, Dupont Chemical, Alcoa, Alcan, Nucor, US Steel, Inco Ltd, Freeport McMoRan Copper and Gold, Anglo-Gold Ltd, Porsche, BMW, Tiffany's, Gucci, Archer Daniels Midland, Chubb Corp, Conagra Foods, Monsanto, Royal Dutch Shell, Conoco Phillips, Chevron-Texaco, Sunoco, Exxon-Mobil, PetroChina, Northern Border Partners LP, Omnicom Group, WPP Group, Deutsche WorldNet (Airborne Express), UPS, FedEx, Realty Income, ABN-AMRO, Berkshire-Hathaway "B", Eli Lilly, Gillette, Novartis, Pfizer, Bristol-Myers Squibb, Radian Group, GlaxoSmithKline, Quest Diagnostics, American Standard, Genlyte Group, Paccar, Praxair, Ball, Diebold, Harley-Davidson, Anheuser-Busch, Sara Lee, RPM International, Anglo-American PLC (parentco of DeBeers), Rio Tinto, LVMH, and Noble Group SP. Notes: We're adding Thornburg Mortgage, Glimcher Realty Trust, and Rio Tinto PLC to this list. We're Watching German insurer Allianz. NovaStar is overvalued. We're watching recently-merged Yellow Roadway Trucking: it looks very good for these guys and their merger. We're watching International Steel Group but it is NOT on our list. We're adding French luxury products company LVMH, (upscale champagne and suitcases) And we're both adding and watching metals broker Noble Group (NOBL. SP) of Singapore although you need a savvy broker to negotiate how to buy it. We're watching Gucci, which seems to be in trouble. Back on our BASICS list after a long absence is General Electric. We are watching Thor Industries, maker of Airstream trailers and other recreational goodies.

GROWTH: STRONG AND CONTINUING GROWTH POTENTIAL

Centex, Lennar, Pulte, NVR, DR Horton, FedEx, UPS, Deutsche Post WorldNet, General Motors, BMW, Honda, 3M, Boston Scientific, Stryker, Zimmer, Pfizer, Angiotech, Guidant, Medtronic, Amgen, Giliad Sciences, Amgen, Barr Labs, Ivax, Medimmune, Univision, ClearChannel Communications, XM Satellite Radio Holdings, Viacom, Energizer Holdings, Home Depot, Lowes, Lennar, DR Horton, Centex, Pulte, Cost Plus World Market, Dollar General, Big Lots, Best Buy, Target, Abercrombie and Fitch, Limited Brands, Proctor and Gamble, Altria, Mattel, Hershey Foods, Yum! Brands, Starbucks, Panera, Krispy-Kreme, Goldman Sachs Group, E*Trade Group, Lehman Bros Holdings, Berkshire-Hathaway "B", Reynolds American, PepsiCo, AOL, eBay, Yahoo, Alliance Gaming, International Gaming Technologies, Penn National Gaming, Isle of Capri Casinos, Corning, JDSU, Avanex, Cisco, Covad, Corvis, Juniper Networks, Ciena, Nvidia, UTStarCom, Qlogic, InVision Technologies, Symantec, Adobe Systems, Xilinx, Zebra Technologies, Research in Motion, Zoran, FlexTronics, Jabil Circuit, Network Appliance, InterActive Corp, Traffix, Siemens, Electronic Arts, Take-Two Interactive Software, L3Communications Holdings, Advanced Micro Devices, Intel, IBM, Nokia, Ericsson, Qualcomm, Teradyne, Nextel, Career Education, Strayer Education, Applied Materials, Rambus, Landauer, Harris Corp, Alcon, Paychex, Checkfree, Companhia de Bebidas, PetroBrazil, PetroChina, NewsCorp, Sony, Canon, Targeted Genetics, Anglo-Gold Ashanti Ltd, IMC Global, Caterpillar, Research in Motion, SEZ Group, Macromedia, and John Deere.

