



Portfolio Monitor

Original Research & Analysis Compiled By Winans International

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"MAJOR GOVERNMENTS ARE TRYING TO GET THEIR CURRENCIES LOWER AGAINST THE U.S. DOLLAR IN A DESPERATE ATTEMPT TO BOOST THEIR ECONOMIC GROWTH AND EMPLOYMENT."

Michael Sesit, *The Wall Street Journal*, December 5, 1996

Global Economy

Throughout this month, the media has paid much attention to the "dramatic" rise in the value of the U.S. dollar.

Look at the printed facts:

1. The dollar has increased 34.1% against the Japanese yen since it made a 25 year low in April of 1995.
2. The dollar advanced 9.4% against the German mark from its 10 year low made in April of 1995.
3. These two countries are America's largest trading partners in Asia and Europe.

Needless to say, this situation has sparked concern among leading economic thinkers, because of the possible negative impact on America's ability to export products and services, which effects corporate earnings, and thus poses a danger for U.S. investors in 1997.

Contrary to these opinions, we believe that the dollar's current level will not effect the U.S. economy's ability perform well in 1997 for the following reasons:

1. In the post "Cold War" world, the dollar has been generally weak against the currencies of the other G7 countries.

In fact, since January of 1990 the U.S. Dollar Index has been in a 16% range between 82 and 95, and it is currently in the middle of this channel at 87 (CHART 1).

2. The dollar's value has differed greatly when compared to the various G7 currencies. 1990 to Present — U.S. dollar percentage change: Japan (22.5%), France (11.4%), Germany (10.6%), U.K. (.66%), Canada 14.2%, Italy 19.6%

COMMENT: Although a dramatic rise in the dollar would depress corporate profitability. We do not believe the dollar will extend beyond its current range for the remainder of this decade, as long as the U.S. inflation rate stays between 3% - 5% (CHART 2).

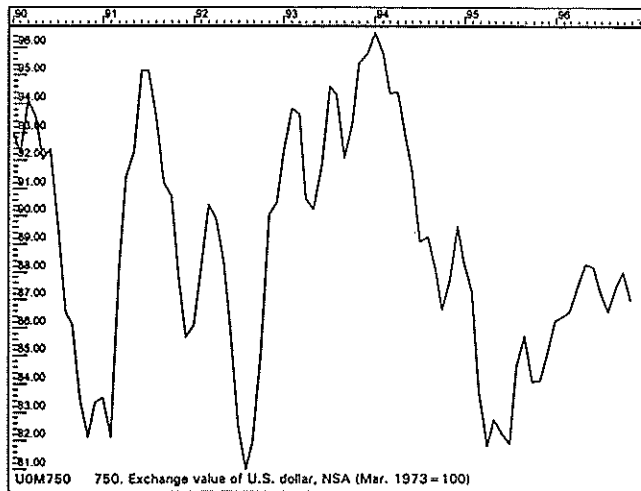


CHART 1
U.S. Dollar Index
(1990 -PRESENT)

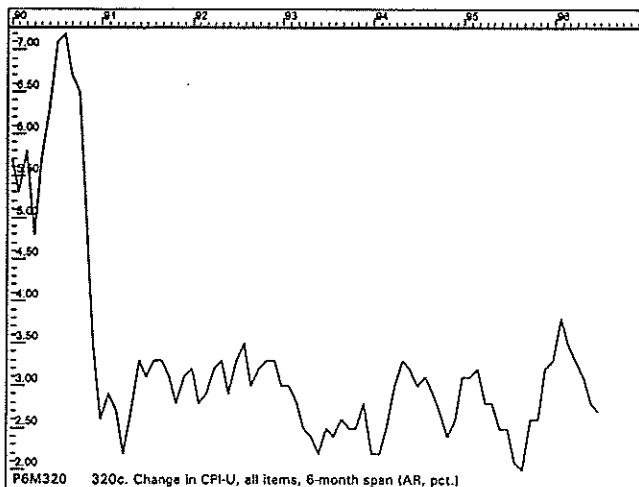


CHART 2
Consumer Price Index
(1990 -PRESENT)

"Measuring inflation accurately is central to almost every economic issue, from monetary policy to measuring economic progress to the cost and structure of indexed spending and taxes."

Michael Boskin, *The Wall Street Journal*,
December 5, 1996

On December 3, 1995, a congressionally appointed commission headed by economist Michael Boskin submitted its final written evaluation on the government's main inflation indicator, the Consumer Price Index (CPI). It proved that CPI, originally designed during World War 1, is seriously flawed and has overstated the U.S. inflation rate by, at least 1%, for the last 15 years (CHART 1).

We believe that these findings paint a very interesting picture of America's economic health, when compared to what we are told by the government.

