Euro Pacific Capital

SPECIAL REPORT:

THE COLLAPSING DOLLAR

New & Updated

EURO PACIFIC CAPITAL
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Company Profile

Founded in 1980, Euro Pacific Capital, Inc. is headquartered in Darien, Connecticut. The company is a full service, NASD registered broker/dealer, specializing in foreign markets and securities. Through its direct relationships with countless foreign trading desks, the firm's clients are able to avoid the large spreads often imposed by domestic market makers of foreign securities, thereby substantially reducing overall transaction costs.

We are a small, boutique firm, offering highly individualized brokerage services to individuals, corporations, pensions and institutions. We have offices in Newport Beach, California; Scottsdale, Arizona; New York City; Darien, Connecticut; and Boca Raton, Florida.

Other than an occasional private placement offering, Euro Pacific does not engage in any investment banking activities. Thus the firm's individual and corporate clients can be assured that any recommendations given are free from the various conflicts of interest so prevalent among many Wall Street firms.

The firm's management leads a team of investment advisors and support staff dedicated to the highest levels of customer service – a team literally searching the world over for valuable investment ideas.

Combine our full array of services with our individual, no nonsense investment advice, and we believe that investors will find a home here. Euro Pacific Capital…scanning the globe for you.

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Introduction

In an economic sense, the United States is in uncharted waters. After years of easy monetary policy and illusionary prosperity from excessive debt growth, we are beginning to pay for our past economic sins. A mere glimpse at the headlines today reveals that housing prices are depreciating at a rapid pace, the nation's largest banks are writing off losses by the billions, sovereign wealth funds are buying large stakes in our corporations to keep them afloat, and the credit crunch has severely curtailed access to the credit markets for both individuals and businesses.

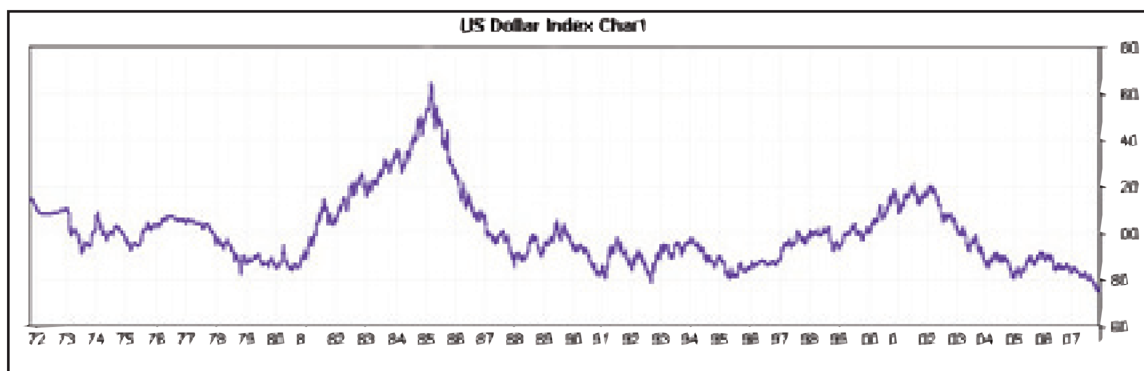
Meanwhile, the government continues to spend about $200 billion per year more than it takes in, and the trade deficit is running around $700 billion annually. Inflation and unemployment are heading higher, too. One needs to look no further than rising commodity prices. Crude oil and gold are at all time highs while many core agricultural commodities, such as corn and wheat, are up well over 100% in the last couple of years.

Some in the media like to spin these aforementioned events as unrelated. However, the collapsing US dollar is the root cause of all these moves and in fact, lies at the epicenter of the current turbulence.

In this report, we will first discuss the trouble ahead for the US dollar, and then make the case for investing in non dollar-denominated assets. And finally, we will tell you about the services we offer at Euro Pacific Capital. We will explain how we can help you protect your wealth—and even profit—from the dollar's impending ruin.

