



# Portfolio Monitor

Original Research & Analysis Compiled By Winaus International

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## "Inflation isn't an immediate concern in Europe."

— Henning Christopherson, European Union Economics Commissioner  
*The Wall Street Journal, November 28, 1994*

### International Finance

As the world's industrialized giants continue to produce solid economic growth, many economists believe that the G7 countries will not be able to continue to economically advance at the current rate. This is due to the fact that many of these financial experts believe that inflationary pressures are rising to uncomfortable levels, and that monetary policies need to be focused on restricting growth. It is further perceived that if inflation is left unchecked, the industrialized nations could suffer from the same type of negative economic effects that were present in the late 1970's.

*Are these opinions accurate?*

We conducted a 25 year analysis of the G7 nation's inflation levels and our conclusions are as follows:

1) *Although the average GDP growth for these countries is estimated to be 5.4% for 1994, the inflation rates of the various G7 countries continue to be near their lowest levels in 25 years.*

For example, the 1994 rate of inflation for the leading industrial nations is listed below:

1. Italy (3.8%), 2. USA (3.0%), 3. Canada (2.5%), 4. United Kingdom (2.0%), 5. Germany (2.0%), 6. France (1.5%), 7. Japan (0.8%).

*This equates to an average inflation rate of 2.2%. It is also important to note that with the exception of the United Kingdom, none of the other G7 countries have had a 10% inflation rate since the mid 1980's.*

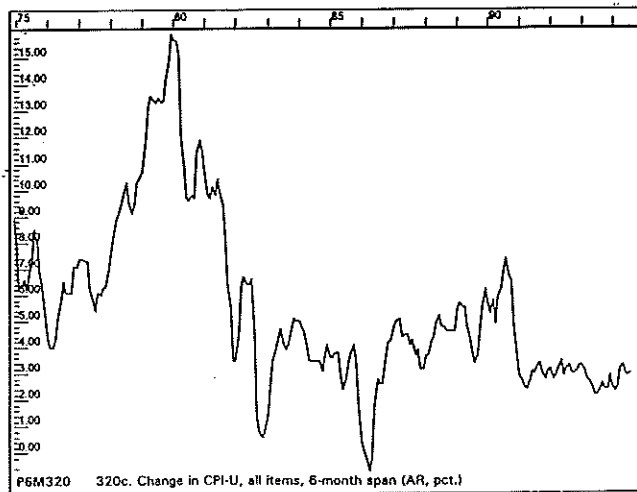
2) *Over the last 25 years, the inflation levels of these nations have been reduced at the fastest rate since the end of World War II.*

Since the high inflation levels reached in the 1970's, the G7 nations inflation rates have dramatically decreased. The individual countries' 25 year annual inflation rate range is as follows:

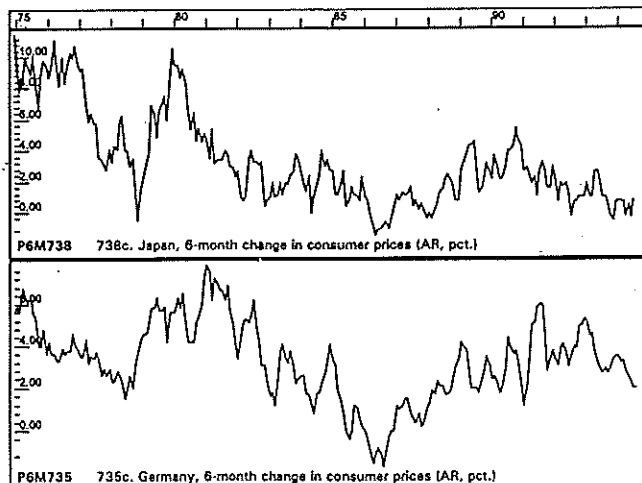
1. Italy (27.4% to 3.7%), 2. USA (15.7% to -2.0%), 3. Canada (14.0% to -2.3%), 4. United Kingdom (33.1% to 0%), 5. Germany (7.4% to -1%), 6. France (17.3% to .9%), 7. Japan (38.4% to -5%).

**Comment:**

We believe that due to the lack of any major macro-economic imbalances, such as high oil prices, the G7's inflation levels will continue to be within the historical norms. In other words, *the inflation rates for these nations should not exceed 6% under normal conditions.*



**CHART 1**  
 United States' Inflation Levels 1974-Present



**CHART 2**  
 Japan & Germany Inflation Levels 1974-Present

**"When it comes to job creation, politicians and government planners have little influence. They can no more overpower the invisible hand of the marketplace than a fisherman can tell the currents which way to flow."**

*Perspective, Investor's Business Daily  
April 14, 1994*

Employment has long been a focal point in American politics. Republicans and Democrats alike seldom disagree about the need for job creation, but rather debate as to the means of job creation. For example, when the North American Free Trade Agreement was being reviewed by our nation's leaders, there were considerable disagreements about its impact on U.S. manufacturing jobs.

