

To: Oakmont Corporation

From: Damon de Laszlo

DABERIAM XXVI

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Global Economic Indicators

World Economic Growth (World Bank figures)	2005 (est.)	3.20%	2004	3.40%	2003	2.90%
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Base rates: 30 June 2006	USD	5.25%	EUR	2.75%	GBP	4.50%
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MSCI World Equity Index	30/06/2006	226.621	31/12/2005	203.143	YTD %	11.56%
Gold (PM London Fix \$ per ounce)	30/06/2006	613.50	31/12/2005	513.00	YTD %	19.59%
Oil (WTI Crude \$ per barrel)	30/06/2006	73.98	31/12/2005	61.04	YTD %	21.20%

What has changed since May, other than the Stock Market bloodbath, or I think more appropriately, mudbath, that continued into June and the beginning of July, which is really no change.

While it is the most popular job of the journalist and the pundit to issue dire warnings of doom and gloom on a daily basis, those that have to manage businesses and take decisions about investing in the future can only be successful if they consider and analyse information and look for signs of changing trends. This is the difference between noise and information.

Around the world there seems to be a marginal slowing of economies in Asia but nothing that could be called significant, and the same goes for the USA. Russia and Japan continue to pick up their pace of activity, and Europe remains as a unit a sort of quagmire of conflicting trends producing virtually no direction of any kind.

The biggest trend seems to be the world's Central Banks' feeling that they need to raise interest rates. A sort of Central Banks' herd instinct that once they have got to the bottom they have to climb back up the hill. This movement in itself is slow and as long as the rate of change remains slow, it should not derail the world's economy.

In the macro sense, there seems to be a continuing integration of the world's economies, talked about as 'globalisation'. It is this globalisation that is stabilising individual economies as the actions of even the largest economy in the world, USA, has less impact on global trade than it used to. It is global trade that is going to be the overriding phenomenon of the still-new millennium. The extraordinary rise in the movement of commodities and goods from one market to another across the Atlantic and the Pacific can be measured most simply by noting the bottlenecks in shipping in the major ports of the world.

The other major change that slots into the new millennium and gathers pace is the incredible increase in productivity in all forms of production. The application of electronics and computers by engineers who started senior school in the '80s, who regard the computer as the core of any system and the impact of this on machinery is so ubiquitous that it is difficult to quantify.

The manifestation of this in America is the continuing extraordinary increase in productivity, output per unit of labour, which in this flexible economy is generating all kinds of jobs and the country maintains its low unemployment record. The same effect in Germany is showing increased industrial production alongside high unemployment as the lack of flexibility in the country's employment rules and regulations in general make it difficult for the development of new businesses. Thus increasingly flexible equipment is starting to have some interesting side effects. Small amounts of production are moving back from the cheap labour areas of China to the West, as the improved productivity enables hugely increased flexibility in production, shorter lead times and shorter runs. In some areas this has advantages over the long lead times required to manage the long supply chains and shipping costs of manufactured product, and shipping it half way around the world from Asia to the West.

On a completely different front, another interesting trend in the financial markets has been over the last few years the phenomenal growth in, so-called, Hedge Funds. This growth has been encouraged by regulation in the main financial centres that restrict the flexibility of a manager to manage money. The Hedge Fund today is in reality any fund that is unregulated. By contract the regulated funds are managed within the financial centre rules and while they are typically long only, do indulge in buying so-called structured products and indexes.

The distinction, apart from fees, between Hedge Funds and Long Only investment management is becoming rather like the distinction between hardwood and softwood. Many people think that this description describes the texture of the wood, while in fact softwood is a tree that has needles and cones, whereas a hardwood is a tree with leaves. Some hardwoods are very soft, and some softwoods are very hard!

Hedge Funds today control such vast amounts of money that they do affect not only the stock market but also the commodity markets. In the last few months, we have seen commodity prices falling, possibly having been too high, but the underlying shortages have not changed.

In the Stock Markets, the malaise seems to be due partly to the liquidation of stocks by pension funds where government and regulators have for some years now been confusing investment decisions, and Hedge Funds who are unconstrained by consideration of Capital Gains Tax or any regulation, and tend to follow each other in and out of the market.

I am optimistic that by the time we get to the end of the year there will be a point at which the market will have started to move higher and then suddenly there will be a rush to be invested, driving it up again possibly to above trend heights.

As a simple observation, it's worth noting that the PE ratio of the S&P 500 has not been down at its present levels since 1995, and before that 1990.

Hot off the Press, the British Government, in the form of Mr Blair, has just discovered that the country cannot survive without Nuclear Power. In the last ten years the Government has prevaricated and delayed critical decisions on keeping the country's power generation stable and has successfully disposed of most of Britain's nuclear expertise. This sudden enlightenment demonstrates the inability of the present Government to come to any serious strategic conclusion on any subject, let alone anything as basic as electricity generation.

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