

ANNEX BULLETIN

Annex Bulletin 2007-09

March 3, 2007

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SCOTTSDALE, Mar 3 - It is that time of the year again... the (T)ides of March; the time when rites of annual bloodletting in global stock markets are carried out (see the chart); the time when Julius Caesar also shed his blood and took his last breath 2051 years ago (see [NOTE](#)). As this week came to a close, the Dow Industrials experienced the biggest weekly percentage drop in four years (down 4.3%).



But there is one thing different this time around. For decades, people used to say that, "when New York sneezes, the rest of the world catches a cold." This year, however, the trigger for a massive global sell-off of equities was in China. It was Shanghai Stock Exchange's 9% drop on Tuesday that signaled to investors that "something is rotten in the state of Denmark" ([Shakespeare, "Hamlet"](#)) and elsewhere in global markets.



To us, however, the series of events that followed a relatively mild case of the "Shanghai flu" signaled the passing of an era and the beginning of the "[End of Western Dominance?](#)", as we first wondered 13 years ago (in 1994). New York is still the biggest financial capital of the world, but is evidently no longer the most important one ([click here to view a photo gallery](#) from this writer's visit to Shanghai last October, including this image on the right of the riverside sunset in the "Vertical City").

Shanghai Official: A "Normal Correction"

A sharp drop in Chinese stock markets this past week was a normal correction that wasn't driven by fundamental economic concerns, the head of Shanghai Stock Exchange said Saturday. Tuesday's 9% drop triggered a global sell-off in equities, commodities and oil on fears of slowing China's economy.

"I think the sharp drop was a normal correction by the stock market," Zhu Congjiu, general manager of the exchange, told Reuters.

On Monday, the Shanghai index hit a record high, passing the 3,000 point threshold for the first time and closing at 3,040. The Shanghai index closed Tuesday at 2,772 points, down 269 points.

The last six years of trading on the New York Stock Exchange (above chart) would also seem to bear out this assessment. Every year, we have at least one if not two major corrections. And most of them seem to happen in the first quarter. It's just instead of the Ides of March, the Shanghai correction can be attributed to the deflation following Chinese New Year exuberance. ☺

And just to show how integrated the global economy is becoming, even in New York, they remembered the Chinese New Year this year. Here's a photo this writer took of arguably the world's biggest billboard/ticker tape at Times Square on Feb 20 (click on thumbnail to enlarge).



The Shanghai Stock Exchange is the larger of mainland China's two exchanges, with market capitalization of 8.9 trillion yuan (\$1.149 trillion). On Monday, the Shanghai Stock Exchange index hit a record high, passing the 3,000 point threshold for the first time and closing at 3,040. The Shanghai index closed Tuesday at 2,772 points, down 269 points.

"Every year, every day the market goes up and down. I don't think that it was a question of fundamentals," the head of the Shanghai Stock Exchange added, speaking on Saturday.

Zhu's remarks were in line with comments by other Chinese officials. "It is totally natural for there to be ups and downs in the process of economic development, and especially in the stock market," deputy central bank governor Wu Xiaoling also said on Saturday.

Look Out for Tokyo More Than Shanghai?

Other financial experts and market analysts say we should be more fearful of what happens in Tokyo than in Shanghai. The Tokyo Stock Exchange is a much more closely related to the New York Stock Exchange, notes [Bill Barnhart in his Chicago Tribune column](#) (Mar 2).

The Nikkei 225 index of major Japanese stocks has been closely correlated to U.S. stock prices since 1998, said John Kosar, technical market analyst at Asbury Research.

"As the world becomes more flat, I expect the correlation to get tighter," Kosar said. As a result, there wasn't much to be gained for a U.S. stock market investor to diversify

[here\]](#)

[Hedging the Bets](#) (Analysis of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Perot) [\[Annex clients click here\]](#)

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[Fujitsu: Good Performance Gets Better, More Global](#) (Analysis of Fujitsu's first half FY2007 business results)

[IBM: A Slam Dunk Quarter](#) (Analysis of IBM third quarter business results)

[Accenture's Emphatic Year-end Accents](#) (Analysis of Accenture's fourth quarter results) [\[Annex clients click here\]](#)

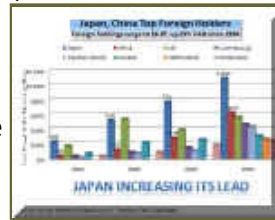
[IBM: Services in a Box](#) (Analysis of IBM Global Services' Ground-shifting Announcements)

into Japanese stocks, Barnhart concludes.

