A.R.Schmeidler & Co., Inc.

The Outlook

September 2003

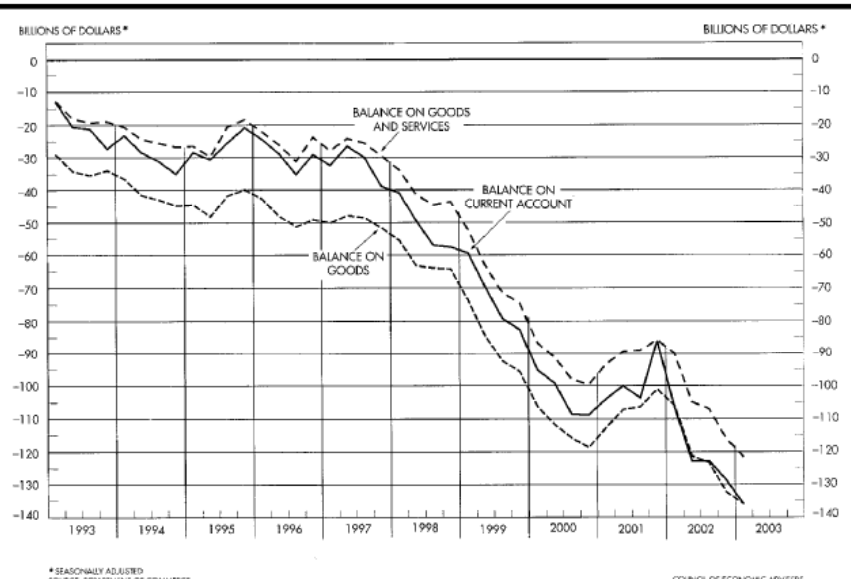
As of September 10, 2003		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	**+12.9**	**9,420.46**
S&P 500	**+14.9**	**1,010.92**
Nasdaq Composite	**+36.6**	**1,823.81**

The Important Secular Trend Of Globalization

We live in a world where the United States consumer is buying more and more goods and services from sources overseas. This has led to a record current account deficit whereby imports far exceed our exports as shown below. This picture strongly suggests why this recovery has not been and will not be the classical one of the past, and we must not ignore or dismiss its economic or investment implications.

U.S. INTERNATIONAL TRANSACTIONS

In the first quarter of 2003, the goods deficit rose to $136.0 billion, from $132.2 billion in the fourth quarter of 2002. The current account deficit rose to $136.1 billion in the first quarter, from $128.6 billion in the fourth quarter.



U.S. capital sent overseas is essentially financing the industrialization of low wage-based nations enabling these countries to become effective low-cost competitors causing significant manufacturing and service job losses in the United States. Not only are foreign companies able to profit from overseas industrialization in countries like China, but also American corporations are able to profit from building low-cost facilities overseas. This is occurring even while there is excess capacity in the United States. **Globalization has become a secular trend that must be a fundamental consideration in the management of dollar assets.**

The Fed's Game Plan Vs. Current Market Forces

The Federal Reserve is playing down signs of a strengthening economy and emphasizing the need to keep interest rates low. Since cutting the target for federal funds rate to a 45-year low of 1% from 1.25% on June 25th, the Federal Reserve has signaled a willingness to hold rates low much longer than is typical in an economic recovery. Despite these reassurances, long-term interest rates have moved higher. Bond investors are demanding higher yields in anticipation of the increased inflation risk associated with accelerating economic growth. **Bond market participants have been conditioned to sell on an improving economic picture, however we are not convinced that this rule, as yet, should be applied in the current low inflation environment. A return to economic growth will not result in an automatic return to higher consumer prices, serious inflation risks, and the onset of a Federal Reserve tightening cycle. Nevertheless, low interest rates will be needed to assure continued economic recovery.** In essence, the Fed is encouraging asset inflation to give the cash-constrained U.S. consumer and business the ability to spend. Cycles often can last longer and go farther than expected.

Despite Stronger GDP Growth The U.S. Federal Budget Deficit Continues To Expand

The deficit will continue to increase when the economy rebounds because government spending almost certainly will climb faster than tax revenues. The Congressional and the Executive branches face difficult choices over taxes and spending. **Even if tax revenues increase in line with overall economic growth, it is now believed that the deficits will continue to grow without tax increases and the revenues generated from the stock market boom.**

The most recent Congressional Budget Office (CBO) reports on the outlook for the federal government deficit indicated continuing $500 billion deficits that would persist for an extended period of time. Moreover, as we all know President Bush has requested to congress an additional $87 billion for Iraq, Afghanistan and additional security. **These supplemental budgets are no different from**

corporate pro forma accounting adjustments where, in this case, the government is able to think it can mask the true dimension of the deficit. It should also be noted that the CBO assumed that the economy would be strong when it came up with the $500 billion deficit estimate.