The Collapsing Dollar

The US dollar's value has declined dramatically in recent years (See Dollar Index Chart below). At the beginning of 1998, the dollar index was around the 100 level. [1] At the time of this writing, ten years later, the index stands at just under 73 – an all time low. This is a decline of over 25%. If you compare the dollar's current level to its recent peak in 2001, the decline would be close to 40%!



Despite the already enormous depreciation in the dollar's value, the currency still has much further to drop. The reason for the continuing decline resides with the fundamentals, which are as negative (if not more so) than at the dollar's 2001 peak. The following paragraphs highlight the five biggest threats to the dollar's stability.

[1] The Dollar Index is a widely used index that measures the United States dollar relative to a basket of foreign currencies. Approximate weightings at the time of writing: 57.6% Euro, 13.6% Yen, 11.9% Sterling, 9.1% Canadian Dollar, 4.2% Swedish Kroner, and 3.6% Swiss Franc.

1. Budget Deficit and National Debt

Budget deficits occur when governments spend more than they receive in revenues. As you can see from the chart below, the US government has run budget deficits for many years, cumulatively fueling an enormous national debt of more than $9.2 trillion. This equates to just over $30,000 in debt for every man woman and child in the country. And that does not even include personal liabilities (mortgage payments, car loans, etc.)!

Although paying down this debt has never been given serious thought in Washington, the interest cost alone is becoming unbearable. In 2006, the government spent $406 billion on debt interest payments, representing the third largest line item in the federal budget, behind defense and social services spending. This is akin to a family only paying the interest on their credit card debt, and never paying down any principal.

Unfortunately, one day the bill will come due. If the hypothetical family decided to pay off their credit card bill after years of accumulated charges, they would need to both work more and limit their spending. The government could mimic these actions by both raising taxes and limiting government services. Both of these options are unpopular for politicians trying to win public support, more so in an election year.

Unlike our hypothetical family, the government, via the Federal Reserve, has the ability to print money out of thin air. Not surprisingly, this is the more politically favorable approach. The unfortunate result is the debasement of all of the dollars already in existence.

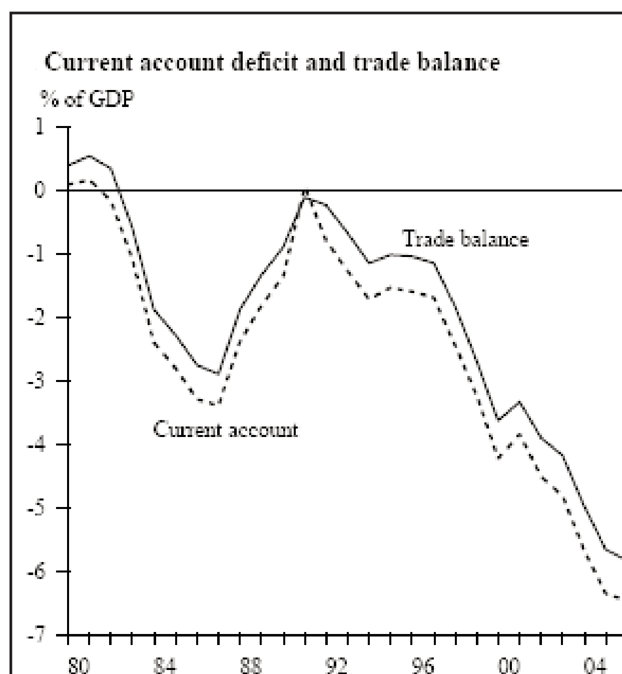
> *As Warren Buffett stated at the annual Berkshire Hathaway meeting in May 2006, "The more you owe, the more it becomes attractive to devalue the currency." Unfortunately, our national debt is rising at a rate of over one million dollars per minute, literally making devaluation more attractive by the second*.

2. Ballooning Trade Deficit

A trade deficit occurs when a country imports more than it exports. As the chart below depicts, the United States is running record current account and trade deficits. This means that we are borrowing money from foreigners to pay for foreign goods. This makes little logical sense, and even less economic sense.