Last spring, for example, Japanese and U.S. stocks swooned, with the Nikkei peaking a month before U.S. stocks. The decline ended for both markets in mid-June, and both ended the year on an upswing. So Tokyo and New York trading floors seem to tango up and down the global dance floor in unison.

Sellout of America Continues

The preceding should not be surprising. Japan has a bigger share of the U.S. debt and equity markets than any other country in the world. And it is increasing its lead over the second largest owner of U.S. securities - China (see the chart). It is these investments that tie Tokyo and New York together like golden strings. And have been doing so for years.



We first pointed out that the tail may be wagging the dog three years ago (see ["Sellout of America,"](#) Oct 2004, and ["The Worst of Both Worlds,"](#) Mar 2005). And the tail is getting bigger and more powerful, too, as the sellout of America is continuing at accelerating, and perhaps even alarming rates.

Senator Hilary Clinton, a Democratic presidential candidate, certainly sounded alarmed when she railed on the Senate floor on Wednesday about the vulnerability of the U.S. government's globalist policies. Here's an excerpt:

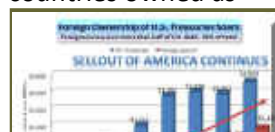
"Yesterday, the Dow Jones Industrial Average plummeted 416 points, the largest single drop since the markets reopened after the September 11 attacks. And while our markets were reeling, alarm bells were ringing once again over the irresponsible fiscal and economic policies of this Administration that continue to surrender the economic sovereignty of our country to foreign banks, investors, and governments piece by piece."

"...it is clear that what happened underscores the exposure of our economy to a combination of economic developments in countries like China and economic policies here at home. A scare in the Chinese stock market, based on rumors within that country, sent economic reverberations around the world."

"In terms of our fiscal stability, we are in uncharted waters. Markets, to a certain degree, will always be volatile, and to a great extent we are fortunate that our domestic markets are deep enough to absorb certain shocks. But there is no precedent in U.S. history for an economy as large as ours to be as heavily in debt to its trading partners as the United States is to countries like China, Japan, and others."

[\(click here\)](#) to read her full remarks, Feb 28, 2007)

We are indeed in uncharted waters. Never before have foreign countries owned as much of America as they do today. And the sellout is accelerating. According to the latest (Dec 29, 2006) statistics emanating from the U.S. Treasury, foreigners (mostly foreign



[Strong Comeback by IT Stocks in Third Quarter](#) (Analysis of top 20 IT companies' market and business trends)

[Stock Buybacks: A Fading Fad](#) (Dell, erstwhile "King of Fluff," suspends its stock buybacks)

[Cappgemini: Growth Continues](#) (Revenues, net profit up in double digits, margins also improve)

[HP Firing on All Cylinders](#) (Stock sets new multi-year record following excellent third fiscal quarter results) [[Annex clients click here](#)]

[Power of Manpower](#) (While others move to India, Russia... AMD invests in New York, hailing "phenomenal" quality of its labor force)

[Ebb Tide Lowers Most Boats](#) (Analysis of EDS' and CSC's latest quarterly results)

[IBM Stock Grossly Undervalued?](#) (Analysis of stock market valuations of IBM and its major competitors) [[adds latest Fujitsu, Cappgemini results](#)]

[IBM vs. HP: A Tale of Two Blues](#) (Both companies are doing well in business, but only HP is favored by Wall Street; Big Blue trying to change that now with its new "India Opus") [[Annex clients click here](#)]

[Go East, Young Man!](#) (A speech delivered in St. Petersburg, Russia, May 25, 2006; [click here for slides](#))

[IBM 5-Yr Forecast: Steady As She Goes](#) (Emphasis on quality continued) [[Annex clients click here](#)]

governments) now own more than half of the U.S. Treasuries. That's up from 46% only two years earlier; more than a six-fold increase since 1994, when foreign holdings amounted to only 9% of the total (see the chart).

Funding Our Own Demise

Why is this happening? Because it means good business for multinational bankers. Here's what we said about it back in 2004:

No wonder China (read its foreign multinationals operating in that country) can afford to fund the U.S. trade deficits. To keep this Ponzi scheme going, China has to keep investing its money back into the U.S. debt instruments. It's both a symbiotic and an incestuous relationship. The U.S.-based multinationals set up subsidiaries in China to make things for us - cheaper. In turn, they invest their savings back in the U.S. public debt, earning interest off the U.S. taxpayers.

