

# 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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## FLYING DOWN TO RIO: A LOOK AT A FEW OF BRAZIL'S BEST COMPANIES FOR INVESTORS

### It's the 7<sup>th</sup> Annual Back-to-College Issue: How to Plan for YOUR Kids' Futures

### The Dark Side of Socialism: When Leftist Politics Goes Out of Control

### The Tale of Elmer Bernstein and Marlboro

The Second New Deal is coming in eight weeks. America is in freeze-frame mode, waiting out the days til the election. *Market Witch* readers already *know* the outcome. So let's visit Brazil this month and study investment opportunities *there* while we wait. Meanwhile, the American economy is in a shambles, wages are stagnant, and what's left of the middle class is shouldering a larger tax burden. Costs for health care, housing, tuition, gas and food are through the roof. The Congressional Budget Office confirmed that Americans in the top 1% income group got 33% of the Bush tax-cut money. Greenspan's two Fed rate hikes over the summer confirm that the Fed believes, as we do, that Bush will be thrown from office and following the election the economy will begin to recover and heat up as a much more centrist government begins to help the American people get back on their feet.

The economic and social split continues to widen as we develop two Americas and there's a surge toward a civil war mentality which is still only verbal but may get hotter and sharper and more vicious as the election approaches. Will there be some sort of civil war in the US as there was during the 1860s? No. The Republic will

survive this, and things will go right on. Is the country in crisis? Yes, but it's nothing that can't be thought through and solved.

We are still *IN* the Second Great Depression, the Rhinestone Depression that began in 2000 at the end of the Clinton Era. Its cause: Greenspan's series of late 90s Fed rate hikes designed to destroy the New Economy because Old Money, which "advises" Greenspan, was terrified of it and choked off the venture capital which fueled it.

The late- 90's boom then was written off as a "Bubble" which burst of its own accord because it was unsustainable. This is one of the great lies of our time.

Meanwhile the equities markets are about where they were at the end of Bush Sr.'s term of office and before the Tech Boom. We are surprised the Dow is as high as it is. We are NOT surprised that the Nasdaq is in the High Teens.

But we're through the worst of it, and there really is prosperity ahead. Readers of *Market Witch* already know that a Democratic Presidency lies ahead, with a Republican House and Senate to keep it in check, which is a state of affairs America loves.

So. We have eight weeks to kill before the start of the New Deal. To kill the first four of them, let's just get out of the country and stop paying so much attention to the USA and its woes and crises. In just a moment we'll fly to Brazil, and we'll look at a few of that country's best companies for investors.

Before we do, we need to talk about The War for a moment. What happens next in the war on terror? It's not really a war on terror at all, it is a World War, because 95% of the Arab world adores Bin Laden, agrees with him, wants to take the US down, and wants an Arab world as it was 500 years ago: Moorish a superpower, and ruler of the Known Western World. The US should have, immediately after 9/11, occupied Saudi Arabia, bombed out Al Jazeera leaving only a Western media to rehabilitate and re-educate the Middle East, and gone after Bin Laden and not stopped until he was in a body bag. As it is, Bin Laden has had three years to build an aggressive Arab philosophy, add enormously to his huge following, continue to trash the Western economies, and create the foundations of empire. Sooner or later, the US will have to confront this, as it had to confront Hitler. We're not there yet.

The world war against Islamic aggression is the great test of our time. So far we are not doing so well. We could lose this.

Rumors abound that the next "regime change" is Iran. The US should have taken down both Iran and Saudi Arabia two and three years ago but didn't. Now the problem, especially the Iran problem, is considerably worse. Iran really does have the capability and the will, if left unchecked, to nuke the US. The US *must* get Bin Laden and it *must* stop Iran's nuclear efforts.

Will a Kerry administration bring placation of the Arab world, and a faux peace? Hardly. It always seems to escape people that it was not a Republican who nuked Japan to save American kids' lives, it was a Democrat, it was Harry Truman. Is Kerry a peacenik? No.

Will we see a new military Draft? Or some form of mandatory Universal Service at 18? Quite possibly. We need more troops than we now have to accomplish what the country's leaders wish to do. Not all of our problems can be solved with technology. Some will have to be solved with manpower.

Election of a President from either party will bring satisfactory solutions to these problems. Election of only

*one* of them will put forces into play that will begin to repair the American economy.

Meanwhile: our research shows that the age of the ultraconservative Christian Right has ended. And that soon you will be seeing front-page articles to that effect on the covers of the Big Three weekly news magazines as the world moves relentlessly on.

So. Let's get out of here and spend some time in Braaaazeel while we're waiting for regime change here at home, and look at some companies there.

Roundtrip airfare from NYC to Rio \$651-914, From LA to Rio \$1069 up, from Chicago \$1016-1034 via Travelocity, best deal from NYC including some *bargain* hotel packages. Airfare to Sao Paulo, the other major city, slightly less.

A fast overview: Brazil now is the world's 8<sup>th</sup> largest economy. California is 5<sup>th</sup>. 182 million people. A racially mixed population: European, African, Asian, Native American. Gross Domestic Product (GDP) about \$1 trillion, or about 1/10 the size of our economy. 31% of the work force is agricultural but the country is attempting to move rapidly into an industrial-base, which may not necessarily be a good thing. Meanwhile, agricultural exports = \$14 billion a year. Stats report unemployment rate is 5%, or lower than ours.

Very uneven economy, with major areas of poverty. Vast wealth vast natural resources, with overwhelming poverty in some areas. 20% of population extremely poor, 1% of the population extremely wealthy. The currency- the real- is unstable. In 2002 its value fell 35%.

Generation of Americans instantly think of Rio de Janeiro when they think of Brazil *at all*. Rio, population 12,775,00 is Old Brazil. New Brazil is Sao Paulo, capital of the south Brazilian state of the same name and the *second largest city in the world*, with a population just under twenty million, topped only by Tokyo.

Brazil has pockets of extreme poverty. So do we. Brazil has a drug industry problem. So do we.

Brazil's northern corridor (Amazon basin) has become an essential route in the global black market trade and is used for smuggling gold, diamonds, arms, cocaine, and heroin. The government has recently announced that it will begin shooting down drug trafficking aircraft in its airspace. Drug gangs/cartels in Rio and Sao Paulo reportedly have more firepower than the police, and operate unopposed.

Mostly what we hear about from Brazil here in the USA comes from the "National Geographic/ Sierra Club" crowd and has to do with rain forests and the plight of Native American Indian tribes. In reality, Brazil is much like the USA was from 1840 through the early 1880s. Land of the sovereign individual, of Toughman Contests for real, or social Darwinism. An outlaw land, where you can do whatever you damn please, if you have the strength to back it up. Imagine the USA ruled by outlaw motorcycle gangs, or the Marlboro Man selling cocaine. The Wild West, with cell phones.

The Outlaw Economy, which we talk about regularly in *MW* pages, accounts now for about (an unreported) 6-7% of the US GDP, may be stronger in Brazil. Or it may simply get better media coverage. Ours here in the US goes almost completely unreported.

Native language is Portuguese. If you are able to read Spanish well you can manage reading Portuguese. Speaking it, less easy but possible, and learnable if you are already fluent in Spanish.

Two major newspapers, both in Portuguese. Miami Herald, USA Today, and International Herald Tribune, all in English, widely available. Time and Newsweek widely available.

Brazil's a global agricultural powerhouse. Number one in production of citrus fruits, frozen OJ, sugar cane,

and coffee. Second in production of soybeans and soy products. 3<sup>rd</sup> in tobacco and poultry, Among the top 5 in corn and rice, and among top ten in beef production. Still, the place longs for industry.

Brazil is still considered by the IMF very much a “developing nation.” But the country actually is in a very nice position. It has huge natural resources, a strong labor force, and it is totally off the world radar screen now.

Brazil is very sophisticated yet fiercely superstitious. Religion is Catholic/Santeria, Catholic/Candomble, Catholic/Macumba. August of 2004 contained two full moons ( a “Blue Moon”) and a Friday the Thirteenth in a month (in Brazil, upside down from us, it is the dead of winter) called “Agosto, mes de desgosto” or August, Month of Misery”. Brazilians hate August. They it’s bad for sales, that business deals fall apart, that you should not travel. One popular work of literature titles August “The Month of Rabid Dogs.” On Friday the Thirteenth many people wear all-white clothing the scare away evil spirits. Many ask for an August blessing from a Catholic priest to ward off the month’s bad luck. In August 2003 a Brazilian test rocket blew up on a launch pad in the Amazon, killing more than 20 scientists and smashing Brazil’s nascent space program.

It is a place utterly unaffected by our current World War. The country has a widely recognized and highly visible “cultural brand name” because of movies, (Dona Flor and her Two Husbands”) books (*One Hundred Years of Solitude*) and the Samba, and people worldwide associate Brazil with an earthy, permissive lifestyle, beaches, carnivals, and a laid-back, fun work-hard play-hard lifestyle.

Brazil is an unnoticed land of opportunity in an age when everyone here is worrying about Homeland Security and fretting about how to make money in China, which has, we think, an unsustainable economy.

One interesting stat for the telecom industry: recent data tells us that 36% of all existing telephone lines in the entire country are in Sao Paulo.

In any new economic boom, Brazil will immediately become the one of the new MAJOR vacation destination countries of the world, replacing now overcrowded (and now dangerous) Spain. Many Europeans already has discovered these things.

And several big European companies are doing very well indeed in Brazil: among them French hotelier ACCOR, Dutch supermarket chain Royal Ahold, and Swiss food giant Nestle.

But let’s look at a few domestic Brazilian publicly helds:

Banco Bradesco SA (NYSE: BBD) The largest bank in Brazil is Banco de Brazil (Sao Paulo: BBAS) with about 5000 branches in Brazil and some 30 offices in 25 other countries and a big brokerage house (BB Securities) based in London. You can buy shares of this one but it’s government-controlled. It is in effect a branch of the Brazilian government.

Banco Bradesco (BBD) is the country’s largest private-sector bank. It has more than 2600 banking branches throughout Brazil plus a branch in here in NYC and two in the Cayman Islands. Its services include credit cards, Internet banking, pension plans, annuities, insurance, consumer lending, leasing, brokerage services, and a wide variety of banking and business products for the Brazilian domestic and international corporate world. It is THE bank for individuals, small to medium-sized corporations, major local corporations and international company branches in Brazil. BBD provides free Internet access for customers. The company recently bought up Banco Estao do Maranhao, a regional bank, Banco Mercantile do Sao Paulo, a tiny Goldman Sachs-like operation, and the Brazilian operations of Banco Bilbao Vizcaya Argentaria and JP Morgan Fleming Asset Management. The company had sales of \$12.367 billion in 2003 and profits of \$795 million from it. This decade we expect to

watch BBD offer expanded business services including management of IPOs.

BBD split 2:1 in March of 2004 and shares, at \$39 after the split, now are at \$50. Annual dividend is approximately 61 cents. We expect this very stable very savvy and quite aggressive company to be a fine moneymaking ride over the next few years as Brazil, *now one of the more economically and politically stable places in the world when compared to Russia, China, and SE Asia*, enjoys an economic expansion and strong economic improvement.

Companhia de Bebidas, based in Sao Paulo (NYSE:ABV) is called "AMBEV" for short. Ambev is the world's 5<sup>th</sup> largest brewer. But it's a lot more. ABV produces distributes and sells beer, soft drinks, and other beverages primarily in Brazil but also in the Dominican Republic, Ecuador, Guatemala, Peru, and Venezuela. 88% of AMBEV's profits come from Brazil, and the nearly doubled in the most recent quarter, to \$86 million from \$45 million a year ago.

Through the acquisition of a 50.9% controlling interest in brewery and beverage company Quinsa in 2003, ABV also has a big piece of the beer sector in Argentina, Bolivia, Chile, Paraguay, and Uruguay.

AMBEV owns 70% of the beer market in Brazil, with brands like Anarctica, Brahma, and Skol, plus licensing agreements which allow it to brew Carlsberg, Heineken, and Miller products.

In addition, ABV is the sole distributor of Pepsi beverage products in Brazil. In addition to beer and Pepsi, ABV also sells mineral water, isotonic sports drinks, packaged ice tea, and other products. ABV just introduced a new soft drink of its own to the Brazilian marketplace.

ABV shares have been as high as \$28 this year, now are at about \$22. The dividend is 95 cents on a \$22 stock, or close to five per cent.

AMBEV IS PREPARING TO MERGE WITH INTERBREW SA OF BRUSSELS, BELGIUM, SUBJECT TO SHAREHOLDER APPROVAL. (Interbrew: Euronext: Brussels: INTB)

This merger, if it is approved, would create the world's largest brewing company and one which would offer beer brands throughout Europe, North, and South America. Interbrew already owns Canada's Labatt and Germany's Beck, plus other flagship beers Bass, Stella, Rolling Rock, Hoegaarden and others. Interbrew publicly-held but is controlled by a voting trust of Interbrew's founding families which own more than 60% of the company.