Look at some of the facts:

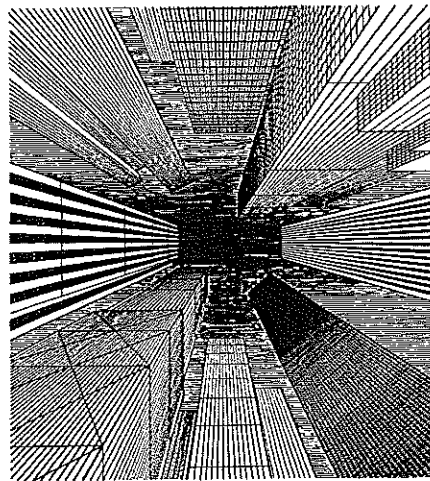
1. Today's inflation rate is only 2.1%!

The Federal Reserve Board's "inflation fighting" policies have restricted the growth of the U.S. economy too much during the 1990's through higher interest rates. Simply put, today's technology driven economy is capable of growing at 4% - 5% without inflationary pressure.

2. American's standard of living has substantially increased!

It has been widely believed that real hourly wages have only grown 7.6% since 1981, but after the proper inflation adjustments are made, real wages have actually increased 13% during this time (CHART 2).

U.S. Economy



3. This has caused businesses and working Americans to overpay Social Security taxes!

It has been estimated that, over the last 15 years, this error has cost the American workforce \$250 billion in overpaid payroll taxes through increases made for inflation indexing.

COMMENT: "Garbage In, Garbage Out," the real danger in today's economic climate is not inflation itself, but misdirected government fiscal & monetary policies driven by outdated, faulty statistics that place the entire world economy at risk of recession.

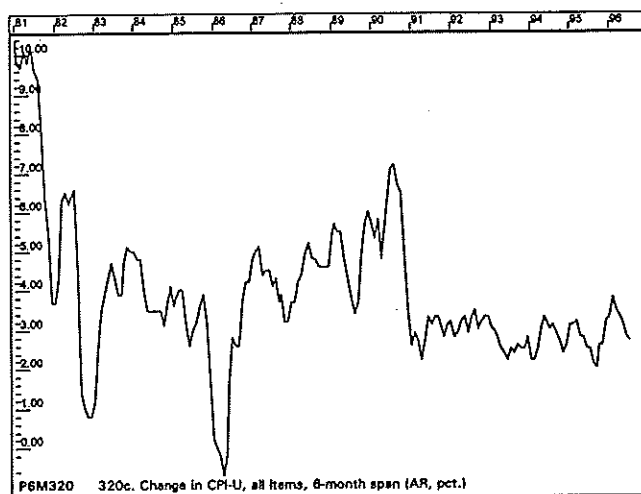


CHART 1
Consumer
Price Index
(1981-PRESENT)

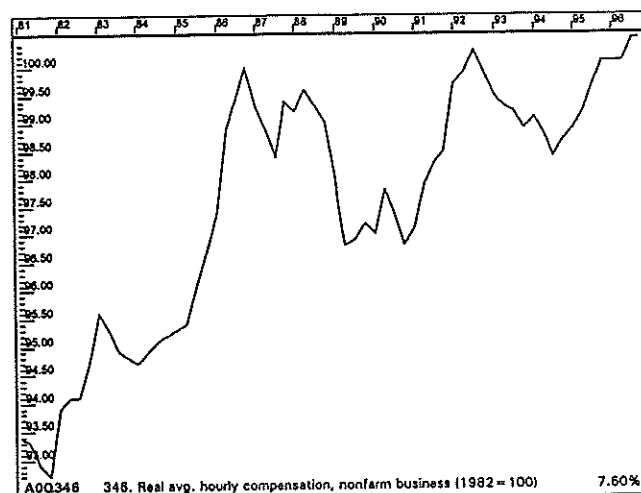


CHART 2
Real Wages
(1981-PRESENT)

Fundamental Analysis

STOCK MARKET

Over the past four months, 25 industry groups posted strong forecasted earnings and stock price appreciation out of our database of 6,000 companies. Of these groups, 11 still remain relatively undervalued based on projected earnings growth.

"What truly separates the 1980s-90s from all previous euphoric market periods is that these are the only decades in which both stocks and bonds enjoyed double digit returns."

