



## **A Look Back... and Smart Focus on the Future**

**Then and Now...** 5 Years after the Stock Market Peak (March / April 2000), here are a few intriguing observations:

### **Crude Oil per Barrel**

Then: \$31.75

Now: \$56.34

Difference: up 77.4%

### **Investor Behavior (cash flow in to stock mutual funds)**

Then: \$45 Billion / Month

Now: \$10 Billion / Month (see below)

**Cash Flow in to Money Managers versus Mutual Funds** up to \$3.40 to \$1.00 over last 5 years. **Indication:** More Investors are getting personalized attention and help... ditching expensive mutual funds and gaining focus and control in the process through individual management /special strategies. No load or low cost Mutual Funds and Index Funds can play a valuable purpose in diversification and insulation. We especially like "QQQQ" at the moment.

### **Federal Budget Imbalance**

Then: +\$230 Billion surplus

Now: (\$380 Billion) deficit (includes war expenses / anti-terror budget expenditures)

### **Trade Gap**

Then: Import / Export imbalance was 22% lopsided.

Now: Import / Export imbalance is 40% lopsided. (The weak U.S. dollar accentuates this)

### **U.S. Dollar (Currency)**

a) **U.S. Dollar versus Yen** has lost 15% over the 5 year period (from a 10% premium to a 5% discount).

b) **U.S. Dollar versus Euro** has lost 33% over the 5 year period.

### **Corporate Capitalization (a reshuffle happened at the top)**

Cisco then: \$485 billion (#1) to now: \$125 billion (#16).

General Electric then: \$320 billion (#3) to now: \$365 billion (#2).

Exxon Mobil then: \$265 billion (#4) to now: \$388 billion (#1).

Walmart then: \$322 billion (#2) to now: \$340 billion (#3).

**Note:** Interesting and as expected the Tech / Internet / Phone sector has lost on average 45 to 70% of its 2000 peak value... Also the NASDAQ's Top 100 companies had an average 2000 year P/E of 131 and now ('05) it is 35 (actual P/E) and 29 (forward P/E). The S&P 500 composite went from 29 to 18 in terms of average P/E valuation over the 5 years reviewed, signaling that many stocks now are discounted and cheaper.

### **Mortgage Rates (are cheaper) 30 year fixed Rates**

Then: 8.45%



Now: 5.35%

### **IPO Activity**

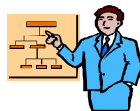
Offers per week then: 22

Offers per week now: 5

### **General Remarks:**

So it is certainly clear that the economic landscape and the general financial climate is much different than it was 5 years ago. The economic landscape includes some rocky roads and landmines: the nation's huge deficit, our trade gap is very imbalanced, a weak U.S. dollar, and rising energy (oil/gas) prices... the climate portends some cloudy weather and unsettled conditions... and anxiety over rising rates and inflation is real and actually predicted.

But despite the irregular recovery and the variables which we can brace for and predict... high quality growth stocks with diamond studded balance sheets will shine the brightest and provide the best results. **And we also want results that reflect minimal negative surprises and keep risks limited and price volatility contained. The best companies in the best industries will be the winners in 2005.** Our formula is based on: top down profits with follow-through momentum of earnings and dividend growth, attractive valuation reflective to price, and quality balance sheets which are not strained. You will see some deliberate overweighting in energy and solid-value (high yield) opportunities which we feature on the next page.



### **Special Situation / Niche...**

**FLIR Systems**- world's largest manufacturer of thermal imaging and infrared cameras; 55% sales increase in past year; securing government contracts (FLIR)

**Tyco (TYC)**- well diversified company with strong exposure in the security arena; bad news probably over... company on rebound list (strong intrinsic book value).

**Web MD (HLTH)**- strong buy out candidate at current price levels (\$7).

**Ask Jeeves (ASKJ)**- growing market share year after year, while retiring debt... sales and profits doing well but stock price hasn't responded yet (on watch list along with Google, E-Bay, Corning, EMC, Pier I, Starbucks and other niche plays like Dreamworks, Pixar, and even Disney (given recent changes at the top).)

In closing, companies awash with cash flow, expanding dividends, and reasonable P/E and PEG valuation gauges offer the best potential for capital appreciation and total return. **We will continue to avoid the lackluster sectors and concentrate on the sure winners with solid total returns.** As personal situations and objectives may vary, please call me at any time to further discuss your portfolio.



JEC  
03/05

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