Interbrew shares currently are at about \$26. Annual dividend is \$1.03. We are watching this. If this mergers goes through we will strongly consider selling Anheuser-Busch shares and putting the money into Interbrew.

Another Brazilian company we like is Petroleo Brasileiro SA, nicknamed "PetroBrazil" or "PetroBras" (NYSE: PBR). This is Brazil's national oil company. It is Brazil's largest industrial company. The Brazilian government owns 32% of PetroBrazil and 56% of its voting shares so this is truly a government-controlled company. PretoBras operates 16 refineries and 20,000 miles of pipeline. It operates more than 5000 gas stations. It is involved in exploration for oil and natural gas, and in production, refining, and transportation of oil gas petrochemicals. The company has reserves of 11.6 billion barrels. It operates in much of South America and is the leading oil company in Argentina as well via a subsidiary. Another subsidiary is Brazil's leading producer of fuel ethanol, which is a major fuel source for vehicles in Brazil. Brazil uses a 25% mix of ethanol in its gasoline and has for decades, something the USA should have been doing starting about 1970. To adjust a NorteAmericano vehicle you set the carburetor richer or put a different carburetor on the vehicle. PetroBras is a SAFE,

STRONGLY-EXPANDING oil company with a p/e of SIX. It is a \$31 stock with an 82-cent dividend. If oil stays high in price PretoBras wins. If oil prices fall, PetroBras sells ethanol fuel into an expanding market.

Now let's look at another Brazilian company we would not invest in but which will be an interesting movie to watch over the next year or two. The company is Companhia Brasileira de Distribuicao (NYSE:CBD). This is Brazil's largest retailer. The company operates two supermarket chains, one (called Pao de Azucar, or "the Sweet Life") a trendy upscale chain, the other, CompreBem Barateiro ("the buy-low bargain hunter") a Dollar General-style supermarket chain.

It surely is the sweet life for the Brazilian Diniz family, which owns 76% of the company shares. Another piece is owned by French grocery retailer Casino Guichard-Perrachon.

Founded in 1948, CBD also operates 7-11 styles stores called Extras, Electro consumer electronics and appliance stores, and several e-commerce sites. The company grows by acquiring diversified regional retailers in the various Brazilian states. Most recent sales were \$3.7 billion for the year with net income of \$100 ++ million from the company's 497 stores. Net income growth has been reported to be a rushing 86%. Shares are about \$21; the company pays a small 16-cent dividend.

The company's pioneer efforts into private-label foods has made it Brazil's number one food retailer. Number two retailer in Brazil is a French company, Carrefour.

The number three retailer in Brazil is: Wal-Mart.

Wal-Mart came to Brazil in 1995. Wal-Mart has had big success in Mexico. Wal-Mart wants to *own* the Brazilian consumer retail market. It has bought stores from European retailer Ahold and opened them as Bompreco ("lo-price") stores. Last year Wal-Mart had \$1.6 billion in sales in Brazil. Wal-Mart Brazil is still less than half the size of CBD. Forbes reports that most of Wal-Mart's stores in Brazil are in the country's Northeast, the poorer part of Brazil, while CBD owns retailing in the Southeast, where 72% of Brazil's retail dollars are spent.

CBD became the largest retailer in Brazil by purchasing 20 smaller regional competitors over a period of seven years, at a cost of more than \$500 million. The company plans to purchase more regionals—every single retailer it can get—to fight inroads by Wal-Mart.

This is not a business we'd want to invest in. CBD has a 2% profit margin and we like to see 10% in anything we invest in. We've also warned our readers to stay completely out of anything that is in competition with Wal-Mart.

But this will be a very interesting turf war to watch and learn from. Two fiercely aggressive and shark-like family businesses, one native and one from a foreign country, are competing for ALL the grocery and washing-machine money in this 8<sup>th</sup> largest economy in the world. One company has the most ruthless and sophisticated distribution skills of any retailer in the world. The other knows the territory like the back of its hand.

## COMPASS POINTS

- Notes from the Annual Summer Trip to the Beach: We are building transportation machinery which ordinary people do not have the capacity to control. The most run-of-the-mill Chevrolet Impala of today offers road performance only available in James Bond's Aston-Martin DB4 of 1955. James Bond driving speeds of once-upon-a-time are common driving speeds now. But most people do not *HAVE* James Bond-like reflexes to handle

high-performance vehicles. Ordinary people with very non-athletic skills are out there driving cars capable of 125 mph without the skills necessary to control them. Now add to that the distraction and din of cell phones, DVD players, GPS networks, alcohol, drugs, road rage and a blur of millions of other drivers all doing 85mph and driving ten feet behind each other and pretending they are in a NASCAR event. We think it is time for a national driver's license and more importantly time for a multi-level, graduated-scale driver's license system that recognizes various levels of skill and ability at a series of lesser and greater levels and prohibits *some* people from driving over a certain speed or on *some* Interstates and turnpikes *at all*. Skills that once were taught only to stunt drivers need to be taught to skilled drivers NOW in drivers' ed programs if these people are to operate cars in heavy traffic at 90 or more mph. Also, because we are in a down economy with in general not enough to go around a widespread "up yours" attitude exists and it manifests itself in a total denial of any sort of "assured clear distance" driving standards which allows drivers precious marginal seconds to correct for their own or other people's mistakes...and this results in those fatal multi-car crashes many of us see on the way to the beach. Assured clear distance violations should carry mandatory huge fines. No one likes going fast any more than we do, in a well-maintained car or especially on a motorcycle...but only when conditions are right and when there's no one nearby who can make a mistake that might be fatal...to *us*.

Meanwhile: Daimler-Chrysler has just introduced the Chrysler Crossfire roadster, a 150mph "American-market" bargain-basement Mercedes that sells for under \$40K. It's a beautiful, fast, well-handling and desirable car and it may challenge GM and its beloved Corvette and because of that we're watching Daimler-Chrysler shares again. Americans do love their bad-ass military macho toys, though, and GM still has the various Hummers to offer, plus a host of other products, including Saab autos and a new Pontiac Bonneville with a 275 hp Cadillac Northstar engine. We're also watching Ford, not because Ford owns Aston-Martin and not because Ford is reintroducing the GT-40, but because of Ford's 2005 model year Escape hybrid, the first hybrid gas/electric SUV. Not for long, though; Toyota will have an SUV hybrid on American roads in six months: two, in fact. Meanwhile, Toyota will hike the sticker price of its much lusted-after Prius hybrid. Ford's also in the midst of unveiling nine new or revamped models in 90 days in its biggest product offensive in decades, attempting to improve what have been disappointing sales in 2004. In late July Ford reported 2<sup>nd</sup> quarter earnings of \$1.7 billion, nearly tripling year-ago results. But the reports are the nearly 75% of that money came from the company's financial services division, not from sale of vehicles themselves.

Road Stocks: GM, Harley, BMW, Daimler-Chrysler, Toyota, Honda, Ford.

-Boom times in China: General Motors plans to begin manufacturing Cadillacs in China late this year to sell luxury cars to the Chinese nouveau riche. GM joins the race being run by many luxury auto makers to have products to sell to the newly wealthy Chinese elite. GM is expected to have the first Cadillac CTS Northstar-engine-ed sedans in Chinese showrooms by spring 2005. Cadillac will start out by selling imported US-made models while it ramps up an assembly plant in Shanghai using imported parts to assemble Caddys on the Chinese mainland. BMW and Mercedes-Benz already operate assembly plants in China. Bentley and Ferrari and Maserati have set up nationwide sales networks. Meanwhile, oil is nearly \$50 a barrel and the US economy is in collapse, while China seems to be turning into what the US was in the 1950s.

-While the World Passes Us By: The UK granted its first license for human cloning last month, joining high-

tech nation South Korea on the leading edge of stem cell research, which is restricted by the Bush administration and which most scientists believe could lead to dramatic new treatments for a wide variety of diseases.

The Fundamentalist Christian Right has caused the US to lose its cutting-edge lead in the medical sciences and has knocked science in general back by about two decades; edge scientific research now is in Europe and Asia.

The UK license went to Newcastle University researchers who hope eventually to certainly-producing cells which could be given in transplant to diabetics. South Korean scientists announced in February of this year that they had cloned a human embryo and extracted stem cells from it. Many scientists think stem cell research hold vast promise for treating a wide variety of diseases from diabetes to Parkinson's. Stem cells can potentially grow into any kind of human tissue and scientists hope to be able to "direct" the "blank" cells to grow into specific types of cells that ma be needed for medical treatment. Government regulations on cloning and on stem cell research vary widely from country to country. Britain is the only European country so far that licenses cloning for stem-cell research and three years ago was the first country to do so when its Parliament agreed to legalize stem cell research hoping for medical advances. South Korea followed in December of 2003. Sweden and Japan are expected to pass similar legislation soon. The US forbids federal funding of embryonic stem cell research by shutting off stem cell lines created after August 2001, and also forbids federal funding of all cloning research.

-The Dark Side of Socialism: In a few short weeks America will begin a "New Deal" era as we usher in a Democratic administration offering the first "New Deal" for the desperate working class and the now-impooverished middle class since the New Deal of the First Great Depression, which began in 1936. Make no mistake about it: we at *Market Witch* are big fans of this sort of economic support mechanism. We support a now-traditional "Herbert Marcuse-style" economy which would provide an economic floor under *everyone*, providing a safety net that would guarantee absolute minimum basics of food shelter and medical care for everyone, *and if you want more, you work hard for it, that's what America is all about.* At this time, however, as our government- new as of November 2004- prepares to spend the US back into prosperity, it might be wise to examine what happens when subsidized living gets out of control, and some of the dangers that lie in wait in that economic direction. Let's visit Norway.

Before the North Sea oil boom and various Scandinavian technology booms, in the days when Norway was poor and isolated, the small snowbound nation managed on good old Nordic grit: hard work and self-reliance.

Now, with the country's pockets overflowing from three decades of windfall oil money that was spread about to create a subsidized lifestyle, a work ethic that once served Norway well has utterly tanked. It took a quarter century for the work ethic to collapse, but it did.

Norway now reportedly is a nation of adults behaving like the overindulged children of newly-minted tech millionaires in the 90's American Silicon Valley. Norwegians stay home from work at a rate that is the highest in Europe. It's higher even than that of the former champion, Sweden, whose car and phone industries subsidized everyone and everything for years and years.

Says Finn Bergesen, director of the Norway's largest trade organization: "We have become a nation of whiners."

"Everything is wrong, yet we are living in the best country in the world. People complain and complain- because we have everything."

Another day in paradise. On an average day about 25% of the Norwegian work force are absent. They have



called in sick, they are undergoing rehabilitation, or they are on long-term disability.

*The rate is especially high among government employees, who account for HALF THE WORK FORCE.*

The average number of days Norwegians were absent from work in the most recent study year, *NOT INCLUDING VACATIONS: 33.6 days.*

This is, as the now-imprisoned Martha would say, not a good thing. Sweden, the closest competitor in the labor sweepstakes, had workers who took 29.4 days off in addition to their vacation time. Italy's workers, whom we've all been trained to view as goof-offs who ride around on motor scooters and have mistresses, took 12.6 days off in addition to vacation days.

See where this is leading? One of the major Norwegian newspapers, *Bergens Tidende*, reports that with 33.6 days of paid goof off time, *plus five weeks of paid vacation time for most people, plus 11 days of paid national holidays, Norwegians take 170 paid days off each year. And that's a figure that does NOT include time off for disability and rehabilitation.*

Why do they do this? *Because they can.*

In today's Bush-Cheney US, the one we all know and love, all these people would be living in refrigerator boxes and depending on "faith based charity" for scraps of food, and shining shoes at subway stops to make ends meet.

The Bush-Cheney government is about to fall. In its place: the Second American New Deal.

We are a long way from the excesses of the Norwegians. The American economy is in worse shape now than it was two or three years ago. It may take five years or more to get our economy back to the state it was in circa 1995, when our world was filled with prosperity and hope for the future. And our medical sciences and our research and development industries, slapped to the ground by Christian Fundamentalism and Luddite thinking, may not recover from ignorance and regain lost ground for a decade or more. But still, this bears watching. Over time, a chicken in every pot may come to be regarded as a right, not a privilege. And that could become a problem as we enter a new era. Never forget that this, like any other value system, is subject to abuse.

-Marketing Barbie to a New Generation: The toy business is in trouble, especially the retailers. No retailer can compete with low-baller Wal-Mart. Toys "R" Us announced plans to split the company into two divisions and says it may get out of the toy business entirely. *Business Week* reports that high-end educational yup-toy purveyor Learning Express is doing well, but KB Toys and FAO Schwartz both have filed for bankruptcy.