Alan Ableson, *Barron's Financial Weekly*,
December 2, 1996

| INDUSTRY | NUMBER OF COMPANIES | 13 WEEK % PRICE CHANGE | EST. % CHANGE IN EPS | P/E RATIO |
|---------------------|---------------------|------------------------|----------------------|-----------|
| Building Materials | 6 | 17.2 | 35.2 | 16.4 |
| Computer Hardware | 10 | 35.0 | 51.3 | 22.6 |
| Conglomerates | 10 | 14.9 | 19.3 | 17.7 |
| Financial Services | 11 | 17.5 | 20.6 | 18.0 |
| Industrial Services | 6 | 19.4 | 24.3 | 21.5 |
| Machinery | 6 | 15.4 | 18.2 | 15.6 |
| Medical Services | 5 | 12.9 | 30.4 | 24.7 |
| Natural Gas | 7 | 15.8 | 34.0 | 18.7 |
| Petroleum | 9 | 15.0 | 50.5 | 17.1 |
| Retail, Specialty | 9 | 21.4 | 43.0 | 21.2 |
| Tobacco | 6 | 14.5 | 15.7 | 11.8 |

FIXED INCOME MARKET

The yield curve has steepened in the last 12 months, and now there is a 1.9% spread between 3 month T-bills and 30 year T-bonds.

COMMENT: we recommend concentrating in fixed income investments with maturities between 5 and 10 years. In other words, we believe that this range offers the best balance between yield and maturity risk.

| Type | Maturity | Current Yield | Quarterly Yield % Change | Yearly Yield % Change |
|--------|----------|---------------|--------------------------|-----------------------|
| T-Bill | 3 Month | 4.7% | (1.1%) | 1.3% |
| T-Bill | 6 Month | 5.1% | (2.3%) | .9% |
| T-Bill | 1 Year | 5.2% | (4.1%) | 4.2% |
| T-Note | 5 Year | 6.1% | (5.6%) | 12.5% |
| T-Note | 10 Year | 6.3% | (5.4%) | 11.4% |
| T-Bond | 30 Year | 6.6% | (4.6%) | 9.7% |

Technical Analysis

"Buying a stock when it breaks out from a price basing formation is a well known technical strategy."

Leo Frasciocco, *Investors Business Daily*, October 10, 1996

STOCK MARKET

The S&P 500 Index is currently trading within a 14% channel established in 1995.

RECOMMENDATION: *The index is currently 4% off of resistance at 780-800. Any correction to 680-700 is a buying opportunity (CHART 1).*

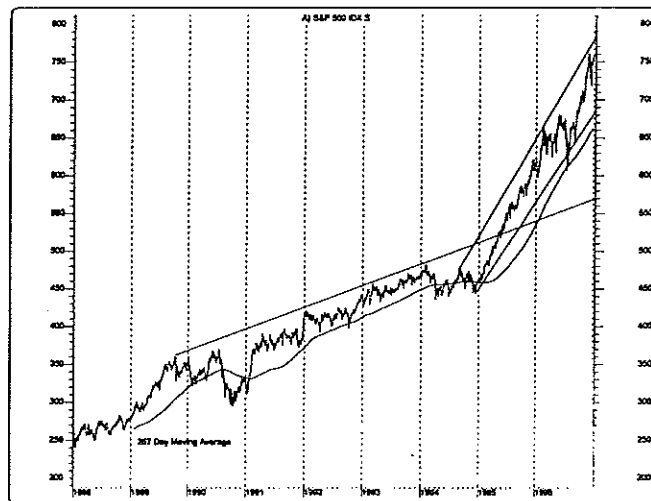
INTEREST RATES

The yield of the 30 year T-bond has been moving in a channel between 6% and 8% since 1991 (CHART 2).

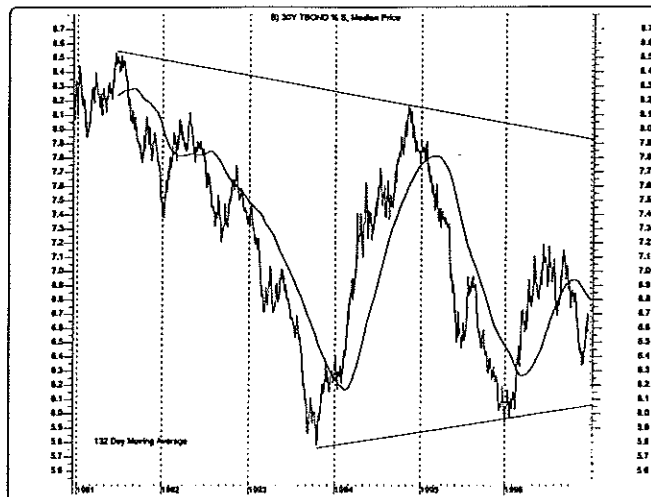
RECOMMENDATION: *The T-bond yield is currently in the middle of a five year channel at 6.6%, we expect rates to stay below 8.5% for the remainder of the 90's and consider yields between 7% and 8% as a buying opportunity*

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STANDARD & POOR'S 500 INDEX — 1988 TO PRESENT



30 YEAR T-BOND YIELD — 1991 TO PRESENT

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