As Warren Buffett stated,

> *“The U.S. trade deficit is a bigger threat to the domestic economy than either the federal budget deficit or consumer debt and could lead to political turmoil…Right now, the rest of the world owns $3 trillion more of us than we own of them.”*
>
> *Associated Press, January 20, 2006*



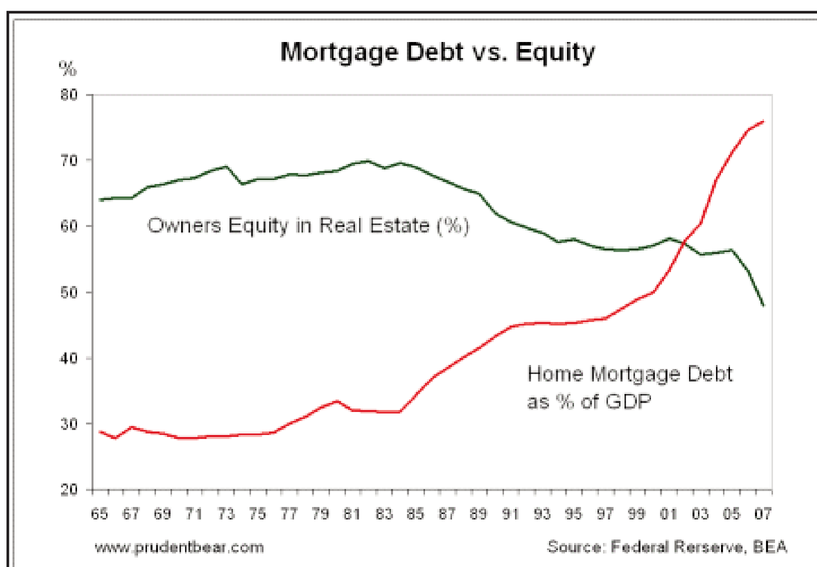
Amazingly, the $3 trillion figure that Buffet spoke of has risen considerably over two years. The fact that the current account deficit and trade balance have not yet significantly contracted despite current dollar weakness indicates that the dollar still has a long way to fall until exchange rates find equilibrium. While the correction process may not go in a straight line, the ballooning trade deficit is a strong long-term trend working against the dollar.

As our creditors wake up to the fact that we are repaying our debts in depreciated dollars, they will likely demand higher rates of interest to compensate for the currency risk. Worse, if our foreign creditors reject the notion of holding our foreign debt and try to liquidate their dollar holdings, the dollar could collapse.

3. The Housing Debacle Is Not Going Away

Despite the headlines about plummeting condo prices in Florida and home builders slashing prices of inventories in California, housing still has a long way to fall.

As the chart below indicates, home mortgage debt as a percentage of GDP is still at record levels. Easy access to credit allowed consumers to take on more debt than they could afford which over-stimulated the housing market resulting in an abnormally high spike in home prices. The combination of artificially high home prices and excessive mortgages (in relation to home value) explains the high default rates today. Once home prices return to historically normal levels, enabling home buyers to finance their purchase without incurring debt that they can ill-afford, the red line should correct.



This chart also shows owner's equity as a percent of home value. Prices must fall significantly for this percentage return to its long-term mean.

Further, the share of U.S. homes owned but empty totaled 2.7 percent at the end of 2007. The historical average is just under 1.5%

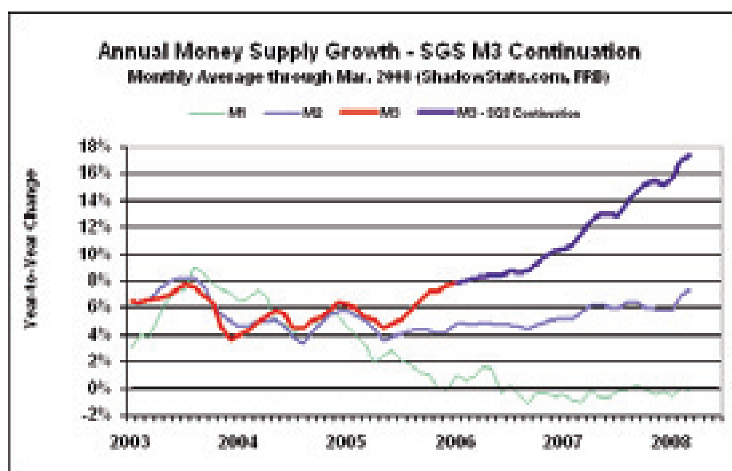
As market forces work to make home prices and debt return to normal levels, the Federal Reserve will try to counteract this by lowering interest rates. These actions will lead to higher money supply growth and a weaker dollar.