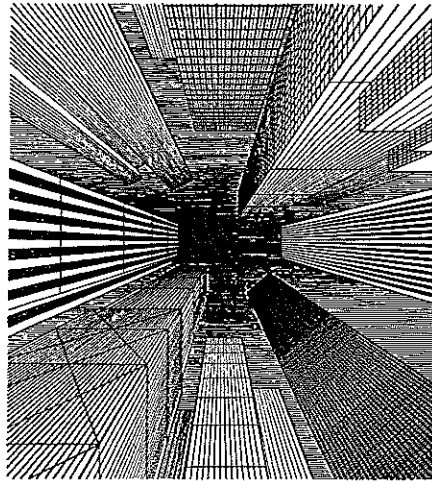
*Unfortunately, there are many myths about the health and security of employment in this country.*

In order to "shed some light" on this issue, we conducted a 30 year analysis of U.S. manufacturing jobs and our conclusions are as follows:

**A. MANUFACTURING WORK HOURS (Chart 1):** Since the recession of 1990, the average number of hours worked weekly in the manufacturing sector has increased 5% and is at a 30 year high of 42 hours per week. Even more astonishing is that the average number of overtime hours worked weekly in manufacturing has increased 42% during this same period of time and is also at a 30 year record. *Simply put, due to strong demand for American manufactured products, workers are working more now than at any other time in the last 30 years.*

**B. MANUFACTURING WAGES (Chart 2):** Inflation adjusted wages & salaries in the manufacturing sector are currently 9.5% below the 30 year record reached in 1979. But, since

# U.S. Economy

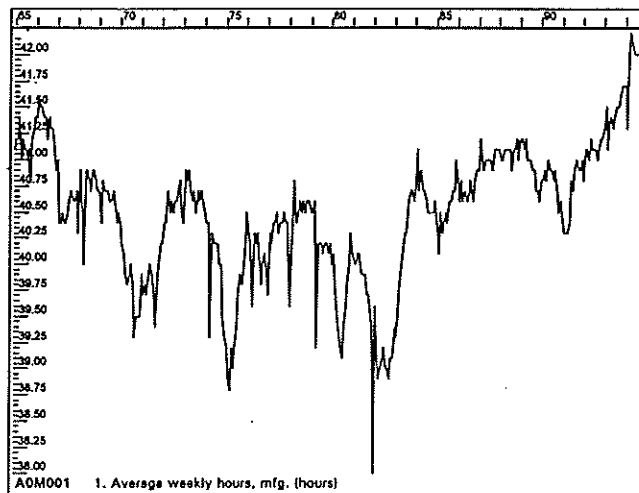


March of 1993 manufacturing wages have increased nearly 7%. This is the largest inflation adjusted increase in this sector's wages since 1983. *In other words, manufacturing worker pay has increased at twice the rate of inflation within the last year.*

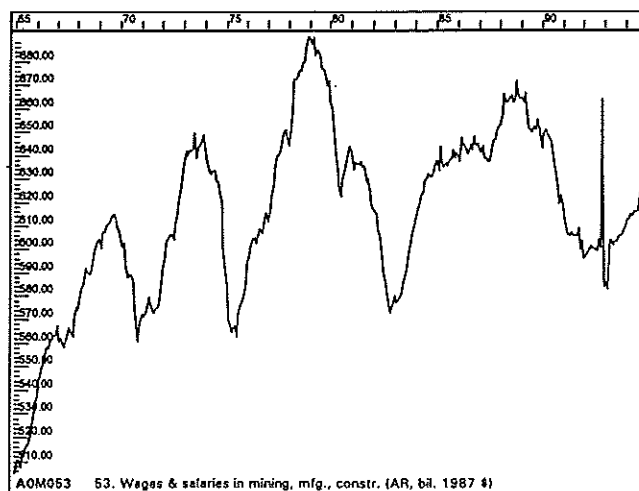
**COMMENT:** In a government report titled "Gross Job Flows in U.S. Manufacturing" an analysis indicated that there is a 10% turnover in manufacturing jobs each year. This means that low skilled and obsolete jobs are replaced with advanced employment as the employers become more efficient and effective in producing their products.

Our analysis corresponds with that report by showing that there is *high demand for the products made by the American manufacturing worker and*

*that the marketplace is willing to pay more in real terms for their increased productivity.*



**CHART 1  
MANUFACTURING  
HOURS WORKED,  
1964-PRESENT**



**CHART 1  
AGGREGATE  
MANUFACTURING  
WAGES, 1964-PRESENT**

# Fundamental Analysis

## STOCK MARKET

Over the past quarter, 10 industry groups posted strong forecasted earnings and stock price appreciation in our financial database. Of these groups, 5 still remain relatively undervalued based on projected earnings growth.