Not good. Now where are we going to buy Swiper the Fox? Ohhhhhh Maaaannnnnnnnnnnn....

Some of what's going on, we think, is more of the Death of 20<sup>th</sup> Century Customs and Traditions. We mentioned last month that golf tennis and other "traditional" 20<sup>th</sup> century sports that became popular at the start of the "modern" era, the 1920s, have run their course and no longer hold much appeal for young Americans, as "action sports" also called "extreme sports" take over the interest of young people. An era of new 21<sup>st</sup>-century toys is coming, but it's still very early in the new century and much of what's to come for young people is not yet visible.

This phenomenon is even affecting Barbie, born in 1959 and the flagship product of Mattel.

We would suggest that Barbie simply needs to be repackaged. Today's kids are very different from the children of 1959 1969 or 1989. Barbie's 44 and needs some new clothes and a fitting approach to the 21<sup>st</sup> century to appeal to children of today. Barbie, an industry unto herself, *still* has no competition from *anything*, not even from Bratz Dolls. But Barbie needs to be repackaged as an "action toy" to appeal to girls and young women of

today, who see themselves as “action” people and participants, not the homemakers who were children in 1959.

We would suggest that the Mattel marketing folk have a look at some of the “extreme sports” events and put Barbie in action clothes on a mountain bike or a motocross machine. We would suggest marketers pay some attention to our military and package Barbie as an Army or Navy girl or as a US Air Force pilot. As a microbiologist. A fitness instructor. An Olympic gold medalist. A Xena-style jungle girl. Put Barbie on a WaveRunner. Make Barbie a New York Fireperson. Make her a Navy Seal with her little Zodiac boat. Mattel marketers ought to have a look at soft-core “porn” site action girls.com, which features scantily-clad young women firing machine guns bazookas and flamethrowers and walking out of exploding buildings (No, we’re not going to link it, look it up yourself). Transform Barbie into the sort of gal that Tony Soprano might hire or that an Outward Bound student might want for a girlfriend. The type of girl who eats Clif Bars. *THAT’S* a Barbie that will sell to a new generation.

Mattel got off to a tiny new start last month when the company announced Barbie’s candidacy for President. But that’s not enough. New clothes, new attitude, new century. Mattel: make Barbie into Meg Whitman of eBay or a rock climber.

Mattel had sales of \$4.804 billion in 2001, with net income of \$298 million; \$4.885 billion in 2002 with net income of \$230 million, and sales of \$4.960 billion with net income of \$537 million. A wider product line and a general ship-tightening pushed Barbie’s one-year net income growth rate to 133%, wonderfully strong for a toymaker and also for a supposedly “mature” company. Mattel has a P/E of around 14, and offers a 40-cent annual dividend.

We’re watching, Mattel. Barbie is an American institution. Is Barbie a 21<sup>st</sup> century girl? We want to see her make it. Stock: Mattel (NYSE: MAT).

-Back to College: Each year at this time we talk about college and what it means in today’s world and whether or not it’s the best thing you can do for your child.

We’ve done this for seven years. Our position, and one we began to think about and develop in 1997, is that sending *most* children to off to college at age 18 after graduation from high school is NOT a cost-effective thing to do. MOST children will have spent \$100,000 (or much more) and for it will have credentials enabling them to work at a Starbucks for \$7.41 an hour. Most children will have spent \$100,000 (or much more) and have nothing to show for it. For *most kids* a traditional 4-year college program leading to a Bachelor’s Degree is a waste of time and a throwaway of money in today’s world. And for *most parents* a far better way to serve their children and get them off to a good start is to take the college tuition money and invest it. That money can then be given to the child to start a business, or to provide a wonderful cushion for his or her life.

Circumstances and events that have come to pass in the US and the parts of the world the US relates to and does business with have only increased our certainty. It now costs approximately \$43,000 to send your child to Northwestern for a year. Stanford is more, Williams is about the same, Oberlin is less. We use a median private college tuition of \$33,000, or \$16,500 a semester, as a study model.

The “Big Four” issues of the 21<sup>st</sup> century are Food, Water, Energy, and Information. *Information* now is *essentially free*. So much free information, free KNOWLEDGE, is available over the Internet now that by the time your child reaches the traditional “off to college” age he or she has absorbed *three to four times the amount of*

*relevant information* that kids had received at the same age generation earlier. You can learn architecture, study Chaucer, learn how to build a motorcycle, find out how to perform an appendectomy, how to build a nuclear weapon, how to make contact lenses online. All your child needs do is READ. All your child needs to know is how to *learn how to learn*. Regrettably this is not something that is taught in many public schools. It is not even something that is taught in many colleges and universities. It *is* something that is taught in many for-profit pay-for-play educational companies like Sylvan Learning Centers and in Montessori schools.

If your child has a GIFT or a SERIOUS INTEREST in subjects on the order of physics, chemistry, microbiology, medicine, nursing, veterinary medicine, classical music, law, or ANY kind of engineering, you are justified in sending that child to a college or university to pursue a career that requires academic credentials. If you have a child who wants to be an astronaut, you must send the child to engineering school, it's that simple. If you have a child who is seriously interested in going to Massachusetts Institute of Technology, SEND THE CHILD TO MIT. But remember please that Einstein, whose key interest was math, became a postal clerk. Which gave him time to study math and write papers.

Most careers don't require academic credentials. A 4-year degree is a sort of social certification that no longer really applies. And the fact is that most people don't aim toward a career. They sort of fall into something as they go along. After they get an irrelevant degree. That was ok when college was not expensive and America's colleges and universities performed what was roughly a 4-year babysitting service. But not ok when there are student loans to pay off and your child is making \$6 an hour and hoping someday to make \$8. We would suggest that your "ordinary" son may be far better off becoming an electrician or a welder or a fork-lift operator than he would be taking a BA in political science or journalism and then working as a waiter in a Denny's. And your "ordinary" daughter might be far better off teaching rock-climbing or skiing or aqualung sports or staffing a cruise ship for Carnival Lines than she would be taking a 4-year degree in psychology or art history and then using the degree to change sheets in a hotel or drive a taxi or work for a pet-sitting service.

Here are some "successful" kids we know:

One owns a business creating custom kitchen cabinetry for people who are upgrading rehabbing or modernizing their homes. He is married, has children, and in his spare time he goes on architectural digs.

One does something similar but restricts his carpentry work to Frank Lloyd Wright-style or "mission/arts and crafts movement" homes. In his spare time he races bicycles.

One designs video games and once was a contract worker but now is employed full-time by one of the "big four" videogame companies. He did not finish high school. His mom is a psychiatrist.

One has a bicycle repair shop.

One designs websites. She is totally self-taught. In her spare time she does photography.

Here is an "unsuccessful" one: She has a B.A in English, from a state university. She just completed an MA in medieval studies at University of Chicago. She wanted to enter a PhD program in medieval studies or some aspect of Old English or mythology but has not been accepted anywhere. Her MA cost her parents approximately \$38,000. She currently works in a restaurant in Chicago where she is the only person who does not speak Spanish as a first language. She has no health insurance, earns approximately \$7 an hour. She has recently decided she would like a career designing Tarot cards. We can't imagine an independent future for her.

Here's another: He has a BA in history from a small private liberal arts college. Cost: \$27,000 year. He has

been unemployed for 15 months but recently began working for a house painting company. He lives at home. His father is a CPA.

Some of the happiest kids we know without college degrees are in sales. Many of them are selling things *that did not exist ten or even five years ago*. One we know, now in his late 20s, learned sales selling memberships at a franchise fitness gym, got a California realtor's license and took what he learned into the southern California real estate market. He recently bought his father a \$45,000 car as a birthday present.

A major goal of education is to be able to throw a dart at a map of the United States, go there, and get a job that pays enough to live on and support a family.

Colleges are not providing that underpinning for most young people *but they are pretending that they are*. In an information age, *most of the relevant information is not inside our universities and it is free. Some of it however IS inside our universities and IT ALSO is free if you know where to look*.

If you have a child who is clearly meant to go to Georgia Tech, if the child can get into Georgia Tech YOU have the responsibility to send the child there no matter what it takes. If you have a child who might want to go to college and "major" in "business" you might think about whether a better strategy might be to give the child \$200,000 from the stock market four years from now to use as collateral to open a skateboard manufacturing shop.

What about a degree in marketing/ advertising? What about an MBA? The best people in advertising come to it obliquely, from an obscure field like Chaucer or sociology, or from the streets. The best skill to have in advertising is the sense of the "cool hunt"---what direction the society's moving in, what the next big thing is. This is NOT something taught in colleges. It requires...antennae. Antennae get ground off in colleges and universities.

Much of the coursework in current MBA programs we've seen has to do with learning how to do Powerpoint presentations and how to use Excel.

This may seem astonishing to some people but many of us, *especially young people who have never known a world without Information Technology and live in a world that is grounded in math and techno-logic*, do not need a degree in accounting to learn to do a spreadsheet. Microsoft (and several other software packages) can teach you in two weekends the rudiments of running a small corporation month to month.

If you have a child who is sincerely interested in business the best thing you can do is to make sure your child reads the Friday/weekend edition of the London Financial Times, the "pink paper", cover to cover every weekend and follow up via Roadrunner on anything he or she doesn't understand through, Google, Hoover's, and about thirty-five other online business resources. *And then be able to offer that child a quarter million dollars in cash or collateral at some point in his or her twenties to start up a business*.

Also understand this: Not everyone gives a damn about money. Not everyone wants their children to become avaricious or even to want to be wealthy. Becoming rich is one of several equally admirable goals. If you would like your child to become rich the best way to do it is to *put the child in proximity to people who have money. John Kerry would be selling lawn mowers in Des Moines if someone hadn't put him in elbow-rubbing proximity with Big Money. And George Bush would most likely be in prison. Your child is better off waiting table or working in a high-end clothing store in Beverly Hills or in Miami Beach or Sausalito or in Jersey City, where the New Goldman-Sachs headquarters is, than spending four years taking a business degree at your local state University. The skills your child*

*needs to operate in the world of money are found “on location” not at the University of Kentucky or the University of Idaho and not necessarily even at Harvard Yale or Stanford.*

What about the military? It’s a viable option for both your sons and your daughters. It’s one of the very best ways to learn cooperation and follow-through skills and it equals or far exceeds sports training in teaching your kids self-confidence. Also: if your child wants to make a career of finding stuff and selling it on eBay your child needs tech skills, not a degree in renaissance literature. The US Army often turns out to be a much better place to learn Adobe PhotoShop than Florida State. We want to broaden your child’s horizons, give your child a sense of what might be possible.

As of September 2003, we began a Market Witch College Fund, and at the start of each semester we take our model semester money, \$16,500, and invest it. This September is our third semester.

Let’s just see what we can give your child who was 18-19 in the autumn of 2003 after 8 semesters, in the autumn of 2007. We think it turn out to be a better stake at starting life than a BA or BS degree in the first decades of the 21<sup>st</sup> century.

First semester, September 2003, we took our tuitions, \$16,500, and bought 1000 shares of Corning, 100 shares of Krispy Kreme, and 100 shares of Panera. Second semester, January 2004, we used our \$16,500 tuition money to buy 2000 shares of JDSU, 100 shares of Anglo-Gold Ashanti, and 500 shares of Avanex.

This semester, our third, let’s take our \$16,500 and buy:

1000 shares of Corning \$10,360

1000 shares of Targeted Genetics \$1340

100 shares of Proctor and Gamble \$5400

That’s a total of \$17,100 instead of \$16,500. That’s to keep round-number shares, easier to keep track of, plus cut your child some slack, this will pay off very well for your child by the 8<sup>th</sup> semester.

So we’ve now spent \$49,500 and the portfolio looks like this: 2000 shares of Corning, 2000 shares of JDSU, 500 shares of Avanex, 100 shares of KKD, 100 shares of Panera, 1000 shares of Targeted Genetics, 100 shares of Anglo-Gold Ashanti, and 100 shares Proctor and Gamble.

We’ll come back to this in January, 2005, and invest the 4<sup>th</sup> semester’s tuition.

Meanwhile here’s more to think about:

A study published in this past summer’s issue of *Contexts*, the journal of the *American Sociological Association*, says that today’s young men and women are MUCH less likely than earlier generation to have achieved, by age 30, the traditional benchmarks of adulthood: leaving home, getting married, having a child, becoming financially independent.

Using number-crunching from the US Census Bureau, sociologist Frank Furstenburg of University of Pennsylvania and his colleagues found that only 31% of men and 46% of women had met these benchmarks compared with 65% of men and 77% of women in 1960.