4. Money Printing at the Federal Reserve

Experience tells us that once market forces are unleashed, efforts to reverse them seldom succeed. Popped bubbles don't reflate. Just as efforts to breathe life back into the tech stock bubble in the early part of this decade led to the creation of the housing bubble, current efforts to stop home prices from falling will produce similarly unintended negative consequences.

> *The Financial Times recently published an article about the Federal Reserve Chairman's objectives.*
> *"In a dramatic change of tone, Ben Bernanke yesterday indicated that the Federal Reserve is ready to cut interest rates aggressively to ward off the risk of a US recession. The Fed chairman said: 'We stand ready to take substantive additional action as needed to support growth and to provide additional insurance against downside risks.' His decisive language…represents a new message from the Fed…"*
>
> ***Financial Times, January 11, 2008***

Unfortunately, the measures introduced this far by the Fed (massive liquidity injections, rate cuts, and new lending mechanisms) are toxic for the dollar. While the Administration pays lip service to the "strong dollar policy," the Federal Reserve is doing its best to destroy the currency. The most direct measure of the Fed's inflationary monetary policy can be found in the measurement of the money supply, which conveniently, the Fed no longer publishes. As shown in the chart below, M3, the most comprehensive measure of money supply growth (also known as currency debasement) is growing at a staggering 17% annual rate—a bad omen for the dollar.



5. Foreign-Held Debt and the Repatriation of U.S. Dollars

Our chronic budget and current account deficits have led to a tremendous accumulation of dollars abroad. Some estimates show the total at over $7 trillion. China alone holds over $1.3 trillion.

In the past, the US dollar has been considered a “safe” currency because of its wide acceptance and history of stability. With the steady decline of the dollar in recent years, however, many investors abroad are rethinking the wisdom of holding dollar-denominated assets.

For the past two years, China has expressed a desire to diversify away from the US dollar. During that time, however, China has nearly doubled their holdings. If China does begin to dump their dollars in earnest, the dollar will drop significantly. China, aware of this fact, has used this as a political weapon against the United States.

> *“The Chinese government has begun a concerted campaign of economic threats against the United States, hinting that it may liquidate its vast holding of US treasuries if Washington imposes trade sanctions to force a Yuan revaluation.*
> *“Two officials at leading Communist Party bodies have given interviews in recent days warning - for the first time - that Beijing may use its $1.33 trillion (£658bn) of foreign reserves as a political weapon to counter pressure from the US Congress.”*
>
> *- Telegraph, October 8, 2007*

The unfortunate reality is that even an organized diversification away from the US dollar will create significant, long-lasting downward pressure. Needless to say, an intentional dollar-dump could be devastating enough to ravage the American economy.

The Case for Investing Abroad

Despite the misinformation that some advisors put forth discrediting foreign securities, many of the best-performing foreign exchanges, such as Singapore, Thailand, South Korea, and Australia, are characterized by first-class accounting standards, rigorous transparency, and histories of strong governance and oversight. In the wake of the recent scandals in the U.S. markets (think Enron, Tyco, Adelphia and others), can the same be said about the NYSE and NASDAQ?

By now, you should be familiar with the dollar’s chronic burdens. Moving your assets out of sinking dollars and into foreign currency-denominated investments will help you preserve your wealth in the event of a dollar collapse.

Say, for example, that you put your money into foreign stocks and both the foreign currency and stocks stagnate over a two year period. Meanwhile, the US dollar declines by 50% against all foreign currencies.