Notes: We're adding AU Optronics, of Taiwan, makers of flat-panel glass display screen products, to this list. We're adding online credit card processor iPayment. We're watching Buffalo Wild Wings Restaurants, a specialty restaurant chain. We are watching: the Sony/Ericsson cell phone business. A caveat on growth stocks: we believe the next six months will be a bumpy period for growth stocks Nasdaq stocks and tech with the exclusion of eBay and IBM and Corning. We think the best place to be if you get seasick easily is in old-line dividend-paying financials or dividend-paying consumer product stocks: Thornburg Mortgage, Proctor and Gamble, RJR, Northrop-Grumman, that sort of thing. Or Crossover Stocks that are on both lists, like Hershey Foods, Goldman Sachs, etc.

STRONG BUY: VERY STRONG GROWTH POTENTIAL, VERY STRONG SHARE APPRECIATION POTENTIAL, OR UNDERVALUED

A caveat: we think the overall market for the duration of 2004 will be bumpy, choppy, and may ultimately be

flat or even down. Trading in a range, indeed. We expect the Nasdaq to stay in the 1800-2200 area and the Dow to stay in the 9500 to 10,600 area til after the election. A boom is coming but no way is it here yet for our own fair country. The boom is here elsewhere on planet earth but *we're* not leading it. Here in the US we are just barely out of the deepest spot of the Second Great Depression. Yet, a boom will come in a couple of years. What we are recommending you do is buy for 2005 2006 2007 2008. A time will come when you will look at the market and think: I coulda bought Corning for 10 or 11 bucks or NVDA for 21 or Krispy for 33: *What was I thinking???* There are opportunities now that are like picking up money off the ground or like buying \$50 bills for \$20.

Strong Buys as a bridge into 2005: Corning, eBay, FedEx, Centex, JDSU, Zebra Technologies, SEZ Group (Swiss Exchange, Zurich, SEZN), Caterpillar (assuming there won't be a strike), John Deere, Novartis, Goldman Sachs, Lehman Bros, Bear Stearns, Thornburg Mortgage, Realty Investment, North Fork Bancorp (purchase of Greenpoint), National City Corp (purchase of Provident), 3M, Hershey Foods, Chubb Group, Altria, Reynolds American (RJR), Proctor and Gamble following the 2:1 split May 21, IBM, Krispy Kreme, Panera, Polaris, Rio Tinto, AngloGold Ashanti, Nucor, US Steel, General Motors, Nvidia, Zebra Technologies, Zoran, Jabil Circuit, and QualComm.

Notes: We are not putting Targeted Genetics on our Strong Buy list just yet although MW subscribers know we've already invested in it. There is strong anecdotal evidence in the demeanor of the people at top administrative posts at Columbus Children's Research Institute, which is working in partnership with Targeted Genetics on an HIV vaccine, currently being tested on humans in Germany, that they have a winner. More about this next month. Stock: Targeted Genetics, Nasdaq: TGEN. Panera has a current sales growth rate of nearly 30% a net income growth rate of 40% and is undervalued. We're pulling Adobe, Ericsson, Network Appliance, Take-Two Interactive, from this list. We're adding IBM, which is undervalued even though still pricey. PG is an especially strong buy after the oncoming split in May. Krispy-Kreme is way undervalued: at least 20% more likely 25%. 3M is more undervalued now than it was a month ago. We're watching NovaStar Financial, (NFI) a housing and mortgage/ finance company. We're adding Polaris, which has recently split 2:1 and is on the way up again. Boom times are upon us in other parts of the world; Goldman Sachs will make a bundle doing IPOs in India and China and Lehman Bros will make bundle organizing project financing.

WE'RE WATCHING:

Mattel, (new products, shift in target market), Abercrombie and Fitch, AppleBees, McDonald's, beaten down

glass insulation company Owens-Corning, Qualcomm, Bear Stearns, CitiCorp, National City Bank, Xerox, Wells Fargo, Qualcomm, IBM, Oracle, Nokia, Corvis, Covad, Sycamore, Juniper, PMC Sierra, Ciena, Traffix, UTStarCom, Intel, Adobe, Network Appliance, Rambus. And of course Taser.

Full disclosure: We are currently in: Corning, Avanex, Harley-Davidson, NVidia, Anheuser-Busch, Krispy-Kreme, Anglo-Gold Ashanti Ltd, eBay, JDSU, Targeted Genetics, and Altria. Our largest positions are in Harley-Davidson and Corning. We would be buying with additional funds: Corning, and AngloGold Ashanti. Next on the list would be post-split PG, Goldman Sachs, Polaris, FedEx, SEZ Group, and eBay.

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