



Portfolio Monitor

Original Research & Analysis Compiled By Winans International

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"THE DOLLAR'S STANDING AS THE WORLD'S LEADING RESERVE CURRENCY IS NOT JEOPARDIZED NOW THAT THE ERA OF HIGH INFLATION IS OVER."

—George Soros, *Investor's Business Daily*, July 8, 1994

International Finance

Throughout 1994, the media has raised concerns about the possibility of an increase in inflation caused by the U.S. dollar's loss in global purchasing power, a result of the historic rise in the value of the Japanese yen.

Are these concerns valid?

We conducted a 5 year analysis of the G7's currencies in relation to the value of the U.S. dollar, and our conclusions are as follows:

The currencies of the G7 members have had different levels of volatility.

For example, the price volatility, in percentage terms, of the six currencies are ranked in the following order:

1. Japan (61%), 2. Italy (55%), 3. Germany (35%), 4. U.K. (35%), 5. France (34%) and 6. Canada (22%). This implies that the dollar has fluctuated in value against its trading partners by 40% on average over the last five years.

In addition, the dollar's value has differed greatly among the various currencies over the last five years.

For example, the percentage change in the value of the dollar is listed below:

1. Canada (17%), 2. Italy (13%), 3. U.K. (2%), 4. France (-19%), 5. Germany (-20%) and 6. Japan (-32%). This data indicates that the dollar has declined 7% overall when compared to the United States' major trading partners over the last five years.

In summary, the individual currencies of the G7 have different levels of price volatility and value in relation to the U.S. dollar. This is especially true in reviewing the currency price histories of the United States' two largest trading partners (Chart 1).

Comment:

We believe that the current level of volatility and value in the U.S. dollar is not at sufficient levels to cause increased inflation in the United States (Chart 2). ♦

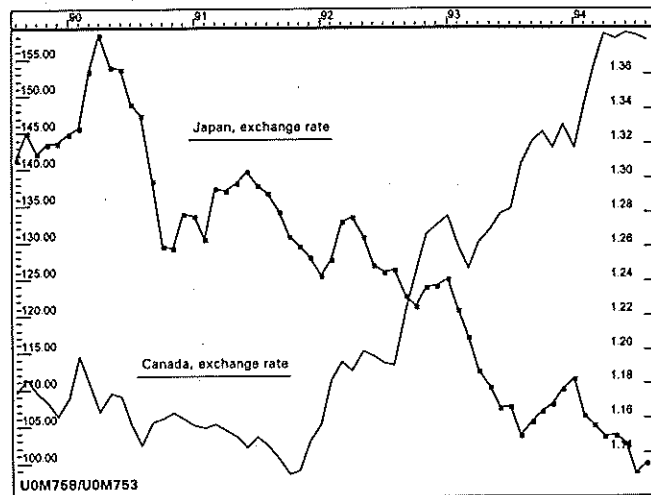


CHART 1
Currency Value of the Japanese Yen and Canadian Dollar 9/89-Present

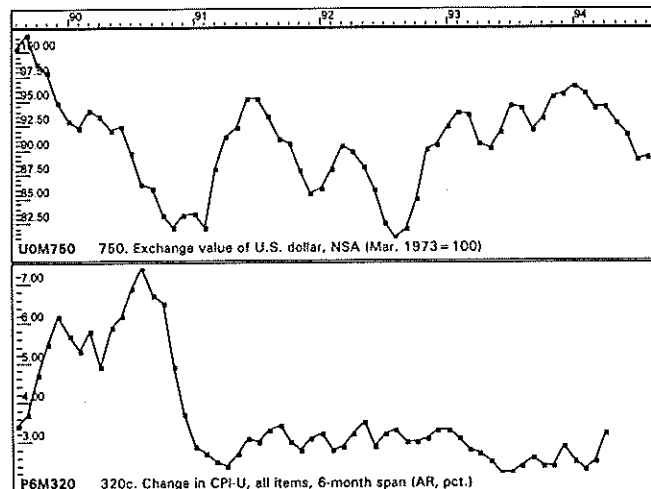


CHART 2
U.S. Dollar Value and U.S. Inflation Rate 9/89-Present

"A low savings rate is often cited as proof that U.S. consumers are spendthrifts, forsaking security tomorrow to enjoy a few luxuries today. But the government gauge excludes some large caches of consumer savings."

Perspective, Investor's Business Daily 8/22/94

Recently, Gunter Rexrodt, Germany's Economics Minister, stated that America's low savings rate is causing it to be over dependent on foreign capital and thus will be plagued by slow growth and indebtedness for an extended period of time. Most economist agree that a country with a strong savings rate will be able to invest for the future, but disagreements exist on how to measure a country's ability to save money.