Furstenburg and his fellow researchers say that this is not the result of a “slacker ethos” or to coddling but the result of a disjointed economy in which it is much more difficult to secure a job which pays enough to support independence and a family. We might add that \$18,000 to \$43,000 a year tuition, college loans coming due and an \$8 an hour job won’t make this any better. And that the new world of the 21<sup>st</sup> century and its global emphasis makes a traditional “four-year college education” totally irrelevant for many if not most young people when it

comes to creating a life. Furstenburg and his University of Pennsylvania cronies recommend the expansion of the military and an alternative national service program to help young people ensure that they won't end up 26 and living at home. We'll have more to say about this in the future. Meanwhile, understand that the world of the "four-year college education" as a credential and a social institution lasted from 1920 until about 1994. It comes from a time before the Information explosion. And it's over.

If you teach your children to live in the past they *won't be able* to live in the future. The Big Secret of higher education in contemporary United States and one which many institutions of higher learning hope you never learn is that a "credential" does not guarantee economic security or a job. And from now on there won't *be* any economic security, either unless we as a society legislate it in. IF that's what we decide we want. We may not.

Our *MW* interviews and research show that the nation is very likely heading toward an era in which we will provide 4 years of college tuition paid for by our federal tax base in exchange for 2 years of Peace-Corps style community service after high school. This will almost certainly be extended to provide college tuition for military service as well, a sort of super- GI bill in exchange for the creation of the massive military force the US will likely find necessary over the next two decades.

And this may eventually create that ideal of an educated society. But it doesn't necessarily mean that the jobs are out there. And it doesn't necessarily mean that "college-educated" young adults are qualified for the jobs. The Internet, and its explosion of information availability, has let the knowledge and information cat out of the bag. Are traditional 4-year college educations still relevant in the 21<sup>st</sup> century? This remains to be seen.

Mood Music: Screen music composer Elmer Bernstein died in his sleep at the age of 82 in late August. He was composer of movie scores for many of the *major* American movies over a period spanning four decades, including what came to be called "sound tracks" for *The Man with the Golden Arm*, *Walk on the Wild Side*, *Hud*, *The Great Escape*, *Animal House*, and *Ghostbusters*. More important to our own interests, Bernstein wrote the movie music for *The Magnificent Seven*, a western which was released in 1960. The film, which starred Steve McQueen, Yul Brynner, James Coburn, Eli Wallach, and Horst Buchholz, was an "American Cowboy" version of the classic 1957 Japanese film *Seven Samurai* which was shown in the "art film" and "foreign film" theaters of the time. Of special interest to us is that as this "American Cowboy" version of the film became an American success of huge proportion. A recent film success as big and broad scoped might be last year's *Pirates of the Caribbean*; but at the time, in 1960, the music from *The Magnificent Seven* was as popular as music from "*The Godfather*" was in 1972. And as the entire country was humming whistling and la-la-ing the music from *The Magnificent Seven* and pretending they were Steve McQueen or James Coburn, Philip Morris bought the rights to use this overwhelmingly popular movie music. And they used the popular movie score as the "theme music" for Marlboro cigarettes and dressed a male model (later many, many male models, a whole string of them over a period of many years) like Steve McQueen and invented "The Marlboro Man," a good looking, lean macho rugged individual cowboy who smoked Marlboros against a background of spectacular American landscape scenery while Steve McQueen's theme music filled the air. The whole country was enchanted. The country immediately took to THIS use of the music, too, and bought the whole cowboy image associating Marlboro cigarettes with good looking rugged sexy guys. And they began smoking Marlboros like crazy. It was a stroke of advertising genius. It was cross-marketing in spades. Cigarette ads were then legal on TV... and this was the VERY FIRST case of a

company giving a product “theme music.” Other companies had given their products “jingles”... but Elmer Bernstein’s music was GREAT music. Bernstein over his career was nominated for an Oscar FOURTEEN TIMES for his music. *NO ONE* had ever given a product major pop theme music that the people loved. Did it work? Wow did it ever. It was one of the great advertising coups of all time. No one had done anything like this since Prokofiev wrote “Peter and the Wolf.” The country went crazy for Marlboros. Marlboro moved from being on of Philip Morris’s lowliest brands to being the company’s prize cash cow. And “Marlboro Country” became a state of mind. Philip Morris made a *fortune* on this. It was *great music*, too, and it still holds up. Elmer Bernstein was no cowboy but a native of Brooklyn and a product of NYU and Juilliard School of Music. Although it eventually became illegal to advertise cigarettes on TV, Philip Morris was able to keep the “Marlboro Man” ads, still echoing their magnificent theme music from TV, as full-page full- color magazine ads for much longer. And every time there was a movie sequel to *The Magnificent Seven* and when the tale appeared as a TV series incarnation, Marlboro- and Philip Morris- got more, more, and more layers of free advertising and reinforcement. It was a dream come true in the advertising community.

“Marlboro Man” memorabilia now is the stuff of dreams- the province of collectors and antique dealers. *TO THIS DAY, Marlboro cigarettes- and Philip Morris, now sanitized and “de-tobacco”ed as Altria- thrives on the aftermath of these events which occurred forty-four years ago. TO THIS DAY no one can listen to this music without tagging the musical notes to Marlboro cigarettes.*

Here’s a final anecdote from Elmer Bernstein’s life. Much later in his career, at at some point in the 1980s, Bernstein was in Europe on a professional tour, conducting his music with major European city orchestras in what are now called “Pops” concerts. Bernstein was in Barcelona to conduct his movie music with an orchestra there, and he took time out to go visit friends who lived in a small Spanish village about eighty miles from Barcelona. On the way he managed to get himself lost. And he stopped at a roadside café sat outside at a table had something to drink and pored over his roadmaps. As he did so, a child climbed onto a nearby coin-operated hobby horse, popped in a coin...and out came the theme music to *The Magnificent Seven*. His music had gone worldwide. And it took Marlboro cigarettes with it.

-The Newest Treatment for Stroke is: a Corkscrew. A tiny device that looks like and works like a corkscrew and can remove blood clots from the brains of stroke victims won FDA approval in August. The medical device, called the MERCI retriever, and manufactured by Concentric Medical of Mountain View, California, is threaded through an artery to a blocked spot and removes the clot and restores blood flow. It must be used within 3 hours after a stroke. It’s a treatment option that could save lives by the 1000s-- an estimated 700,000 Americans suffer strokes each year and more than 160,000 of them die, making strokes and other cerebral vascular difficulties the third leading cause of death in the US, after heart attacks and cancer. Stroke treatment and aftermath costs America an estimated \$53 billion a year. MERCI means: Mechanical Embolus Removal in Cerebral Ischemia. Company: Concentric Medical Inc. Concentric Medical is still privately-held, and barely out of the venture-capital phase; major VC funding for this company occurred in 2002. Watch to see who buys it (JNJ?) or if it goes public.

-Video Games: We keep expecting video games to die. But they won’t they are the young people’s television.

Young people don't care about Howard Stern or Pam Anderson or Dick Cheney or who's CEO of 3M, they care about *Spider Man 2* and *Psi-Ops*.

The top ten video games:

1. Madden 2005 (Electronic Arts)
2. NFL 2K5 (SEGA)
3. NCAA 2005 (Electronic Arts)
4. Spider-Man 2 (Activision)
5. Tom Clancy's Rainbow 6 version 3 (Electronic Arts)
6. Shreck 2 (Activision)
7. Harry Potter and the Prison or Azkaban (Electronic Arts)
8. Psi-Ops (Midway)
9. Tales of Symphonia (Nintendo)
10. Mega Man Anniversary Collection (CapCom)

Just out: Doom 3, (Activision) by all accounts the most visually-advanced computer game in history. Plot: future transport system Union Aerospace Corp is developing its Mars labs, which unintentionally open the portals of hell. Mangled bodies, zombies, monsters, mutants, and demons. Claustrophobic feeling of living in a tin can. Paranoia as vicious creature lurk behind every corner. As a player you destroy them the old fashioned way: with (electronic) guns rockets grenades shotguns lasers and chainsaws. M (mature) rating. Features dim lighting, eerie creepy mood. War and paranoia and good vs. evil as amusement. Sounds just like the Middle East.

*WATCH THESE THINGS, people: AND Try PLAYing THEM. THIS IS HOW YOUNG AMERICANS VIEW THE WORLD.*

Stocks: Electronic Arts, SEGA, Activision, Nintendo.

- Inside The New China: Beauty as a Product Upgrade: Beauty Pageants, once scorned and banned as bourgeois "spiritual pollution" in communist China, now are held across the country, including regional contests of the Miss World contest. Shopping malls now host underwear fashion shows featuring products similar to the stuff of Victoria's Secret. Cosmetics giant L'Oreal reported a jump in sales of 70% last year in China. The governments calculates that the beauty industry is a \$24 billion yearly enterprise in that once-Marxist/Maoist nation. Execs in a Chinese media group that publishes lifestyle magazines say Chinese women have always emphasized appearance and beauty but the loosening of rigid social controls, plus rising incomes, have unleashed bottled-up demand and fueled a consumer beauty boom. The latest incident and one that threatens to spill out as a philosophical/aesthetic issue, is the issue of "artificial beauties"...

Plastic surgery clinics are popping up all over China. A fashionable surgery and one that even the poorest young women in the countryside are willing to spend a month or more of wages on is eye surgery to make the Chinese eyes more rounded and "Western" like those of American and European women. For many women in China as everywhere else, the decision to have cosmetic surgery is less vanity than pragmatism, rooted in a belief that a more attractive appearance will help them find a better job or spouse in a more competitive society. A test case in point that is about to test social theory is that of 19-year old Yang Yuan, already a tall and striking-looking and major fox by anyone's standards and a successful professional model, who underwent major plastic surgery.



Following a four-hour eye nose mouth and chin-job, Yang Yuan entered the opening round of the Miss Intercontinental Beijing beauty pageant. Won, initially, and advanced from the horde of contestants to become one of 30 finalists. At which point she was disqualified when contest organizers learned about her surgery.

At what point does beauty become impure? At what point do we move from being humans to being 'enhanced' humans to being cyborgs to being citizens of movies like "Bladerunner"?? Will we need separate beauty pageants for "undoctored" people? Will "unenhanced" people become rare and valuable? Or shunned as ugly and unable to compete in 21<sup>st</sup> century societies? Will perfection at any cost become the norm? Will men who marry demand "truth in packaging" from their spouses-to-be?

Yang Yuan decided to fight back. She took her case to the Chinese media and soon photos of her with a tear rolling down her enhanced cheek were all over Chinese magazines. The contest organizers backed down, but Yang Yuan was unsatisfied and has since filed a lawsuit on the grounds that her reputation has been damaged, and that her rights were violated because no one told her having had plastic surgery was a no-no and the contest rules made no mention of disqualification for having had plastic surgery enhancement. Has Yang Yuan started a firestorm? Are developing nations now the cutting edge of aesthetics, and legal battles about aesthetics? Is physical self-improvement a right? Or a biological deception? Stay tuned. The answers lie in the actions of the marginal nations.

- DQ and the Burger Chains: Berkshire Hathaway company Dairy Queen is increasingly offering a 'full-restaurant' menu that includes hot dogs, hamburgers, chicken fish and BBQ sandwiches, salads etc in addition to the stuff of dreams, the traditional DQ soft ice cream delicacies like the Brownie Boat and the various cones. McDonald's and Wendy's have burgers, all right, but not the legendary DQ ice cream products. Look for Dairy Queen to cut heavily into the market shares of Wendy's, McDonald's, and Burger King. Burger King can sell you a Whopper but it can't sell you a Dairy Queen ice cream cake. Stock: Berkshire Hathaway "B" shares. NYSE: BRKb.

-Coming Soon: High-Tech Passports. Belgium reportedly will be the first company to add electronic information bases to passports with an embedded microprocessor. Several countries are developing digital ID systems that will take advantage of biometric data to sort out who is safe to let in and who is not. Biometrics includes scans of face, eye, fingertip, or voice (so far). Belgium will reportedly test this system late in the year. The US, Australia, Canada, New Zealand and the UK also are working on various forms of digitally-enhanced passports. Stocks to watch: USA's Visage Technology, and Germany's Infineon.

-Television Still Rules: NBC declared a ratings victory for the 2004 Summer Olympics opening ceremony on Friday the 13<sup>th</sup> claiming it had attracted 56 million viewers. But that figure- 56 million- is called a "reach number" and it means that figure includes anyone who happened to be channel popping through 185 channels and paused momentarily- ie for four seconds- on the Olympics ceremonies. The number that goes into the record books however is the "average audience"-- how many people actually watched the opening ceremony -- and that number is 25.4 million. That number falls short of the 27.3 million viewers who tuned in to see the opening ceremonies of the Summer Olympics in Sydney, Australia, in August of 2000 but it's more than the 22

million viewers who watched the opener of the Summer Olympic Games in Barcelona in 1992. Among viewers of all ages, this year's Olympics ceremonies drew viewers down 7% compared with the same night of the Sydney games in August 2000. *But among viewers 18-49 that drop grew to 16%.* That's in keeping with our research theories about younger people's loss of interest in "20<sup>th</sup> century" sports and their new interest in "extreme" or "action" sports which they find way more interesting than either golf or the Olympics. A change truly is at hand as we watch the beginning of a new century.

