A.R.Schmeidler & Co., Inc.

The Outlook

November 5, 2004

As of November 4, 2004		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	-1.33	10,314.76
S&P 500	+4.47	1,161.67
Nasdaq Composite	+1.01	2,023.63

Since our last Outlook the likelihood of a weaker dollar continues to be a corollary of the large and growing fiscal and current account deficits the United States is presently running. Consumers are being burdened by higher gasoline prices and the prospect of incurring a substantially higher cost for home heating fuel during the coming winter. This unfortunately comes at a time when the household savings rate has dropped to a record low. **With the government's fiscal and monetary stimulus package ebbing and growing fiscal and current account deficits, we should not be surprised if consumer spending and overall economic activity slow over the coming months.** Moreover, the Treasury Department's record first quarter borrowing of $147 billion may drive up interest rates.

There has been a significant decline in investor expectations over the past several weeks. The presidential election, price-fixing in the insurance industry, product recalls in the pharmaceutical industry and record high oil prices have been pressuring stock prices. We have gone above and below the 10,000 level on the Dow Jones Industrial Average several times this year. Surprisingly Treasury bond prices have shown a significant amount of resilience as investors in the equity markets moved to the sidelines. Crude-oil futures had crossed the $55 a barrel level, which is the highest point since oil futures started trading on the New York Mercantile Exchange in 1983. Rising oil prices can seriously hurt equity valuations over time as investors begin to fear higher energy costs, weaker corporate profits and lower consumer confidence.

Post 2004 Election

After a long night of vote counting and uncertainty, President Bush emerged the clear winner in Tuesday's Presidential Election. **Any new domestic economic initiatives in the President's second term will be constrained by record**

budget and trade deficits and the prosecution of the war on terrorism. Selecting a successor to Federal Reserve Chairman Alan Greenspan is a critical decision the President will have to face in his second term in office. Chairman Alan Greenspan's fourteen-year term expires in January 2006, and by law he cannot serve another term.

Among Mr. Bush's most ambitious domestic economic goals is additional income tax code reform. The President is expected to study ways to make the system less complicated and move it more toward a tax on spending, as opposed to income. He also wants to make permanent the tax cuts passed in his first term. The pressure to amend the tax code partly comes from the unpopular Alternative Minimum Tax provision that exists in the present code. Any significant tax-reform plan will be very controversial and hard fought in the Congress. We are optimistic that Congress will pass a rational energy bill that would benefit energy investments. We also believe that a meaningful tort reform bill has a chance of passing in the Congress, and this could have a broad benefit to the financial markets.

The U.S. Economy

During the recession and jobless recovery, tax breaks and low interest rates kept consumer spending high. The benefit from fiscal and monetary stimuli has now all but ended on a sequential basis. Meanwhile, home equity extraction through cash-out refinancing seems to have peaked. However home price appreciation is offsetting the drop in mortgage refinancing and keeping consumer confidence and household spending higher than otherwise might be the case.

The first half of the year's surge in job growth increasingly looks like an aberration. The hurricane season certainly did not help the situation in the third quarter, but The Bureau of Labor Statistics believes the effect of the storms will ultimately be small relative to the overall job growth picture for the entire year. **The economy is still moving forward, but slower than expected as we indicated in our last Outlook. The strain on the U.S. economy from rising oil prices is a further risk to GDP growth in 2005.**

The Federal Reserve Board is likely to stay "measured" in raising interest rates. We interpret "measured" to mean quarter-point steps are still the basic plan, with periodic pauses. December remains the best chance for a pause before year-end. **We assume a 2% federal funds rate at the end of 2004 and 3.5% by the end of 2005. Core CPI inflation might inch up to around 2% by year-end. Given our GDP growth expectations, the risks associated with higher inflation are probably low.** Our 2005 forecast for GDP remains at 3.5%, but high energy prices could significantly reduce that number. Obviously higher gasoline prices and home heating fuel costs could push total CPI inflation up and GDP growth down next year.

Global Demand For Oil Continues To Grow

The Gulf of Mexico accounts for 25% of United States domestic oil production. The severe hurricane damage to 40 of the 764 manned platforms has resulted in 15 million barrels of oil production being lost as of October 6th. Most oil producing regions in the world now operate at full capacity while global demand for oil continues to grow at a faster rate each year. Not only has China's demand for oil been growing rapidly but also India's imports are expected to grow to almost 2 million barrels from 1.8 million barrels a day in 2003.

Unlike the period in the 1990's when excess oil producing capacity was 5 to 10 million barrels per day at a time when worldwide oil demand was 72 million barrels a day, at the present time demand is approximately 82 million barrels per day and maximum capacity is considered to be approximately 83 million barrels per day. In 2005 the expectation is that oil demand will increase again and may even exceed current production and refining capacity.