In order to determine the "true" American savings rate, we analyzed the 20 year history of the government's measures of business and personal savings:

BUSINESS SAVINGS (Chart 1): This statistic includes undistributed business profit and corporate investment. Over the last twenty years, this indicator has increased over 430% on an inflation adjusted basis. This equates to an average yearly business savings increase of 21.5% during this 20 year period.

PERSONAL SAVINGS (Chart 2): This measures the aggregated personal savings and investment in the United States. Since 1977, this indicator has grown 161% on an inflation adjusted basis. This equates to an average yearly increase in personal savings of 8% during this period of time.

U.S. Economy

It is interesting to note that the government's statistics on savings do not include the acquisition of homes, social security withholding or insurance premiums. In other words, the government excludes items that most people would include as savings.

COMMENT: We believe that current government indicators underestimate the "true" savings rate in America. In addition, we feel that as the "baby boomers" near retirement, they will increase their level of saving and investment from today's current levels.

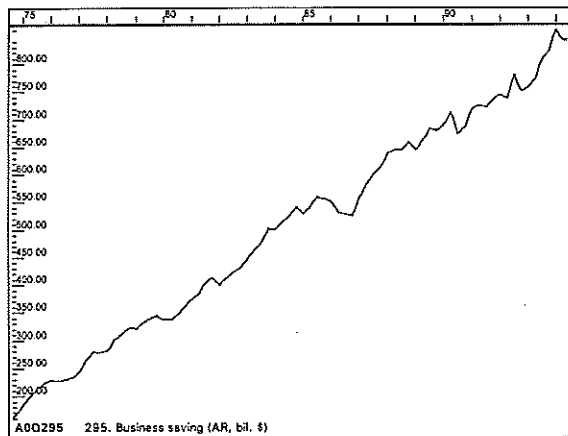


CHART 1
BUSINESS SAVINGS
1975-PRESENT
Adjusted for inflation

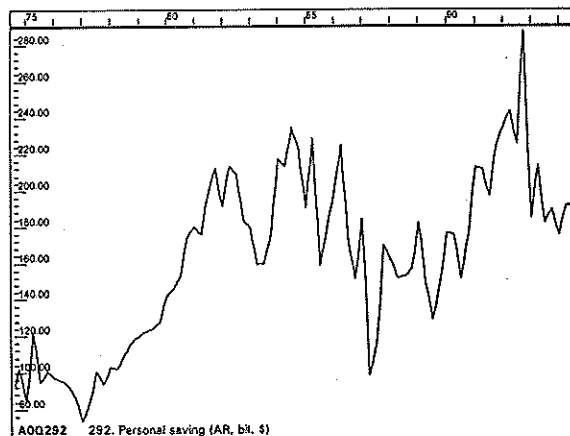
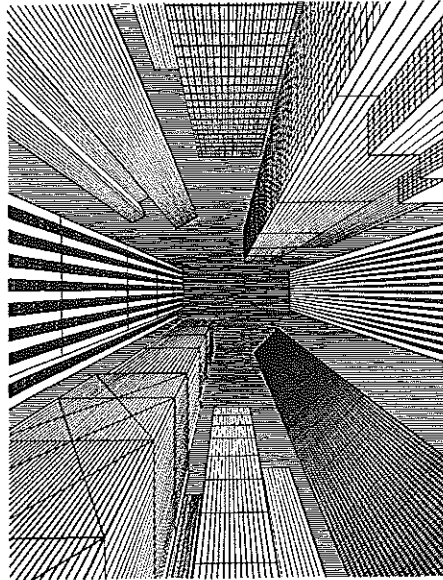


CHART 2
PERSONAL SAVINGS
1975-PRESENT
Adjusted for inflation

Fundamental Analysis



STOCK MARKET

Over the past quarter, 13 industry groups posted strong forecasted earnings and stock price appreciation in our stock selection database. Of these groups, 4 still remain relatively undervalued based on projected earnings growth.

"Since Harry Truman, every administration has seen the claws of a bear market at least once."