The reason for it is simple. It is in our trading partners' best interests to stem the slide in the value of the U.S. dollar that the huge public debt is causing. A lower U.S. dollar makes foreign-made goods more expensive at home, thus reducing consumer demand. Investing in U.S. Treasury notes is a way of propping up the weak dollar.

(An excerpt from "[Sellout of America](#)," Oct 2004)

In other words, the more money we invest in China, Japan and other foreign countries, the more capital they will have to plow back into the U.S. treasuries and other securities. And the less autonomy and control America will have over its own financial resources. That is the price of globalization as this new trends washes ashore at home.

America's diminishing sovereignty seems to be the price successive Washington administrations have been prepared to pay (yes, also Hilary Clinton husband's one, not just the current one) in order to stay in power. And staying in power by pleasing the globalist financial tycoons, rather than serving America's interests, is what politics is all about.

If Hilary Clinton continues to oppose globalism and the sacrosanct "free trade," as her Senate remarks hinted, she may find herself following Dick Gephardt into oblivion. Gephardt is the former Democratic Speaker of the House, also an erstwhile 2004 presidential candidate, who took on the big business on behalf of his electorate. He lost, both his presidential bid and his House seat.

American politicians who fight globalism usually do it at their own peril. That's how powerful the interests behind this trend are. Notice how there has not been a peep from Barack Obama, for example, another leading Democratic candidate, on this subject? Obama seems to be sticking mostly to domestic issues and the war on Iraq.

Summary

Meanwhile, chart on the right shows how the sellout of America is being carried out. It mostly happens through deals between governments and big

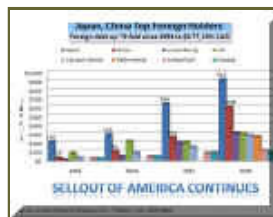
[Octathlon 2006: Accenture Again Wins "Gold!" \(HP gets "Silver," IBM "bronze"\)](#)
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banking institutions. These two sectors (government and financial) account for 64% of the staggering \$6.8 trillion of U.S. securities that foreigners own.

And their ownership is rather concentrated. The top 10 industries account for 77% of the total. And the process is accelerating. Foreign ownership of America is up 51% from just two years ago.

It is because of such intertwining interests between the foreign owners and the domestic markets that nowadays New York can catch a cold when Shanghai sneezes.



Is that good for America? Hm... let me think. No. Is catching any cold good for anyone? And we seem to be especially vulnerable to these stock market viruses during the Ides of March.

Maybe you can tuck that thought into your investment playbook for next year's first quarter. For, the 2007 strain of the "Shanghai flu" has already struck.

[Click here](#) for detailed global investment tables (Annex clients only)

Happy bargain hunting!

Bob Djurdjevic

U.S. Treasury Secretary Rejects Hilary Clinton's Charges of U.S. Vulnerability

SCOTTSDALE, Mar 4 - Treasury Secretary Henry Paulson said today foreign holdings of U.S. government debt pose no threat to the economy, countering comments made by Senator Hillary Clinton last week.

"It's a positive that foreign investors want to own our Treasuries," Paulson said in an interview with ABC News today. "Interest rates are lower -- it's helping our economic growth in this country."

Clinton wrote a letter last week to Paulson and to Federal Reserve Chairman Ben Bernanke saying the amount of U.S. debt held by investors abroad was a "source of vulnerability" for the economy. "We can too easily be held hostage to the economic decisions being made in Beijing, Shanghai and Tokyo," she wrote.

Representative Charles Rangel, a New York Democrat who chairs the House Ways and Means Committee, told Bloomberg Newswire today that, "the (stock market) slide shows that we are vulnerable."

Both Paulson and Bernanke have repeatedly told lawmakers in hearings this year that foreign holdings of Treasuries are a statement of confidence in the American economy. Paulson, the former head of Goldman Sachs, said that the \$1 trillion of U.S. debt held by China and Japan amounts to just two days of trading in Treasuries.

Bernanke said in a hearing at the House Budget Committee Feb. 28 that it wasn't in the interest of foreigners to dump their Treasuries. A sell-off "would be disruptive in the debt markets in the short run. It would cause, for example, an increase in interest rates."

Speaking before departing on his trip to Japan, South Korea China, Paulson said that while the U.S. should continue to pressure China, the country should resist protectionism. "Being open to trade and foreign investment has been one of the pillars -- and competition that's made this economy great."

