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INVESTMENT POLICY MEMO

It remains difficult to produce these commentaries through the tears of shame and grief (but not surprise) at the unfolding news from the remote outposts of the American empire, and against the astonishingly egregious lies of the Bush Administration, supported, implicitly or explicitly by the press and most of the Democratic “opposition” including John Kerry.

In one of their moving declarations from Chiapas about eight years ago the Zapatistas declared: “In place of humanity, they offer us the stock market index.” And in that context it is with great reluctance that I turn from the increasing violence and injustice in the world toward these comments on the investment outlook.

Not long after we decided that the market was not yet ready to reflect the awesome destruction of capitalist bulwarks by present U.S. policies, financial market sentiment (and public opinion polls) took a dramatic turn for the worse. The truth be told, this reversal was not based on a realization that the Americans in Fallujah were doing a pretty good imitation of the Nazis in Lidice. The stock and bond markets began their declines when the Federal Reserve retreated from its assurances that interest rate would be kept at extremely low levels for a long time.

The things we were worried about since the aftermath of 911 are now *au courant*. Tax cuts and imperial adventures promise increasingly large government fiscal deficits and balance of payments deficits. Combined with a falling dollar and a newly booming global economy, they also promise rising inflation. Rising inflation, a falling dollar and uncontrolled deficits strongly imply rising interest rates. No two things are more reliably toxic for the stock market than rising interest rates and rising inflation. And by definition rising interest rates mean a falling bond market.

And so it is time again, after a belated and brief moment in the financial sunshine, to head for the exits. Since the beginning of April we have been raising substantial amounts of cash in most portfolios and we have been moving toward safer, less speculative securities and industries. Holdings in information technology have been reduced. Holdings in emerging markets have been reduced. And other stocks have been sold as well. Areas we continue to favor include:

- 1) beneficiaries of a cyclical recovery in business activity, employment and capital spending;
- 2) health care service companies and successful biotechnology pharmaceutical companies; and
- 3) companies that benefit from rising oil prices, rising inflation and a falling dollar.

This commentary will be as brief as it is tardy. I wish you each a good summer and peace to all the world.

Robert Zevin