-Is Google Worth Eighty-Five Bucks a Share? One hundred and eight? We've avoided talking about Google and its IPO for these many months. Search engines and web hosts/content providers, besides performing a huge service and one we've become absolutely dependent on, make their money as advertising mediums. So Google as an investment stock is basically an issue of how successful an advertising medium Google is. Is it as successful as Yahoo (Nasdaq: YHOO), a company now heading toward becoming a "full service" Internet Provider and now selling for about \$29? Or as successful as AOL, (stock= Time Warner NYSE:TWX) now selling for \$16? Will Google *be* a success story not as a search engine but as an investment? This very much remains to be seen. Our Cash Cow stock in the Internet Arena is eBay, a company evolving into an Internet stock, a Retailer, a Bank, an Umbrella Company for 1000s of small individual entrepreneurs and an Incubator Company as well. WE would suggest you buy shares of eBay instead, while we wait for a while and see what sort of numbers get put up on the wall after Google has been in business as a public company for a few quarters.

-Products to Watch: Hitachi's new Cineform series television sets, available as a flat-screen plasma HDTV or as a projection TV with screen sizes up to 70 inches. Sony's Wi-Fi TV: the Sony LF-X1 LocationFree TV. this one is a hotly anticipated location free portable TV, flat like a laptop, 12-inch LCD screen, and it uses dual-band WiFi to talk to its base station either directly or over the Internet. That means it's not only a cable and satellite system ready TV and a DBD player, but you can also attach a touch screen to it and check your e-mail. Internal hard drive to access stored files. Available in the US in about three weeks. Optoma's front projector high-def projection TV. 6 lbs, up to 100-inch picture, small enough to fit on a shelf, cable and satellite ready, will link DVD and VHS players and also to video-game consoles. About \$1500.

Stocks: Sony (NYSE:SNE), Hitachi (NYSE: HT), and Optoma Technology of Milpitas, California, which is still private, and which we are watching.

We are also noting that many high schools and colleges don't allow talking on cell phones during school hours but enhanced cell phones can be used for instant-messaging, sending quick-text messages, photo capture and sending, and now video recording, as well as personal digital assistant capabilities like calendar, hourly reminder, organizer file systems. Nokia 7610, Samsung VM-A680, Siemens SX1, and Sprint Vm 4050 (a Toshiba phone)... The Nokia will record up to ten minutes of video. Are cell phones about to take off again? Stocks: Nokia, QualComm, Siemens, Sony, Toshiba.

-Note that WE ARE ENTERING a NEW BOOM ERA for CELL PHONES called PDA PHONES: Personal Digital Assistant phones with *all kinds of features*. The absolute hottest selling one of these and something that is about to take the country by storm is the Verizon Treo 600 smart phone. It's \$500 retail. It

allows e-mail sent to your desk PC or your laptop to be instantly transferred to your Treo 600 phone screen. It can integrate up to three additional POP3 or IMAP email accounts and bring all the data to the phone screen. It can integrate call phone capability with email calendar, task lists, contact lists, sales lists, etc *because it is a Palm OS Organizer with phone capability*. It also has an integrated camera and if you purchase software “accessories” the device will play MP3s or videos. THIS IS A VERIZON PHONE, BUT IT’S BUILT BY: PalmOne Inc, (NASDAQ: PLMO) Type in Treo600 on Google and read about it. This is the start of a new era in cell phone tech and in the cell phone economy.

-A Tipping Point and a Major Economic Improvement Marker: Last month broadband-equipped households overtook “19.95 dial-up Internet” households for the first time ever. Nielsen NatRatings reports that Broadband (Roadrunner et al) now has 63 million users, or 51 per cent of the US online population... UP FROM ONLY 38% LAST YEAR.

A total of 61.3 million American households still use 56k dialup. That number fell by 13% in a year. Nielsen says it expects to “see this aggressive growth rate continue through next year.”

These numbers are four or five years late because of a trashed economy but they are, still, progress. Two things are happening: the economy is in fact improving a bit, and young people, 20somethings, are entering the work force and spending their money first on an apartment, getting AWAY FROM LIVING WITH THEIR PARENTS, and next, on technology and a high-speed Internet connection.

- Vaccines and the Waiting Game: Targeted Genetics and its HIV Vaccine: We are continuing to monitor Targeted Genetics, whose HIV vaccine, developed in partnership with Children’s Hospital Research Institute in Ohio, now is being tested in Germany on human volunteers. Targeted Genetics (NASDAQ: TGEN) would produce the vaccine. We are also continuing to purchase shares of Targeted Genetics and waiting for a payoff that we believe will arrive in about four months.

As America slowly settles into a siege mentality with the Arabs, the lines at home between “civilian” medical R&D, NIH (National Institute of Health) efforts, the CDC (Center for Disease Control) and the US DOD (Department of Defense) biodefense efforts, are increasingly becoming a blur. At stake: *new vaccine platforms which can not only wipe out HIV but can, more important to the strategic concerns of the US and even to its survival, development of new and sophisticated vaccine PLATFORMS that can be used to create new and potentially-needed vaccines FAST, like a bat out of hell, to stop the progress of a bioterrorism even that might, especially with a doctored or mutant organism, threaten to spread rapidly.*

*The government will by some time this autumn have funded NINE regional centers, comprised of universities, medical research institutes, state public health departments, and private companies like 3M and Cargill, to act both as regional defense centers and as research hubs.*

One item these R&D/defense hubs have on the plate is the development of a “bioreactor system” or artificial immune system including constructs that would mimic the human thymus, lymph nodes and bone marrow, which would allow FAST assessment of vaccine potentials with greatly diminished need for animal or human clinical trials.

A company we’re watching in addition to Targeted Genetics is Aastrom Biosciences Inc. At least as important

as that and maybe more so is our discovery very recently that 3M has a division called 3M Pharmaceuticals.

Studying all this and thinking it through, we've come to these conclusions:

A new category of pharmaceutical companies exists, which we'll call "Defense Pharmaceuticals" and 3M may have its sights set of becoming the premiere one.

In the event of a real bioterrorist event inside the US that would require the FAST marshalling of both bioscience resources and drug manufacture to create BIG amounts of a vaccine that might be necessary, the government only a BIG company (or companies) can do the job.

This probably holds true for a successful HIV vaccine as well. That would mean that TGEN, should its vaccine be successful, would become an instant buyout candidate by a big company, 3M or JNJ, for example, which would have to buy the license to manufacture the vaccine, but would also gain the vaccine platforms to small company created and owns as well. Also of course only a large company could provide the facilities necessary to manufacture large quantities of a vaccine that would be used worldwide by *everyone*. Of course this would mean shares of TGEN would skyrocket, on the one hand as a successful vaccine looms and on the other as a buyout candidate.

Additionally, the *Journal of the American Medical Association* reports that efforts are underway toward creation of a successful Type A Strep vaccine. That includes sore throat infections and a rare type of "flesh-eating bacteria" that you read about in the tabloids. An experimental strep vaccine currently is being tested on 28 people. This was the first testing on humans of a strep vaccine in almost 30 years. Efforts have been underway to create a streptococcus vaccine for humans since the 1930s. Involved are researchers at University of Tennessee and ID Biomedical Corp. An additional experimental strep vaccine is being worked on by microbiologists at University of Minnesota and pharmaceutical company Wyeth. And additional strep vaccine is being developed by SIGA technologies, a New York-based developer of antibiotics and vaccines. About 10 million Americans get strep infections each year. The critter also is responsible for rheumatic fever, now uncommon in the US but still a major health threat worldwide.

-Corning and Caterpillar et al: It is now little more than a year before the first stages of strict new emissions standards for on-road diesel engines begin to go into effect. And by 2008 most diesel-powered vehicles in the USA, Japan, and Europe will require emissions control technologies. Corning, with its ceramic substrate and ceramic particulate filter products and emissions control exhaust materials, has a lock on this market. What is less obvious to everyone is that these new mandated emissions standards eventually will apply to *all* the industrial and agricultural products, the light and heavy industrial machinery manufactured by the likes of John Deere, Caterpillar, Case New Holland, Ingersoll-Rand, Komatsu, and others, as well as to all the vehicle-manufacturing companies that build autos and trucks with diesel engines. All those tractors and agribusiness vehicles, all those construction and highway-building vehicles, all those industrial-use diesel-powered products like on-site generators, freight box pullers, cranes, and fork lift machinery, all will have to be equipped with exhaust emissions control devices for which Corning makes the guts, the filtration products. Corning will prosper greatly during those years. Corning shares, which were slammed with malice aforethought during August to, we think, provide a "buying opportunity" for certain heavy hitters, are greatly undervalued.

-Krispy Kreme Bottoms Out: In mid-August KKD shares fell to a new low of around \$13. A few days later Chief Operations Officer John Tate, whose idea it was for KKD to purchase Montana Mills, resigned. And we hope more resignations are forthcoming, including CEO Scott Livengood. We believe KKD needs new management. KKD's also being looked into by the SEC for accounting practices the SEC thinks are different than other food service companies. We shall see.

Meanwhile, on the upside, Krispy's one-year sales growth storms along at 35.4% and the company's one year net income growth is up 70.4%. The Adkins/South Beach LocarbNocarb Diet Craze of 2004 is now officially over, dead and gone. Americans have returned to eating as they always have. And Krispy Kreme now, as before, possesses one of the most potent brand names in the country, one that goes back to 1937, and one that will continue long after Scott Livengood, John Tate, various SEC members, and various attack 'journalists' bent on making their bones with this company are dust and ashes. We think: the company will have to lose its country-style small time management. We also think the SEC is shouting into the wind. KKD shares, currently at around \$13, should be selling, fair-valued, at about \$36. If you are willing to wait a year or two, these shares are a steal as the company, with fools both inside and outside the company hanging on or falling off, continues its bumpy global rollout.

-Middle East Redux: We are continuing to keep the direct links to three key Middle East newspapers, to help readers keep track of what the totalitarian Islamic world thinks of world events and how it spins them:

AlAham, Egypt: <http://weekly.ahram.org/eg/index.htm>

Al Jazeera, Qatar: <http://english.aljazeera.net/HomePage>

Saudi Newspapers including state-controlled media sources and the Minister of Information:

<http://www.world-newspapers.com/sa.html>

## ARTICLES OF THE MONTH:

A series, in the July 15<sup>th</sup> issue of *New England Journal of Medicine*, including "Embryo Ethics- the Moral Logic of Stem Cell Research" by Michael Sandel, a doctor of philosophy and a professor of government at Harvard University; "Zygote and Clonote- the Ethical use of Embryonic Stem Cells" by Paul McHugh, M.D., professor of psychiatry at Johns Hopkins University School of Medicine; and "The Business of Stem Cells" by Barbara Spar, a human services Ph.D. from University of Wisconsin at Madison. These three will tell you all you need to know about what stem cell research does, where it can lead, and the devastating consequences of the Bush administration's attack on the biosciences. <http://www.nejm.org>

"The Terror Web" by Lawrence Wright, *the New Yorker Magazine*, August 2<sup>nd</sup> 2004. This is a poorly-titled piece because although it addresses the Train in Spain bombings it is the first mainstream piece to accurately outline both the history of Al Qaeda and the AQ/ Islamic plan for the future, which includes the recapture of Moorish Spain and the Arab restoration of the Alhambra, and AQ plans to conquer Europe. This work is nothing less than astonishing. The Western world still is in "appeasement" mode with Islam as it was with Nazi Germany in the very late 1930s.

At one time, about six hundred years ago, Arabs, then called Moors, controlled a turf shaped like a huge crescent that extended from the Iberian peninsula southward and then from Atlantic coast of Morocco around the south coast of the Mediterranean, up the East coast of the Mediterranean, and deep into Asia, all the way to Russia.

These folks would like the Iberian Peninsula back and they intend to get it. A million Arabic immigrants- half illegal-are in Spain. 20 million *legal immigrant* Muslims are in Europe. They are aggressive. *Read this article. If you do not believe we are in a World War, read this article.*

The NYer link is <http://www.newyorker.com>. Let's try to find a broader link to this article via Google or one of the other major engines.

Here's an easily accessible one: <http://primetimecrime.com/contributing/20040727Wright.htm>.