*"A 1993 Fed Survey of Consumer Finances found that 33.7% of American families had money invested in the stock market."*

David Wessel,  
The Wall Street Journal, October 10, 1994

INDUSTRY	NUMBER OF COMPANIES	13 WEEK PRICE CHANGE	EST. CHANGE IN EPS	P/E RATIO
<b>UNDERVALUED:</b>				
Chemical	6	8.8	28.0	17.0
Computer Hardware	8	27.8	42.4	17.5
Conglomerates	7	13.7	38.3	14.9
Specialty Retail Stores	4	10.6	37.6	20.6
Semiconductor	6	22.1	75.3	13.9
<b>NEUTRAL:</b>				
Food Processing	4	17.0	20.5	18.3
Household Products	5	7.4	17.3	16.8
Medical Supply	6	11.2	18.3	17.7
<b>OVERVALUED:</b>				
Computer Software	9	23.1	21.4	27.8

## BOND MARKET:

Short term interest rates rose over 19% during the last quarter, but medium and long term interest rates posted only slight increases. In other words, the yield curve continues to be "flat" for maturities past 5 years. *We believe that maturities under seven 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	5.6%	19.3%	79.4%
T-Bill	6 Month	6.2%	19.0%	92.9%
T-Bill	1 Year	6.7%	19.8%	91.7%
T-Note	5 Year	7.8%	7.8%	51.1%
T-Note	10 Year	7.9%	3.4%	35.6%
T-Bond	30 Year	7.9%	0.8%	24.1%
T-Bond	30 Year	7.8%	2.6%	29.7%

# Technical Analysis

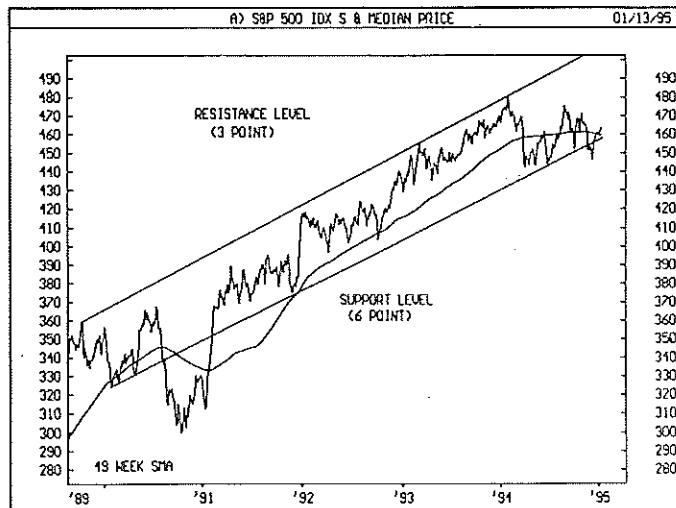
*"It's not a bad time to buy bonds, according to a small but growing group of money managers who believe yields are near the end of a 12 month rise."*

—Thomas Vogel, *The Wall Street Journal*, October 10, 1994

## 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 at 463.5 and is within 2% of strong support.

**RECOMMENDATION:** *A strong buying opportunity exists while the index is between 455 and 465 (See Chart 1).*

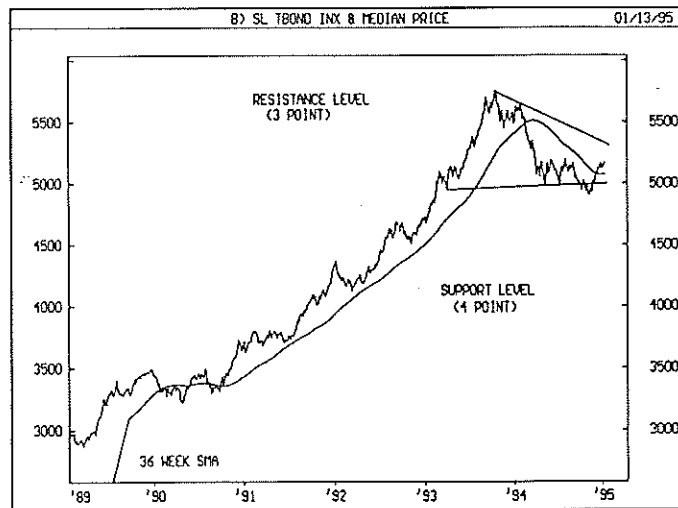


STANDARD & POOR'S 500 INDEX — 1/89 TO PRESENT

## BOND MARKET

The Shearson T-Bond Index has formed strong base support. The index is currently at 5168 and is within 3% of strong support.

**COMMENT:** *A strong buying opportunity exists while the index is in the 4990 to 5090 range (See Chart 2).*



SHEARSON T-BOND INDEX — 1/89 TO PRESENT

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