Congratulations, you just doubled your money! Even though the foreign stocks you own did not go up in value in their local currency, your assets, when you convert them back to dollars, doubled in value.

Take this scenario a step further and imagine that your foreign investments had doubled in their local currency. With a 50% decline in the dollar, you will have realized a 300% gain in dollars! Of course, we could be wrong, the dollar could strengthen, and, in the scenario pictured above, you would lose money. But it is our firm belief that the dollar is in a pattern of long term decline.

Apart from protection against a falling dollar, we see seven compelling reasons to ramp up your foreign investments.

FOREIGN ADVANTAGE #1: BETTER PERFORMANCE

It's no accident that our firm's motto reads, "There's always a bull market somewhere." Despite the blather on financial television, the last 10 years have not been kind for U.S. stocks.

In 2007, for the second year in a row, U.S. market returns did not even rank in the top 30 global markets! In fact, the U.S. has not been the top performing developed stock market in any of the last 10 years. The last time the U.S. cracked the top-five performing developed markets was 1995.

Many international economies are currently growing faster than the U.S. economy, so investing abroad offers you greater growth potential and, at the same time, offsets any weakness in the U.S. portion of your portfolio. In fact, foreign stocks are increasingly starting to dance to their own tune, as the correlation between international and U.S. stocks weakens.

Annualized Average Return (in U.S. Dollars)

	1 year*	3 years*	5 years*
Australia (AS51)	4.2%	17.3%	23.9%
Austria (WBI)	-3.4%	20.4%	34.3%
Canada (TSX Comp)	16.2%	20.0%	25.5%
France (CAC 40)	-0.1%	13.1%	20.4%
Germany (DAX)	11.5%	23.2%	31.1%
Hong Kong (HSI)	20.5%	21.2%	22.4%
Ireland (ISEQ)	-21.1%	7.9%	18.3%
Japan (Nikkei 225)	-11.2%	5.9%	14.1%
New Zealand (NZSE50)	-5.4%	9.4%	22.1%
Singapore (FSSTI)	5.9%	21.7%	25.9%
Switzerland (SMI)	0.3%	14.4%	18.9%
United Kingdom (FTSE 100)	-6.0%	8.1%	14.8%
United States (S&P 500)	**-5.1%**	**5.1%**	**9.3%**

**Number of Years to 4/4/2008.*

Source: Bloomberg

During the past one, three and five year periods, the U.S. equity market has under-performed the majority of the world's developed markets measured in U.S. dollar terms. This reflects the combination of both foreign performance and dollar depreciation.

FOREIGN ADVANTAGE #2: PLAYING IN A LARGER SANDBOX

In the 1970s, U.S. equities dominated, accounting for 66% of the world's market capitalization. By 2003 the percentage had shrunk to 44%. A continuation of this trend would mean that the U.S. share would account for just 24% in 2036. Foreign markets are just too big to ignore.

In his book A Bull in China, legendary investor Jim Rogers provides approximately 150 stock investment ideas. Two thirds of these companies are not traded on any U.S. exchanges.

However, despite growing acceptance for foreign investments among investment advisors, many Americans have little to no exposure to foreign securities.

According to the Profit Sharing/401(k) Council of America, the average individual investor places less than 3% of his or her portfolio in foreign equities. Don't let yourself fall into this trap.

FOREIGN ADVANTAGE #3: POSITIVE STRUCTURAL REFORM

The world economy is changing rapidly. Failure to appreciate or understand these trends will cost you. The emergence of China as a capitalistic powerhouse (despite its communist label) is a game changer for investors. As the largest country on Earth continues to shake off centuries of regression and rocket into the future, the world economy is re-organizing around a new point of focus.

But the story does not end with China. For example, consider Europe, home to some of the world's largest corporations. With Europe's unification, strengthened currency, and stable political landscape, the old world is re-emerging as an economic force. The absorption of Eastern Europe, with its relatively inexpensive and educated labor force, has been a shot in the arm. As a result, Europe is rethinking its outmoded habits of doing business, and is providing enticing profit opportunities for investors who remain alert.