Meanwhile, check out <http://www.qal.3ah.net> and <http://www.ikhwan.net>, both Islamic websites. We are in a world war, and sooner or later we will have to fight it as a world war. Many educated people seem to find the utter failure of the political process with Islam and the Arab world baffling. The answer lies in reading more history of Western Europe in the 1930s.

Designing War" by Pope Frock, in *Men's Journal* the Style and Design issue, September, 2004. The world of DARPA (Defense Advanced Research Projects Agency) which we talk about often, or all the time, now. Behold here the world of the US soldier of 2025. Smart weapons, instant nutrition, pain control in combat. Working under a \$24 million grant from DARPA, researchers at Duke University taught a South American owl monkey to move a telerobotic arm simply by thinking about it. A world looms of pilots, on the ground, telling their aircraft, in the air, what to do telepathically. DARPA, by the way, not Al Gore, pieced together what today is the Internet, in the 1960s. Called ARPANET, it was originally designed to decentralize military data, allowing information survival in the event of a nuclear holocaust... an issue we all thought would disappear when the USSR collapsed. <http://www.mensjournal.com>

Just about every American economic boom for as far back as we can see has been a spinoff of high-tech military spending. This seems to hold up for the boom times of the 1870s and 1880s (following the invention of repeating weapons, which led to general mechanization especially in agriculture) the 1920s (radio, first used militarily in WW I, fueled the Roaring 20s) and the 1950s (the Interstate highway construction which Eisenhower built to help move ICBMs around the country to be able to attack the USSR no matter what , and this led to the "car culture"). The computer economy that began in the early 80s (which may be over now) was created by high tech military spending as well. What's the next boom? Possibly the high-tech "defense" or "homeland security" craze which, in tightening US borders and making identification of EVERYTHING a big priority, may lead to major consumer products and technologies. So as far as we are concerned the government can give DARPA as much money as it wants.

## ON THE REFRIGERATOR DOOR:

Continuing our recent television motif, as we discover that television, not the Internet, still rules, we might list the Ten Commandments of Joan of Arcadia. These are the ten basic philosophical points which form the

parameters the program's writers use to script the huge hit show each week:

1. God cannot directly intervene.
2. Good and evil exist
3. God can never identify one religion as being right.
4. The job of every human being is to fulfill his or her true nature.
5. Everyone is allowed to say no to God, including Joan.
6. God cannot be bound by time- time is a human concept.
7. God *is not a person* and does *not* possess a "human" personality.
8. God talks to *everyone, all the time*, in different ways.
9. God's plan is for what is good for *us*, not what is good for God.
10. God's purpose in talking to Joan, and to everyone, is to get her (us) to recognize the interconnectedness of all things. IE you cannot hurt someone without hurting yourself, all actions have consequences, God can be found in the smallest actions, God expects us to learn and grow from our experiences. However, the exact nature of God is a mystery and the mystery can never be solved.

These rules come to us directly from the show's source, series creator Barbara Hall.

## BOOKS OF THE MONTH:

Double Paranoia Plus Poverty this Month:

*Nuclear Terrorism: the Ultimate Political Catastrophe* by Harvard prof Graham Allison. Does AQ have a 10 kiloton weapon from the stockpiles of Russia? Can it build one on its own from stolen materials? Is the chatter of an "American Hiroshima" on the Arab Internet plausible? Stay Tuned. Allison says the odds are 51-49 that an Islamic terrorist nuclear strike will occur in the world within the next ten years. We would go further than that: we would say the 51-49 odds are that such a strike will occur in the Western Hemisphere, and within eight years. *Read this, watch the Arnold Schwarzenegger movie "True Lies"--which is a comedy-- and draw your own conclusions.*

*America the Vulnerable* by Stephen Flynn, HarperCollins Books; Flynn says that in a year, one hundred twenty million cars, eleven million trucks, and eight million shipping containers cross US borders and almost nothing is being done, even three years later, to safeguard the country from what might come in. In effect, Tom Ridge is not doing his job. Flynn argues that the government must learn from the private sector; corporate safety standards and techniques are way better than federal ones at this point. Flynn is saying the 3M and JNJ and Alcoa are better at this than the government is, and the private sector has to teach the government how to safeguard the country.

*Nickled and Dimed: On (Not) Getting by in America* by Barbara Ehrenreich, Metropolitan Books, 2004, \$11.70 via Amazon. American young men and women are spending \$80,000 to \$160,000 on a "college education" and finding that the degree is an entryway to \$7 to \$8 an hour job. Here's what it's like to live in contemporary America on those wages. This is why so many American kids move home after college. This book is required reading for incoming freshmen at a few of the more progressive American colleges and universities.

## QUOTE OF THE MONTH

The nation's in a waiting game. Existentialism for the next two months. One of the world's better existentialist novels is Joan Didion's *Play it as it Lays*, Farrar Straus and Giroux 1970, various paperback editions available, the best are the original Bantam paperbacks available via Bookfinders.com and other secondhand sources for less than a glass of wine in a restaurant.

We hope that "creative writing" programs which churn out MFAs whose fiction is identical are teaching with Joan Didion but we doubt it. Joan Didion could have been America's female Ernest Hemingway, but didn't do it. This book makes up for that.

Here, from *Play it as it Lays*, is the best single page in American literature: notes from the tale of Mariah Wyeth...

*When I was ten years old my father taught me to assess quite rapidly the shifting probabilities on a craps layout: I could trace a layout in my sleep the field here and the pass line all around, even money on Big Six or Eight, five-for-one on Any Seven. Always when I play back my father's voice it is with a professional rasp, it goes as it lays, don't do it the hard way. My father advised me that life itself was a crap game: it was one of the two lessons I learned as a child. The other was that overturning a rock was apt to reveal a rattlesnake. As lessons go these two seem to hold up, but not to apply.*

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

Ralph's America.

Ralph Nader.

President Ralph.

Does he drink beer? Has he ever been to a state fair? A tractor pull? A rodeo? Is Ralph gay? Has he had a stroke? Or has his face always been asymmetrical? Does he speak French or German? Does he travel outside the United States? Does he have a lawn? Does someone cut it? Is he simply a screaming narcissist and egomaniac? Is he way less bright than people give him credit for? Is he aware that to many people he is a comedic figure? Does he secretly hate the United States and want to destroy it? Is he a man of desperate ambition and huge vanity but who wants the world to love him *as he is*?

Does Ralph truly want to be President? If so, why isn't he campaigning? If he doesn't like campaigning, doesn't like being around people, why would he want to become President?

Is he aware that there have been two other famous Ralphs? One, a television skit character, Jackie Gleason's Ralph Kramden, the other, Ralph "Sonny" Barger, the godfather of the Hell's Angels.

Has Ralph ever been in a Sears Hardware store? Is Ralph a bachelor recluse, a lodger who lives in a rented furnished room in DC? Does Ralph remind others, in addition to us, of someone you would meet at a bus stop in downtown Los Angeles?

Does Ralph have any relatives? Does he maintain ties with his ethnic roots? Does he have college buddies from his days at Princeton? Does he have sex? If so, with whom? Does he have a favorite football team? Does he play



chess? What does he do on Saturdays? Does he play golf? Does he wash his car? Does he eat Oreos? Has he ever been to a Dairy Queen? What would happen if he actually became President? What vision does he hold that might transform America into a place he likes? What would Ralph's America be? What would it look like? What would the rest of us think about it? Will Stephen King eventually write about him? Use him as the basis for a character in a weird novel about a guy who lives in an Airstream trailer and longs for greatness and recognition but doesn't like people?

Here is what we know for sure about Ralph: He was born in 1934 in Connecticut. His parents were Lebanese immigrants. His mother had a restaurant. He was reading books by famous muckrakers at the age of 12. He graduated from Princeton and later from Harvard law school. At the age of 29 he abandoned a "normal" local law practice and became a sort of itinerant holy man of consumer advocacy, living out of a suitcase in a YMCA. He served in the army. He has never been married. He is a vegetarian.

Almost *no* information is available *anywhere* about his personal life. Does he have a Ferrari stashed in a secret garage in Reston, Virginia and drive it only at night? Does he take tango lessons? *No one knows.*

What does Ralph *want*? We think that on some level he truly believes he is a holy man. And this is why he has backers. He attracts the same sort of people who are attracted to religious cults.

His most famous comment: "We are not seeing progress in the use of solar energy because the oil companies do not own the sun."

## TRADITIONAL INVESTMENT SKILLS:

*It's all right in front of you.* We regularly speak of Harley-Davidson, one of America's greatest companies and one of the world's great brand names, in *Market Witch* issues. We occasionally attend biker events as interested parties. Not the huge national biker events like Daytona Bike Week and the Sturgis Black Hills Motorcycle Rally, but the smaller ones like Sturgis East in Kentucky, Beanblossom in Indiana, and the wilder ones like the New England Gypsy Tour held every year in Laconia New Hampshire and the Labor Day Weekend Chillicothe Rodeo, the wildest one of them all. We walk around and check it out. Other professionals in marketing, financial services, stocks, and journalism may see the Collapse of Western Civilization in these things; *we as Harley shareholders see money in our pockets.*

But you don't have to go that far or make it that difficult to track down America's great companies that are right before your eyes every day.

Let's look at just a few of America's Favorite Products.

Let go to Kroger's or Safeway for a moment, and pick up some Glad Bags and GladWrap. It won't tell you on the box, but Glad Products is owned by Clorox (NYSE: CLX), another of America's great companies, one that's always on our "Basics" Buy List and which is virtually a no-risk company with a healthy dividend.

Now let's drive over to the local Home Depot or Lowe's for a moment. Both are home-improvement retailers that will roar as the Real Estate Boom of the Second Great Depression, fueled by near-zero interest rates, winds down and the Home Improvement/ Rehab industry heats up. And let's look at *just a couple* of companies that make everyday stuff that everyone uses. Here's one: American Standard. Plumbing supplies. Items people have used for the last hundred years and which they'll use for the next hundred as well. Valve stems for your kitchen

sink. Who actually *makes* these products? Well, the *box* for the American Standard valve stem for the cold water side of your kitchen sink says the product is made in Taiwan...and we know globalization is real and the valve stems are no longer made in Pennsylvania. But the package also says American Standard is a Danco Company, which is a division of Plumbmaster Inc. of Concordville, Pennsylvania. Bingo! Let's track that down and see if Plumbmaster is public! Oops, no. Plumbmaster is owned by NCH Corp. Let's see if *they're* public. Alas, no luck: Plumbmaster, and by extension American Standard, was bought in April by Bradford Equities Management Inc LLC, (British and Canadian) which is privately held. So rats! We're at a dead end. We can't buy shares of American Standard and its longtime- successful plumbing business unless Bradford sells it to a public conglom and we betcha they won't because it's a very profitable business. Since September is every year the month for our "back to college" remarks, we might mention that your child is way better off becoming a plumber than taking a BA degree that costs \$40,000 a year for four years and then moving back home and hoping to get a job at Starbucks for \$8 an hour. Everybody's sink needs new valve stems occasionally, and as investors that's exactly the kind of thing we're after.

So. American Standard was a dead end for us. Let's stay at Home Depot for a moment and try another shopping aisle.

Here's one! Liquid Nails! Great product! If ever there was and America's Favorite Product, Liquid Nails is one! EVERYBODY uses it! Every basement hobby project, every home improvement event you can think of uses Liquid Nails. The guys who are building your deck or putting slate trim in your kitchen are using it RIGHT NOW!!

So let's track down Liquid Nails! Says on the tube that you put in your caulking gun that Liquid Nails is made by MACCO on Euclid Avenue in Cleveland. But it *also* says MACCO is a *division* of ICI Paints! Let's track *those guys* down on Google!

Aha! Paydirt! ICI has a division that makes paints, ICI Paints, and Liquid Nails (MACCO) is a part of that. But ICI is much more than that! ICI is Imperial Chemical Industries PLC, of London (NYSE: ICI) and in the division they own called ICI Paints we find they also own Glidden Paint. But we *also* find, in other divisions, they make industrial adhesives, synthetic lubricants, personal care products, explosives, and lots of other products. They have subsidiaries in Argentina, India, and Pakistan. Most important to *us*, this company not only makes Liquid Nails, but it has a one-year net income growth of 87.5%!! ICI turns out to be a \$15 stock with a fat dividend of about fifty cents! That would approximately equal a \$2.00 dividend on a share of PG! Terrific! And who would not want to own shares of the company that makes Liquid Nails! Talk about stable! Talk about huge demand with no letup!

An *additional* dividend, to *us* was that on this little quest we discovered that a major maker of clear silicone caulks is...GENERAL ELECTRIC! GE is the country's #1 Silicone manufacturer! We had NO IDEA they were even in this business! One of GE's very hottest selling items is a clear elastomeric copolymer sealant, a combination adhesive and sealant, called Climaclear, that is flying off the shelves. Sears, Lowes, Home Depot can't keep this stuff in stock. Money in GE's pocket. And money in yours if you own GE shares.