In the meantime summer and fall inventories of crude oil, gasoline and heating oil have been drawn down, and they will probably not fully be built back in time for the winter heating season. Furthermore, refinery capacity and shipping capacity is fully utilized leaving no room for supply interruptions. **Oil companies continue to justify capacity expansion on $25 a barrel oil, which suggests that supplies could remain tight for a considerable period of time.**

The Current Account Deficit and the U.S. Dollar

The latest monthly current account deficit came in at approximately $55 billion or an annual rate of $660 billion, which is approximately 6% of the GDP. What is particularly striking is that the United States imported 331 million barrels of oil for that month at a price of approximately $36 a barrel. **Should oil remain at its present level and exports remain constant the current account deficit will worsen by $4.5 billion per month or $55 billion on an annual basis, thereby bringing the current account deficit for the year to about $715 billion.** This does not include the purchase of additional oil to replace the oil that has been taken out of the strategic petroleum reserve (11 million barrels according to the Energy Administration as of September 17th).

The degree to which the exchange rate of the dollar will maintain its present level depends on foreigners' willingness to reinvest these funds back into the United States. It is worth noting that in July net private purchases of U.S. treasury bonds and notes fell to $18.3 billion from $23.0 billion, and in August net private purchases of U.S. treasury bonds and notes swung to a negative -$4.4 billion from a positive $18.3 billion. Moreover, in July private net cash inflows into the U.S. were $73.8 billion and in August it declined to net cash inflows of only $37.4 billion. This represents approximately a 50% decline. Making up the short fall were dollar purchases from foreign central banks. Should the foreign exchange value of the dollar decline further, we can expect an improvement in our current account deficit if imports slow and exports increase. **However it seems reasonable to assume that we can still expect a further devaluation of the dollar. Should this occur we would expect rising prices for precious metals, commodities, collectibles and imported goods.**

The Price Of Gold And Key Basic Materials

The price of gold continues to trade largely in-line with high-energy prices and the weakness in the U.S. dollar relative to other major currencies**. If the historical relationship between gold bullion and the U.S. dollar holds, forecasters suggest a gold bullion price range of approximately $425 - $475 per ounce over the next twelve months.** Further, while nominal U.S. interest rates are expected to rise, real U.S. interest rates when adjusted for inflation are expected to remain low. This presents a very favorable condition for investors to allocate funds towards the leading global gold mining companies. Moreover, industrial metals markets are very strong, an indication of global economic expansion. This is resulting in strength in metals and mining equities. The sector is being driven mostly by renewed optimism about China's economic growth, following the government's easing of credit to state-owned enterprises, and expectations of U.S. dollar weakness. Prices of key basic materials such as copper, nickel and steel have acted as a barometer for global economic activity.

The U.S. Railroad Industry

The companies that make up the U.S. Railroad Industry should do extremely well. **The current economic environment and rising energy prices have resulted in a significant rise in the amounts of raw materials and finished goods shipped by rail. The U.S. Railroad Industry's improving prospects has principally centered on the shipments of copper, nickel, steel, coal and chemicals. We think that the Railroad Industry in particular should benefit from an increase in coal usage.** A domestic natural gas shortage and the global demand for oil are benefiting the U.S. Coal Industry. U.S. and foreign electric utilities have announced plans to build numerous new coal-fired plants over the next few years.

The Heavy Machinery Sector

After years of weakness, demand is now solid in the heavy machinery sector. A heavy truck and locomotive replacement cycle is firmly in place supporting diesel engine sales. High commodity prices for coal, copper, nickel and steel is lifting sales of equipment in the mining industry. The Oilfield Service Industry continues to see strong growth and requires a significant amount of heavy machinery. In addition a strong residential and a reviving commercial construction market augurs well for the results of heavy machinery companies. Strong activity in the electric power generation sector, particularly in China is boosting sales. **The U.S. Congress is on the verge of passing a massive highway infrastructure bill this year. The sales from road repair construction equipment should further benefit heavy machinery manufacturers.** The industry's Latin American business is improving and sales to Asia are very strong. The European markets are also generally improving, particularly in the Eastern European countries. Recent price hikes on equipment have offset much of the negative affects of increased raw material and employee benefit expenses.

Conclusion

The adjustment of the U.S. economy to rising budget and current account deficits and a depreciating dollar will affect consumers' living standards. The adjustment process will make itself felt through dollar depreciation and the need for Congress to address the growing structural imbalances with respect to fiscal policy and entitlement programs. Given the current profile for household cash flow, we believe consumer spending will not be a boom but not a bust either for the economy. The risk to this assumption is that households seek to restore their personal savings in light of higher energy costs and erratic job growth. In our view the prospects for the Federal Reserve to continue to raise interest rates also rest on how these factors play out.

The current price of energy, gold and industrial raw materials as well as overall market trends corroborate our view that equities representing "hard assets" offer some of the best opportunities for investors. The future earnings, cash flow and dividends from the companies we like often are not reflected in their present asset values. We expect that the high-dividend paying companies in this area will do particularly well in the current market environment. **Other companies which should benefit from these conditions are in the following industries; defense, building materials, machinery and railroads.** The companies we favor in these groups generally have extra cash on hand to allocate towards capital spending, dividends, share-buybacks and debt reduction.

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