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## **Monthly Update**

**2005, Vol. 1, Year 11 January 2005**

### **Globalization, US dollar declines**

**The 2004 uncertainties in: terrorism, troop losses, oil supply, and U.S. presidential election results were the fabric of last year's markets. These concerns led to volatile markets with the Nasdaq dropping 19% from January 26 to August 12, and the gold and silver index, XAU, dropping 31% from January 5 to May 7. Many of these nonpolitical uncertainties will flow into 2005. Our huge trade imbalance with China, and other countries, will keep downward pressure on inflation and the US dollar. We look for globalization to increase and weaken our middle class. This process started many years ago and accelerates now due to improved communications, the internet, and improving non-US work force skills at low relative prices.**

**Our analysis shows strong stock markets in Latin America, Japan, and emerging markets. This is partly due to a weak dollar. Another area we like is pharmaceutical and health stocks as health care spending consumes a higher percentage of our GNP.**

**The Dow is stronger now than the NASDAQ and this is one sign that large investors are nibbling in the equity market. The style box corners are very similar and there is no clear value or growth or large or small winner now. Sometime in 2005, we are looking for large insurance companies to sell large amounts of bonds and buy equities. We but don't see this happening yet, most likely due to the tame inflation front. Real estate looks good at this time, and when long-term interest rates start to rise, this sector will be at risk. Gold appears to be at a relative low and we think it is heading higher.**

**In general we like the market and think higher prices are ahead.**

**Because the markets can turn quickly, be ready. May the market be with you. (January 02, 2005)**