While we are on this subject we might mention that Lowe's net income was up 18% for the most recent quarter, and Home Depot's net income was up 19%. Both are on our Strong Buy lists.

Let's do one more. On your vacation trip, traveling through the countryside on the way to somewhere, you've

seen these cool-looking tractors that say “New Holland” on them. Or you might have seen a row of “New Holland” mini-tractors among those rows of Honda minitractors at a suburban lawn and property care garden store. Driving through the grainbelt and other farmbelts of America you see so many “New Holland” logos that you don’t pay attention to them any more.

Let’s just look this one up. Most people who are not farmers assume “New Holland” tractors are made by Ford or Daimler-Chrysler or GM.

But yes, there really *is* a New Holland, and it’s in Pennsylvania. And near it is Belleville Pa. And they really DO make tractors there. Belleville is the home town of New Holland North America.

And to buy shares of New Holland tractors you really DO have to buy shares of a company from Holland.

That company is CNH Global N.V (NYSE: CNH) which is Case New Holland, based in Amsterdam. That’s the “Case” that used be freestanding and makes bulldozers steamshovels etc. CNH is one of the world’s two largest makers of agricultural equipment (bailers tractors sprayers harvesters etc) the other one being John Deere (Deere &Co). CNH also however is the world’s third largest manufacturer of construction equipment, trailing American Caterpillar and Japanese Komatsu.

More than 70% of CNH’s annual sales are from agricultural equipment but the company also makes backhoes, excavators, forklifts, miniloaders, telescopic handlers, and other light-industrial and construction equipment.

CNH has operations in at least 24 countries and sells worldwide through a network of about twelve thousand dealerships and distributors.

For urban Americans, New Holland and parent company CNH is a \$10 billion a year stealth company that is invisible unless you have relatives who are farmers or involved in some aspect of agribiz. Yet CNH is an \$18 stock that pays a 25% dividend and split 2:1 in April of 03. More importantly this company is so stable that you could buy shares, blink your eyes and fall asleep for 100 years, wake up and CNH will still be here and your great-great-grandchildren will still own the shares you bought. Only there will be lots more of them.

CNH reported 1 year-sales growth of 7.9% last year, but CNH profits also doubled in the most recent quarter as the company reported 2<sup>nd</sup> quarter net income of \$107 million vs. \$56 million a year ago.

Italian carmaker Fiat currently owns about 85% of CNH, reports Hoover.com, but we think that will not always be the case. Fiat is notoriously unstable, and is on a slippery slope as GM, Honda, and a few others with better management skills (and better products) seek to stake out and own the 21<sup>st</sup> century vehicle market. We expect that eventually either Fiat will get in another financial jam and have to let go of CNH shares, or Fiat will quietly disappear some time during the next ten to fifteen years, and although the shares may remain in the same hands, the owners of them will no longer be called Fiat.

We might mention that New Holland recently introduced a series of what it calls “subcompact tractors” into the US market. The company has dubbed the line of urban tractors the “Boomer” line. Meanwhile, surging farm and construction equipment sales pushed profits up 62% at John Deere (Deere and Co) for the most recent quarter. Deere reported net income of \$401.4 million or \$1.58 a share vs. 247.5 million and \$1.02 for the same quarter a year ago.

New Holland (CNH) and Imperial Chemical (ICI) just *two* companies. *YOU* can do this too. *These things are all around you.* All you have to do is pick up America’s favorite products and read the box and look up who

owns them and makes them.

Here's another one we're interested in solving: WHO MAKES ALL THOSE ORANGE BARRELS????

## SELECTED SHORT SUBJECTS:

Ebay has bought a 25% stake in craigslist.com. Ebay hasn't said what it paid but estimates are \$12 to \$20 for a stake in the cultural phenomenon among 18-34 age group Americans. Craigslist is a sort of online farmers' market for *everything* that operates so far in 41 US cities, plus the three big ones in Canada, plus London. Employment posts, boxes of old Playboys, apartment listings, furniture, a million other things, plus talk. It's the village square of our time: free listings (except for some employment listings in some cities), free browsing, free speech. Craigslist, founded in 1995 by an IBM employee, has 14 employees, all in San Francisco, where it was founded. Analysts estimate Craigslist generated \$7 million in revenue last year. We expect Craigslist.com to expand to major cities all over the Western world. We expect it to become a part of the eBay stable of companies. And we expect eBay to make a ton of money on it. What's over: Baby Boomers, now off the media's hot sheet and headed for retirement. Baby Boomers, who ruled the world ten or fifteen years ago, now are interested in full comprehensive health care with Rx's included, and want a strong stable stock market and interest rates that will keep them in monthly retirement income. What's over: The Atkins locarb/nocarb diet craze. What's over: rap music. Bill Cosby and Barak Obama have given African-Americans a new vision of themselves. What's over: the "chopper" motorcycle craze that has been run into the ground on TV via the Discovery channel. Replacing the stripped rigid-frame custom Harley "chopper"-- traditional Harleys with comfortable seats, real shock absorbers, and the ability to carry two people in comfort... and a new craze, "pocket motorcycles" three feet long, forty or fifty pounds, four to six horsepower, maximum speed around 40mph that you can buy in catalogs like "Sharper Image" and which are illegal to drive ANYWHERE although no one seems to care. A hot new "action" or "extreme" sport that has captured the imaginations of the 18-34 crowd: boxing. Watch for matches in halls that regularly feature music events.

What's coming back: college fraternities and sororities, as the American middle class, reeling from the threats and changes of first decade of the new century, tries to stabilize and returns to its roots. What's booming in the academic world: studying Arabic in HS or college as Americans realize we are gonna have to deal with the Arab world and we will need translators in many aspects of that endeavor, including business. College and electronics: 87% of college students own a PC, 41% own a PC and a laptop; 80% of colleges nationwide offer wireless local area networks (LANs). Stanford says its undergraduate students spend 20 hours a week on the computer. A new college fad is hookah parlors: storefront smoking rooms with water pipes and tobaccos, Middle Eastern-style. What's booming in Mexico, Central and Latin America: A thriving kidnapping industry. What's thriving in Japan: a much more violent and sexually-charged gang youth subculture, brought about in part, says the Japanese establishment, by violently erotic *manga hentai anime* comic images and violent and sexually kinky online and print animation and video games. "Japan teen world" used to mean black leather jackets, sideburns, rocks and roll, and pachinko games. Then it meant Japanese MTV and Japanese Pop music. Now it seems to mean rape murder arson assault and more. The Japanese call it *kireru*: hair-trigger tempers, erupting in sudden uncalled-for acts of rage. Meanwhile, the Godfather of Japanese violence, "Godzilla", turns fifty this summer and the Japanese

economy begins to move out of its long doldrums of many years as Honda and others report record profits. McDonald's is test-marketing a sub sandwich and hoping to take market share from Subway and others. McDonald's currently is marketing subs in Columbus Ohio, Richmond Virginia, Louisville Kentucky and San Antonio before trying a national rollout. Subs, and the deli-sandwich market in general, is a \$17.3 billion industry in the US. For comparison, the American pet food industry is about \$11 billion. Kicks: if you're rich and get off on experiencing poverty, you can visit Memphis and spend the night in the slum apartment Elvis and his parents lived in from 1949 to 1953. It was a big step up for the Presley family who moved to Memphis in 1948 and started there in an \$11 a week rooming house. Berkshire Hathaway (NYSE: BRKb) reportedly is buying up large numbers of shares of Pier One Imports. Does Warren Buffett have his eye on this great urban furnishings retailer as he once did on Dairy Queen? Yahoo began selling web domain names in mid-August as part of its plan to expand services to small business. Yahoo, which already sells web hosting, website design and email service contract packages, now also has a stand-alone domain name product available for \$9.95 a year. Yahoo expects to get a piece of the domain name market. More than 50,000 *new* domain names are registered *each day* at prices between \$10 and \$35 a year. Findings reported by the Marlin Company, a business publisher based in New Haven, Connecticut, show that fifty-three per cent of American workers believe that shipping jobs overseas is unpatriotic. A team of archaeologists from Chicago's Field Museum uncovered a brewery in the mountains of southern Peru capable of brewing several thousand liters of chicha, a spicy beer-like drink, per day. Experts say the brewery is more than a thousand years old. Rumors abound that new oil fields have been discovered in quantity in New Mexico; meanwhile, oil hits all-time price highs with regularity. Best Buy, the nation's largest consumer electronics retailer, is reportedly being sued by at least one state attorney general's office for repackaging used items and selling them as new. The nation has a glut of golf courses as a new generation yawns at a dare-to-be-dull sport. Victoria's Secret (Limited Brands) reported a 45% jump in earnings for the most recent quarter. Michael Moore's award-winning and high grossing documentary *Fahrenheit 9/11* will be released on home video October 5<sup>th</sup>, four weeks before the election. At the end of 1985 there were 340,213 cell phone users in the United States. At the end of 2003 there were 159,000,000. China is most likely to become the first nation to have a *billion* cell phone users. But it *may* turn out to be Indonesia. Pediatric healthy-food: one month after burger seller Wendy's began offering a Kids' Meal including milk and a fruit cup as an alternative to fries and a soft drink, Wendy's is selling *a million 8-ounce containers of reduced-fat milk a week*. Only in America: RFID tags for golf balls. A radio frequency identification tag is embedded in the golf ball. A portable scanner sends a signal to a lost golf ball, which ends a signal back. The scanner beeps as the golfer nears the lost ball.

## THE MARKET WITCH MONTHLY BUY LISTS

Overview: all eyes are on Asia. China, accused of sucking up all the world's resources- petroleum, steel, minerals, food, lumber- as its economy roars into the 21<sup>st</sup> century and it becomes everyone's most wanted market, now has become a net importer of \$14.35 billion in food a year to feed its 1.3 billion people. China's economy looks good in the shining glass coast cities and in Peking, now full of Cadillacs, BMWs, Pizza Huts, McDonald's hamburger outlets, and tech millionaires with cowboy hats and Montana-style log cabin weekend homes. But as we've mentioned before, five miles out of town China regresses 100 years. Dirt roads, no

electricity. Plus land and water shortages reportedly endanger China's grain production. The US alone sells \$5 billion in grain and vegetables to China each year and that number is increasing fast. Eventually we may be selling fresh water to China, in cans, unless that part of the world chooses a major desalination project. China is the biggest consumer market in the world. But it may not be a sustainable market. In five years it may take the Chinese all the efforts they can muster just to feed themselves.

All eyes *should be* on American Tech. We are only hours, even minutes away from a new consumer technology boom. It's a hard call exactly what it will look like. We KNOW THAT IT WILL START WITH A NEW TELECOM BOOM. We know that it will involve the "visual" high end of Information Technology. We know now that the boom will come through new "hybrid" products like the enhanced-feature "cell phones" that are PDAs, cameras, video players, point of purchase devices and more. "Wireless cross-wiring" is upon us. Dial a movie on a cellphone, it will turn up on a wall screen at home. We know that Sony, the world's second biggest consumer electronics maker, expects to increase production of digital cameras in the next fiscal year by at least 20% to meet demand. We know that Intel has just lowered the prices of its chips, especially the high-end stuff like the Pentium 4s, by up to 35%. This will show up almost immediately, within *weeks*, as retail price cuts for laptops and other things.

We know, too, however, that there is a MAJOR corporate DEAD ZONE out there and that it includes 1990s star companies like Sun Microsystems, Hewlett-Packard, Xerox, Cisco, and Oracle. Are these companies coming back as the New Leaders? This very much remains to be seen. Microsoft, the star company of the 1980s, has become the General Motors of Information Technology, and a sort of bank. NONE of these companies may lead a boom in the second half of this decade. They may not even participate in it.

IBM has become service-based. Whether IBM will go back into production is questionable. Corning, also headed for a boom, has gone back into heavy industry and will make its bundle with diesel exhaust products and video screen glass, not with optical cable.

What may lead the New Boom are New Partnership arrangements like Microsoft-Siemens and Sony-Ericsson and IBM-??? And Intel-???? And SAP-??? And Motorola-??? We're watching all this for clues.