In his Bloomberg interview today, Rangel disagreed. He warned that patience was running thin on Capitol Hill with China. "Congress, Democrats and Republicans are going to start to get tough with China." He said that China needed to move more quickly to improve mechanisms to protect intellectual property.

Is Foreign Ownership Good for America?

So is soaring foreign ownership good for America? Paulson and Bernanke evidently think so. Others, like Clinton and Rangel, disagree. Both sets of opposing opinions are right. How can that be? Because they are talking about different Americas.



Paulson's and Bernanke's America consists of Wall Street and Washington elites. It is an America ruled by the Almighty Dollar (or Yen or Yuan - see "[The Nothing Philosophy](#)," Washington Times, Dec 1996). As we put it in a column published in Australia in July 2000...

"Their creed is, **"I believe in nothing!"** Their crest: **The Almighty Dollar.** Their object of worship: **The Golden Calf.** Their holy shrine: **Wall Street.** Their holy water: **Coca-Cola.** Their disciples: **Washington politicians.**"

"In their world, everything is for sale. Nothing is sacred. Faceless uniformity and blind loyalty are the norm, as in communist dictatorships..."

(An excerpt from "[New Crusades](#)," New Dawn [Australia], July 2000)

Clinton and Rangel, on the other hand, and other populist politicians, are talking about Main Street Americans that come in all shapes and colors...

"...By contrast, people who "believe in something;" who are proud of their uniqueness; who adhere to a strict moral code... - people like that are the enemies of the New World Order. They are the cogs in the Princes' wheels."

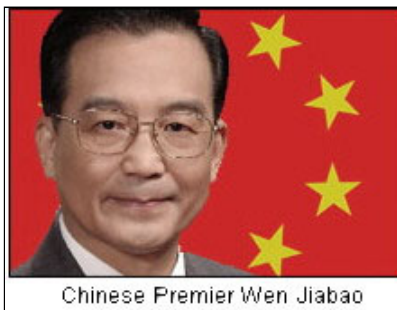
(An excerpt from "[New Crusades](#)," New Dawn (Australia), July 2000)

And it is the Main Street Americans who ultimately pay the price of globalism, both in treasure and in blood. Treasure - through taxation without (real) representation; blood - when they are sent to die in foreign countries defending the interests of America's elites (also see "[Wall Street's Financial Terrorism](#)," Chronicles, Mar 1998;

So let's try once again, is foreign ownership good for America? Definitely, for Wall Street; maybe not so much for Main Street.

Just today (Mar 4), for example, the Chinese premier Wen Jiabao announced that his country was increasing its military budget by 18%.

Is that good for America? Well, America's "death merchants" are probably wringing their hands in glee. Main Street folks, on the other hand, may recall the time when we similarly armed the Shah of Iran, Saddam Hussein of Iraq, Manuel Noriega of Panama... only to have to send our troops years later to retrieve Wall Street's money.



Chinese Premier Wen Jiabao



With one big difference. China is no Panama nor Iraq. It is a country that invented gunpowder, but only used it for self-defense. And it built the world's most famous wall - centuries before Wall Street. The only thing that the world's most populous country has been lacking in order to achieve a dominant role in the world is money. And in the last 17 years, Wall Street and Washington have given it that (see ["Globalization Accelerates,"](#) Dec 2006 and ["China: Real Cold War Winner,"](#) Mar 2002).

Some experts have opined that the 20th was an American Century. Others now believe that the 21st may be a Chinese Century. Is that good for America?

***NOTE:** The Ides of March? What are they?

Everybody who's been touched by classical education also knows about the "beware the Ides of March"-warning that Julius Caesar had reportedly received (the Ides can fall either on the 13th or the 15th of the month, according to the [Roman calendar](#)). The word the Roman emperor got was that betrayal was brewing in the Senate.

Despite the warning, Julius' "secret service agents" were asleep at the switch 2051 years ago on 3/15, as ours were on 9/11. Brutus, Cassius and other Senate coup plotters stabbed Julius Caesar to death at the foot of the Pompey statue in the Pompey theater in the temple of Venus, where the Senate happened to be meeting that day. "Et tu, Brutus," ("You, too, Brutus") were Caesar's last words.

What followed was civil war in which Octavian (later Caesar Augustus) and Mark Antony teamed up against the assassins, and chased them all the way to Greece. (Any similarities with our Caesar's "war on terrorism" and his pursuit of Osama bin Laden and Saddam Hussein is, we are sure, "coincidental."). ☺

As befits the protagonists of a Greek tragedy, Cassius and Brutus eventually committed suicide rather than face defeat and capture.

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