Kevin Phillips, *The Wall Street Journal*, 6/15/94

INDUSTRY	NUMBER OF COMPANIES	13 WEEK PRICE CHANGE	EST. CHANGE IN EPS	P/E RATIO
UNDERVALUED:				
Aerospace	4	17.6	32.9	13.8
Computer Hardware	7	28.3	28.0	19.3
Retail Stores	8	10.7	26.8	19.9
Telecommunications	6	24.0	32.1	19.2
NEUTRAL:				
Chemical	8	12.7	28.0	18.6
Drug	6	22.4	26.5	17.5
Electronics	11	12.1	29.4	17.4
Food Processing	6	17.6	28.8	14.6
Medical Supply/Services	13	19.2	21.4	18.7
Office Equipment	4	14.1	30.8	25.1
Paper/Forest Products	5	15.8	24.2	17.7
OVERVALUED:				
Computer Software	8	14.1	22.4	23.6
Household Products	5	10.1	16.1	16.4

BOND MARKET:

Although interest rates at all maturities rose during the quarter, the rate of increase has slowed significantly when compared to the first half of 1994. We believe that due to the flat yield level on maturities on long term paper, maturities under eleven years offer the best balance between yield and principal risk.

Type	Maturity	Current Yield	Quarterly Yield Percentage Chg.	Yearly Yield Percentage Chg.
T-Bill	3 Month	4.7%	12.6%	60.7%
T-Note	1 Year	5.6%	7.9%	72.9%
T-Note	5 Year	7.3%	4.6%	52.7%
T-Note	10 Year	7.6%	3.7%	41.3%
T-Bond	30 Year	7.8%	2.6%	29.7%

Technical Analysis

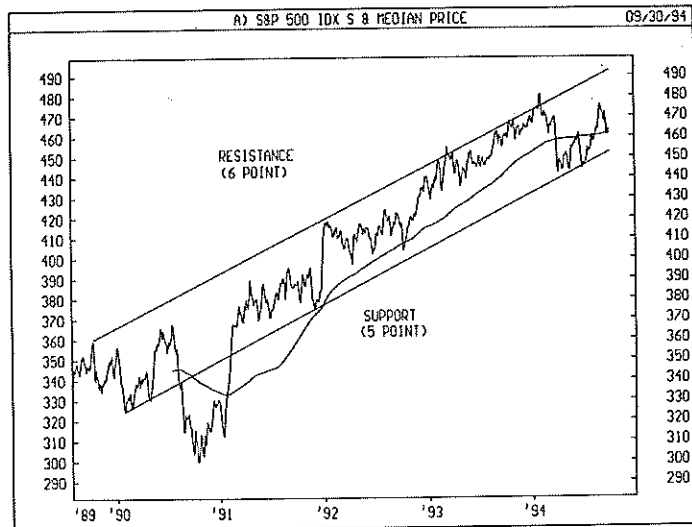
"The bond market has been in a downtrend but has now stabilized. Bonds often lead stocks, so the direction of bonds will have an important bearing on stock prices."

Leo Fasciocco, *Investor's Business Daily* 4/14/94

STOCK MARKET

With the exception of the Gulf War, the S&P 500 Index has been trading in an upward trending channel since early 1990. The index is currently 2% above strong support.

COMMENT: A buying opportunity exists today, while the index is in the 452 to 460 range (See Chart 1).

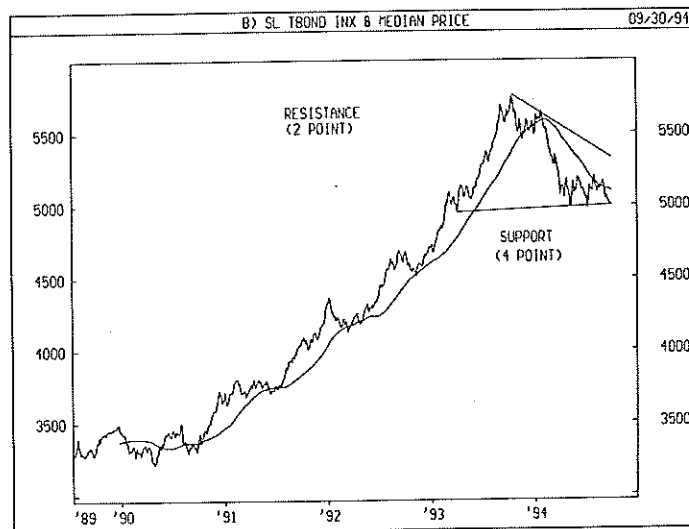


STANDARD & POOR'S 500 INDEX — 1/89 TO PRESENT

BOND MARKET

The Shearson T-Bond Index is trading near strong base support at 5010.

COMMENT: An aggressive buying opportunity exist while the index is in the 5010 to 5090 range (See Chart 2).



SHEARSON T-BOND INDEX — 1/89 TO PRESENT

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