The U.S. Unemployment Rate Can Remain High

All the upbeat news about sales, profits and employment provide hints of an improving U.S. economy. Unfortunately businesses, which have reduced the rate of layoffs, are expected to continue to wait for stronger signs of economic growth before adding to their payrolls. People who lost jobs are finding it difficult to find new ones, and many who have tried are giving up and claiming self-employment to save face. This understates the reported numbers. **The shift of U.S. jobs to low wage-based countries is hampering a U.S. employment recovery, and the real unemployment rate may remain uncomfortably high. Over the past thirty months, 2.8 million jobs have been lost. Most of these losses have been in the manufacturing sector. However, we are beginning to see service sector jobs move overseas as well.** Many economists are surprised that job losses have continued in spite of an extraordinary level of monetary and fiscal stimulus. In past cycles when GDP growth exceeded 3.1%, which was the estimate for the second quarter, jobs were created. For the third quarter, growth in excess of 4% is estimated. Forty-year low interest rates, tax cuts, rebates, military spending increases, and record mortgage refinancing have not prevented jobs from disappearing. **Current economic strength is due to the stimulus, both fiscal and monetary, that has been injected into the system.** What will occur when this stimulus wears off? Will another round of stimulus be required?

An Unusual Economic Cycle Guides Our Selective Investment Focus

As the economy gains strength we expect a somewhat unconventional economic cycle. **The recent study by the New York Federal Reserve concluded that employment will be difficult to achieve. This business cycle is characterized by secular changes that have been absent in past cycles. As the economy strengthens inflation could decline further because of strong productivity.**

Today effective investment strategies must be able to target positive compound rates of return in an environment that is differing markedly from past periods. Economists have been blindsided too many times by looking at the past to anticipate the future. In an analysis where capital will always flow to the highest rate of return **we continue to favor domestic energy and particularly U.S. natural gas companies**. Liquefied natural gas (LNG) is now being discussed in earnest as a necessary source of additional energy. **We also favor uniquely positioned technology companies at the forefront of productivity and change and that benefit from their leading competitive positions. We also believe that quality, high yielding securities can appreciate in this environment because income continues to be difficult for investors to generate. We have acquired positions in precious metals mining companies for the first time in our 32-years as a firm, as they benefit from powerful macro forces including ongoing excessive monetary stimulus.** With respect to precious metals, we believe that the dollar and most other currencies are likely to continue to lose value relative to hard assets. The printing presses in the U.S. and in major countries around the world are creating currency at a very rapid rate. There are weeks where the U.S. alone is creating dollars at an annual rate of $2 trillion. Other attractive investments include **companies that have the ability to restructure and enhance their common stock valuations. Finally, another interesting investment opportunity emerging in the United States involves infrastructure.** The most recent and public example of under-investment in this area is the electric transmission grid. Many billions of dollars of capital will have to be spent to upgrade, repair, modernize and expand the U.S. infrastructure.

Investing In Gold Has Merits

The Federal Reserve's accommodative monetary policies, coupled with the reality of record federal budget and trade deficits and a weakening dollar are among the important factors to consider in relation to higher gold prices. The Federal Reserve has indicated that it will do whatever it takes to keep the U.S. economy moving forward, including an aggressive push on the money supply. Even though the dollar has strengthened in recent weeks, an aggressive U.S. monetary policy will likely weaken support for the dollar over time and cause foreign investors who continue to accumulate dollars to sell or hedge their dollar denominated holdings. The outcome should be continued support for higher gold prices since gold is quoted in U.S. dollars.

Before the end of this year the SEC is likely to permit the creation of an ETF (Exchange Traded Fund) on the New York Stock Exchange, which will be backed by gold. This will enable institutions to have a direct participation in the gold market without purchasing bullion. The fundamental gold supply and demand factors also indicate considerable support for the price of gold. **Over the longer term one can argue that the physical demand for gold should outstrip gold mining production by a wide margin.** The deregulation of the gold market in China as a precursor to their joining the world of major industrial nations should also provide strong support for gold over the longer term. Under these circumstances ownership in quality gold mining companies can contribute meaningfully to the total return of an equity portfolio. It is especially interesting to note how unpopular a notion it is to invest in gold related investments perhaps suggesting a strong contra indicator. It appears that to be upbeat on gold one is still viewed as a killjoy and a pessimist regardless of the facts that backup such a position.

The Technology Industry Is Beginning To Reflect An Upturn

For the past four years the technology sector has been waiting for business to improve in the second half of each year. While the consumer and business technology-spending environment has indeed been a difficult one, we are now seeing some early signs of improvement in this area. Technology spending should be helped by the growing obsolescence of productive capacity, low interest rates and the recently enacted U.S. tax cuts that have put more money in consumer pockets. Consumers have both the desire and the wherewithal to buy new computers, flat screen TVs, digital cameras and a host of other new electronic devices. Continued economic growth should also lead to higher business spending on long-delayed technology projects. While most technology companies continue to exhibit weak revenues and earnings, their equity prices have advanced because of the emergence of these positive factors.

Conclusion

In our last Outlook we noted that we are in a strong market environment, but underlying fundamental difficulties in the U.S. and global economies persist. **Favorable expectations for the economy and corporate profits must become a reality in the second half of 2003 for the equity market to maintain and continue its advance.** While we do not participate in market timing and prefer to avoid active trading, we are mindful of capital flows and sector rotations. We have a fundamental belief in value and growth at reasonable prices and are willing to purchase equities in sectors that are temporarily out of favor. Equities in market sectors must often be purchased when the market has less interest in a sector. The reverse of this principle is also true, and positions in sectors often must be trimmed when the market aggressively bids up equity prices. Overall, in this environment our equity and fixed income positions as noted should continue to provide for a sound portfolio structure.

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