FOREIGN ADVANTAGE #4: HIGHER DIVIDENDS

In many cases, companies outside the United States pay higher dividends than American companies. In addition, most dividends from foreign companies qualify for the same, low 15% tax rate as are dividends from American companies (check with your tax advisor to be sure).

For years, large numbers of American companies used their cash for questionable acquisitions, dubious growth strategies and excessive executive compensation rather than returning the money to shareholders as dividends. Yields on domestic stocks fell to historically low levels. By comparison, dividend yields on foreign companies remained high as compared to their U.S. counterparts. The list to the right is a sample of average dividend pay-outs in some foreign markets as of April 2006.

Dividend Yields in Foreign Markets*

New Zealand (NZSE50)	7.90%
Australia (AS51)	4.44%
United Kingdom (FTSE 100)	4.06%
Netherlands (AEX)	3.86%
France (CAC 40)	3.47%
Germany (DAX)	2.76%
Hong Kong (HSI)	2.74%
South Africa (JSE)	2.66%
Canada (TSX Comp)	2.54%
Brazil (Bovespa)	2.36%
United States (S&P 500)	2.22%
Japan (Nikkei 225)	1.56%

Source: Bloomberg

FOREIGN ADVANTAGE #5: DIVERSIFICATION

Price movements in international markets do not necessarily synchronize with those in the U.S. The professional managers call this phenomenon "lack of correlation." And academic studies have shown conclusively that holding some foreign securities dampens the volatility of a U.S.-only portfolio, as well as reducing risk. That's a potent combination.

FOREIGN ADVANTAGE #6: EMERGING MARKETS

It is no secret that many emerging markets have performed remarkably well over the past decade. 2007 was no different, with most of the top performing stock exchanges located in emerging markets. The most spectacular example of course is China, whose stock market was up more than 90% in 2007. But there are many other stories as well. India up 46.5%, Turkey up 41.6%, Hong Kong 40.9%...the list goes on.
Compare these figures to the S&P 500's 5.48% return over the same period!

Naturally, emerging markets can be very volatile. These markets can decline as much as they can appreciate. At Euro Pacific, we make an important distinction between the lower tier, riskier emerging markets, such as Turkey, Russia, Vietnam, and the more developed, politically stable emerging markers such as Singapore, Finland and Thailand.

By expanding your investment horizons to you have the opportunity to discover attractive companies that have not yet been fully valued by the market. Finding a "diamond in the rough" opportunity in one of these markets is more likely than discovering one on Wall Street.

FOREIGN ADVANTAGE #8: COMMODITIES

During the peak of the dot-com boom in the late 1990s, a tiny number of contrarian thinkers, such as Jim Rogers (full disclosure: our firm represents his commodity fund), were ridiculed for advocating dull, boring commodities, which no one had paid much attention to since the inflationary 1970s.

The reason behind this prediction was simple: while the world was mesmerized by the brave new world of technology, it was blind to the massive underinvestment in basic raw materials.

As we now know, that insight has proved to be very much on target during the past two years. And it's a trend that, aside from the inevitable ups and downs, has many more years to run. To participate in it, investors should seek out specific vehicles both at home and abroad.

Outstanding foreign commodity plays include a range of companies in Australia, Brazil, Canada and South Africa, among others. In the energy field, this includes a number of unconventional or "alternative" plays, such as Canadian oil sands as well as Canadian and Australian energy trusts.

If you believe the dollar is in a long term decline, or merely want to have more foreign stocks in your portfolio, Click on the link below, to get more information about investing with Euro Pacific.

CLICK HERE

Euro Pacific Approach to Foreign Investing

At Euro Pacific Capital, we aim to protect client's wealth from the declining dollar. Our basic approach can be summarized by the following three points:

Keep assets denominated in foreign currencies – To achieve the best protection against the declining U.S. dollar, investors must ensure that their investments are denominated in strong currencies abroad. Further, we prefer to take our dividends in Swiss Francs, Euros, or Loonies, not in U.S. dollars. By owning stocks directly on the foreign exchanges, dividends will be paid in local currencies.