Average Americans' moods are improving *a little* as a glimmer of hope spreads through the crowd that the Bush era shortly will be over. Americans *Market Witch* interviews from many walks of life now seem to be looking past the election toward a new era. The economy has *in no way* turned the corner yet, however. An employment call in the LA/Long Beach area for 3000 dockworker jobs drew 300,000 applications. The Longshoremen's union will handle it with a lottery. Americans are back to eating bread, pizza, and pastry and beginning to eat a little pasta again. Hanes (Sarah Lee) hoping for a bigger piece of the \$11 billion underwear market, has begun selling underwear and lingerie in Beijing and Shanghai. A major armed services realignment- U troops being pulled out of Germany- only reinforces what many have suspected for a while- that the US military is stretched way too thin and we need more troops, not more technology, to do what needs to be done. WE believe that ONE of the several ways the Kerry "New Deal" government will attempt to spend the American people back into prosperity and prime the pump of the American economy is...with a military draft. Investors who dream of an economy like that of the late 90s might as well be dreaming of Oz. We are in a World War, it's only about a third over, and there will not *be* a return to the halcyon days of peace and prosperity like those of the zippety-doo-dah Clinton years any time soon. We may be entering Boom Times, but it will NOT feel like the 1990s, it will be

*very* different. The new Kerry government will have to clean up the Iraq mess, deal with the nuclear ambitions of Iran, and take Saudi Arabia apart and put it back together, in addition to having to counter the propaganda of a now-powerful Islamicist media. Nevertheless, we expect to see the American economy pick up dramatically in 05 and for investors to see plenty of daylight. We are hoping to see Robert Rubin become Secretary of the Treasury or a key economic advisor to John Kerry. And we are hoping that more of John Edwards' sunny disposition (and less of his shark-like legal skills) rubs off on America.

## 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, Microsoft, 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, Simon Property Group, New Century Financial, WFS Financial, North Fork Bancorp, Thornburg Mortgage, National City Corp, Northrop-Grumman, General Dynamics, United Technologies, Clorox, Altria, Reynolds American, Proctor and Gamble, Colgate-Palmolive, Sysco, General Mills, General Electric, Constellation Brands, Diageo, Allied Domecq, GM, Johnson Controls, Union Pacific, Microsoft, IBM, Computer Sciences, Dow Chemical, Dupont Chemical, Alcoa, Alcan, Nucor, US Steel, Inco Ltd, Freeport McMoRan Copper and Gold, Anglo-Gold Ashanti, Porsche, Deutsche Post, BMW, Tiffany's, Archer Daniels Midland, Chubb Corp, Corn Products International, 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, Johnson and Johnson, Pfizer, Bristol-Myers Squibb, Radian Group, GlaxoSmithKline, Quest Diagnostics, Genlyte Group, Paccar, Praxair, Ball, Harley-Davidson, Anheuser-Busch, Marriott International, Sara Lee, RPM International (Rust-o-Leum), Anglo-American PLC (parentco of DeBeers), Anglo-Gold Ashanti, Rio Tinto, LVMH, Noble Group SI (NOBG.SI), Carnival Group, Royal Bank of Scotland Group, Bank of America, Allianz Group (NYSE: AZ), and Royal and Sun Alliance Insurance Group. and Oppenheimer Real Assets Class A (QRAAX)

Notes: American Standard's now privately-held. Anheuser Busch is undervalued. Altria just raised its quarterly dividend to 73 cents a share. We're adding ICI, makers of Liquid Nails. And we're adding agricultural equipment maker Case New Holland (CNH). We're adding packaging wizard Greif, Inc. We're adding Raytheon and hotelier/ ClubMed owner Accor. We're also adding Marriott International because a new economic boom will bring full hotels. We're watching Yellow Roadway, but the trucking industry, like the airlines, is in big trouble over fuel costs. General Motors and General Electric are absolutely committed to their futures in the 21<sup>st</sup> century: General Motors with a near-total commitment to the development leading to widespread use of hydrogen-powered cars that emit no greenhouse gases. And General Electric, now strongly committed to its wind-energy business, its solar energy products, and to environment-friendly jet engines and

railroad locomotives. Expensive oil means more ethanol fuels in the interim, and big money for Corn Products International, Archer Daniels Midland, and for America's largest privately-held company, Cargill. We are moving Petroleo Brasileiro (NYSE: PBR) called "petroBrazil" or "Petrobras" to our "Basics" list as a safe (i.e. out of the way of the World War) way to play oil. Poor Royal Dutch Petroleum (Royal Dutch/Shell) (NYSE:RD)-the SEC has fined the company \$120 million for overstating its oil reserves then correcting the figure by 20% last January. The Nigerian government is trying to extract \$1.5 billion from the company for violating the mineral rights of a tribe. The company also is worried that French oil group TOTAL (Paris: TOTF) will attempt a hostile takeover...which would move Shell shares from about \$50 to about \$70 in about eight seconds. Royal Dutch/Shell is the number three oil company behind BP and Exxon Mobil; the \$50 stock pays a \$2.06 dividend. Companhia de Bebidas (AMBEV) will likely merge with Interbrew, subject to shareholders approval, and move Interbrew into this list. Alcoa is set to produce aluminum beer *bottles* that will keep cold beer cold for 50 minutes longer than a can. Dividends still rule, but by early to mid- '05 they may not. We are watching Wells-Fargo and American Express: we think Wells Fargo may not make it as banks consolidate into Huge Banks, a Big Five or even a Big three. And we think American Express may be a 20<sup>th</sup> century company but not a 21<sup>st</sup>. We're watching L'Oreal, the world's largest beauty company, as it makes Asian inroads.

## GROWTH STOCKS: STRONG AND CONTINUING GROWTH POTENTIAL

*OK, Listen up: There ARE no "Growth Stocks" right now. No one is pretending that Oracle or Cisco or TiVo are going to make us any serious money right now. At this point in the American Economy, stocks that interest us- and should interest you, too- either offer strong stability and dividends, or they are undervalued, or they are a part of a new world that is being created.*

China has been on the cutting edge of major economic growth for about two years as America's economy lay mired in Depression and joblessness and the country's science, R&D capabilities and tech expertise were crushed by ignorance in power. WE are very skeptical about China's economic boom being sustainable. We KNOW that a new consumer tech boom is coming in this country as America begins a recovery following the election. We KNOW that one of the earliest aspects of a New Boom is an aspect of Telecom, a wireless and optical-networking Internet Everywhere world that will include an explosion of enhanced hand-held objects that can do all sorts of things and will make our lives more complex and more fun and that will continue to change everything.

A New Boom is coming in America--but it will NOT BE the 1990s again, it will be SOMETHING ELSE ENTIRELY. Growth may NOT actually turn out to be in consumer tech. It may turn out to be in exploitation of natural resources to provide metals and minerals for the world. It may turn out to be GM leading the world into hydrogen-fueled cars. And it may just turn out to occur in a different part of the world entirely. Quite obviously, WE don't think the future IS in China, we think the next decade or so of economic growth and boom times may very well belong to South America. It may also be Japan, now on the cutting edge of culture, design, and consumer products after some years of lying fallow.

Remember, also, that in a nation of 300 million people, *seventy-five million pay no attention to the Internet whatsoever.*



What we're going to do, over the next month or two, is attempt some deep-mine TRENDSPOTTING and try to make some sense of what a new boom will CONTAIN, and from this, begin to build a roadmap of what companies will define the second half of this decade and offer major growth potential. This involves reading every market research group and every think tank we have available, plus travel, interviews, and an overview of the world's newspapers.

Meanwhile, *Market Witch* readers know to go to the Market Witch Strong Buy lists to make money.

We are including last month's Growth Stocks list for reference:

Lowes, Home Depot, UPS, FedEx, Adobe Systems, Panera, Krispy Kreme, CEC Entertainment (Chuck E. Cheese) Global Crossing, Zoran, Abercrombie and Fitch, Sycamore Networks, Juniper Networks, Cisco, Avonex, Ciena, PMC Sierra, Network Appliance, ICOS, Eli Lilly, Ivax, Novartis, Johnson and Johnson, Lilly, Stryker, Zimmer Holdings, Bristol-Myers Squibb, Amgen, Genentech, AstraZenica, Cell Genesys, Targeted Genetics, DHB Industries, Alliant Techsystems, Xylinx, Symantec, Verisign, Nvidia, Intel, Gilead Sciences, Elan Corp, Teradyne, Qualcomm, Symantec, Research in Motion, BMW, GM, UniVision, Dollar General, Best Buy, Target, Limited Brands, Goldman Sachs, LG Electronics, Philips Electronics, Canon, Medtronic, Barr Pharmaceuticals, MedImmune, Siemens, eBay, Yahoo, NewsCorp, Viacom, Ericsson, Nokia, Zebra Technologies, Novellus, Siemens, SAP, Sony, Vypel Communications, America Movil SA, Magal Security Systems, Checkpoint Systems, Whole Foods Market, Honda, Toyota, Centex Pulte, Lennar, DR Horton, Viacom, ClearChannel Communications, Traffix, Electronic Arts, Take Two Interactive, Invision Technologies, and the gaming stocks Harrah's Entertainment, MGM Mirage, International Game Technology, Aristocrat Leisure Ltd, Alliance Gaming, Williams Industries, and GTECH.

### **STRONG BUY STOCKS: VERY STRONG GROWTH POTENTIAL, VERY STRONG SHARE APPRECIATION POTENTIAL, OR UNDERVALUED**

Alcoa, Inco Ltd, Rio Tinto, Univision, eBay, Bank of America, Caterpillar, Anglo Gold Ashanti, FedEx, General Motors, Toyota, Honda, Proctor and Gamble, Palatin Technologies (biotech aphrodisiacs) Vypel Communications (the Russian wireless phone company), Corning, JDSU, IBM, 3M, Sandisk, Zebra Technologies, Computer Sciences, Harrah's Entertainment, Chubb Group, National City Corp, Hershey Foods, John Deere, Visage Technology, Ionatron (buck rogers space age weaponry) Home Depot, Lowes, Panera, Greif Inc, Taser, Banco de Bradesco, Goldman Sachs Group, ThornburgMortgage, Realty Income, Qualcomm, Targeted Genetics (HIV vaccine) and (gasp!!) Krispy Kreme.

Notes: PG is not falling below \$54, buy now, a runup will begin soon. Precious metals company Rio Tinto, (NYSE:RTP) *despite what you may read elsewhere, is fiercely undervalued and we would expect to see this \$100 stock with its \$2.56 dividend go to \$150.* Also undervalued is global container maker Greif. Ebay is a way way WAY better purchase than Google. We're dropping Nucor from this list but Inco still is very much on it and now Alcoa is too. Targeted Genetics is a SPECULATIVE stock but it may be one of the great buys of all time; we'll know in a few months. We have been disappointed in Nvidia for many months as the American economy stays mired in Depression...but we believe Nvidia is the next Intel. We've also been disappointed in the progress of Swiss semiconductor silicon prep company SEZ Holdings (SEZN) but we believe 2005 will see this company begin to

move. Qualcomm has had a BIG runup but has further to travel. Zebra Technologies just split 3:2. We're waiting for Harley to split 2:1 again before placing it on the Strong Buy list. But that doesn't mean you can't make points here. Off the zoom list is Polaris, but very much on it is 3M, which has another 20%++ to go. Taser may have completed its initial "public introduction" runups, but *this company is making what is probably the Winchester 30/30 of our time, and at +- \$30 is a strong long-term buy*. Novellus, Intel, Zoran, TXN, and other semiconductors are not going anywhere for a while and neither is Starbucks which has had a good runup. Gold is undervalued and should be at \$450++. Krispy Kreme has weathered the NoCarb craze and will go right on. KKD's income was nearly halved in the most recent quarter. Institutional ownership is down about 5%, from about 70% to about 65%. 20 million shares of the stock are shorted. In the long-term, will the world stop eating these luxury treats? Oh, right. You might as well attack Oreo cookies or M&Ms. Krispy-Kreme is the guts ball rodeo county fair high school football game heart of America. The company is 60%-70% undervalued and right now it is a long-term steal.

### WE'RE WATCHING:

Nestle, Unilever, PG, SAP, Siemens, Cisco, UPS, Deutsche Post AG, Microsoft, Coolbrands, Mattel, Viacom, Time Warner, Abercrombie and Fitch, SAP, Vimpel, CEC Entertainment (Chuck E. Cheese) Mattel, Technologies, Accor, Marriott international, Astrazenica, Visage, Bombardier Recreational Products, US Steel, Nucor, National City Corp, Adobe Systems, ST Microelectronics, Intel, and PalmOne.

We believe the upper-income new housing boom (Centex, Pulte, Lennar, DR Horton et al) has peaked.

Full disclosure: We currently hold shares of : Corning, Avanex, Harley-Davidson, NVidia, North American Liability Group, Anheuser-Busch, Krispy-Kreme, Anglo-Gold Ashanti Ltd, eBay, JDSU, Avanex, Targeted Genetics, Thornburg Mortgage, and Altria. Our largest positions are in Harley-Davidson and Corning. We continue to purchase shares of Targeted Genetics like there is no tomorrow. We would buy Palatin Technologies and Ionatron with any additional funds.

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