Unfortunately, the only foreign shares that most U.S. investment advisors and brokers will recommend are the relatively few foreign stocks listed on American exchanges as ADRs (American Depository Receipts). American Depository Receipts were invented to make foreign investing in stocks easier for Americans and have succeeded in doing so. Euro Pacific does not advocate this method of investing for the simple reason that ADRs are issued only by the largest foreign companies. Nissan Motors and Sony are typical examples and do not represent the values and dividend yields you can find in the global arena. Also, banks incur costs in creating ADRs and often retain a portion of the dividend to cover their services.

Another potential drawback arises from the sometimes excessive and stultifying regulation imposed on American companies, such as the laws passed in response to Enron and other scandals. Many well-run foreign companies choose not to subject themselves to such onerous and costly regulation when they have the option to do so. The best solution is to invest in equities that are traded on foreign markets. Many earn their incomes from sources completely removed from the U.S. market.

Buy in local markets – Unlike Euro Pacific, many brokers do not have foreign exchange access and may attempt to purchase a foreign security order through domestic market makers in the Over-The-Counter (OTC) markets – sometimes known as the "pink sheets." And in the process, these brokers virtually guarantee that their clients will pay more for the stock than those buying it in the local foreign market.

Typically, these market makers, or "middle men," can pocket as much as 8% of the value of each transaction in the thinly traded U.S. OTC markets. In most cases, investors are not even aware of the extent to which their money winds up in the pocket of market makers.

To efficiently purchase non-ADR foreign stocks, it requires relationships with traders who deal in the targeted foreign market. By executing orders directly on foreign exchanges, Euro Pacific is able to cut out the middleman.

Buy high-yield, conservative foreign stocks – Our primary objective is wealth preservation. We believe that the best way to accomplish this is by purchasing high-yield, conservative stocks abroad. For example, foreign electric, oil, and gas utilities are attractive equity investments because they have a captive audience with consistent demand. Their earnings are predictable as they can raise their rates as costs increase, and they pay consistently high dividends. Utility investments are widely available as both stocks and bonds.

We also favor natural resource stocks. In the coming years, we will witness tremendous demand for the raw materials necessary to support the continued growth of emerging Asian economies. Investing in stocks of commodity producers allows you to benefit from the sustained demand for natural resources. Additionally, many of these companies pay healthy

dividends, which is icing on the cake.

In summary, Euro Pacific Capital believes strongly that investors should have a substantial portion of their assets invested in foreign securities. We are foreign securities specialists, Well over 90% of our business is derived from international investments.

If you believe the dollar is in a long term decline, or merely want to have more foreign stocks in your portfolio, Click on the link below, to get more information about investing with Euro Pacific.

CLICK HERE

Euro Pacific Markets

Countries in which Euro Pacific Capital can currently trade: [2]

United States	**Hong Kong**	**Great Britain**
Canada	**Norway**	**Australia**
New Zealand	**Singapore**	**South Africa**
Denmark	**France**	**Austria**
Thailand	**Philippines**	**Japan**
Luxembourg	**Italy**	**Finland**
Germany	**Spain**	**Belgium**
Mexico	**Argentina**	**Sweden**
Netherlands	**Switzerland**	**Poland**
Israel	**Greece**	

[2] As of October 16, 2007. The only noticeable absence is Shanghai, which is an extremely difficult market to trade in. We are working with our clearing firm to find ways to purchase there.

Risks/Disclaimers

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The research analysts who contributed to this report (including Peter Schiff and others not named) certify that: 1, all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject investments; and 2, no part of the research analysts' compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

For assistance in understanding all the risks as well as the rewards of investing in foreign securities, call Euro Pacific at:

1-800-727-7922

One of our licensed international investment specialists will help you determine if investing in foreign securities is suitable for you, and meets your investment objectives and risk tolerance.