FRIEDBERG'S
COMMODITY & CURRENCY COMMENTS

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The Fed's dilemma

Given the uncertainty about the future course of the economy, we continue our coverage of that topic. Let's first consider the real side of the economy. To do this, we again focus on our supply-side spread model. Before doing so, however, it is important to stress that spreads, which measure the difference between the value of outputs from certain manufacturing processes and the cost of a significant input into those processes tell us a great deal about economic incentives and the future course of production. Specifically, changes in spreads indicate whether it is profitable to increase or reduce production.

In the context of the business cycle, input costs tend to rise faster than product prices and productivity in the late stages of an expansion. Hence, supply-side spreads and profit expectations become squeezed down. Accordingly, new investment commitments slow; income receipts and consumption expenditures weaken; inventories accumulate; production cuts occur; and pessimistic expectations spread and are confirmed as output and employment turn down. In the contraction phase that follows, spreads first deteriorate and then improve. Hence, excess stocks are gradually liquidated and orders, sales, output, and investment eventually revive.

At present, the supply-side spreads continue to give off caution lights. Although the first-quarter data won't be available for several more weeks, we have made some conservative estimates of the first-quarter supply-side spreads (see Chart 1). These estimates give a somewhat mixed picture. On the one hand, the economy-wide spread is estimated to fall and perhaps become negative. This signals a continued slowdown in the non-farm business sector. On the other hand, the estimated spread for manufacturing is holding its own or declining modestly. However, even the lowest estimate for manufacturing represents a healthy spread.

Perhaps the differences in the behavior of the economy-wide and manufacturing spreads explain why we have been showered over the past weeks with economic reports indicating economic weakness, while during the same period, a report was released indicating that business plans to increase its spending on plant and equipment by 6.2% in 1989. Although this planned growth for 1989 is less than the 10.1% figure for 1988, it is still quite respectable.

Spreads not the whole story

Supply-side spreads don't tell the entire story, however. Spreads must be combined with monetary elements. The rising trend in inflation that has been observed over the past year is, in large part, a result of the exceptionally loose monetary policies of 1985-86. Recall, that was when the Fed was trying to engineer a "cheap dollar." Since March 1988, however, the Fed has adopted a neo-Wicksellian view and followed a tight monetary policy (see: *FC&CC* March 19, 1989).

The effect of changes in monetary policy on output and employment is quicker than on prices. This results because contracts and inflationary expectations do not change as rapidly as do output and employment. In consequence, since we have already had about 10 months of sufficient tightness, we anticipate that the real economy (as reflected in the supply-side spreads) will continue to slow. However, this economic slowdown won't be reflected in a reduction in the rate of inflation until a bit later. Indeed, for the near-term (the next two quarters), we anticipate additional price increases, with input prices rising more rapidly than output prices.

The Fed's dilemma

At this time, therefore, the Fed is in a very difficult position. The real economy is slowing and prices are increasing. The Fed faces a dilemma. If it tightens further to attack inflation, it risks a recession. However, If it loosens to counter economic sluggishness, it risks an increase in inflation expec-

In this issue

In Energy Futures, the future in now, and the bull move is nearing an end. Inflation is still on the rise, so we maintain our Eurodollar puts. The stock market is beginning to trade as a takeover target... and it's deceptively sluggish. Also, currencies, gold, silver, platinum, high-yield convertible bonds, and forex rates and update. Contributions by Albert D. Friedberg, Dr. Steve H. Hanke, Daniel A. Gordon, Michael D. Hart and Brian Baker.

tations. Faced with such a dilemma and given the fact that the Fed seems to favor neo-Wicksellian stance (one that puts considerable weight on gearing monetary policy to price changes), odds favor the Fed's remaining with a status quo, tight policy until one of the following occurs: if the economy clearly appears to be headed for a recession, rather than a slowdown, or if prices stop rising, then the Fed's dilemma will be resolved and it will loosen monetary policy.

Implications: Although the real economy is slowing, we still don't anticipate a recession. Moreover, we anticipate that in the near-term, prices will continue to rise. Faced with this situation, the Fed will, in all likelihood remain in a holding pattern. This result will obtain because it is difficult for the Fed to change course when faced with a policy dilemma. In addition, with a neo-Wicksellian stance, the Fed will weigh movements in prices more heavily than changes in the real economy. However, we should emphasis that if the economy starts to slide into a recession or if prices stop rising, the Fed will switch gears and loosen the reigns on monetary policy.

– Dr. Steve H. Hanke

Chart 1
Supply-Side Spreads (Rates of Change)

Period	Economy-Wide	Manufacturing
85 1	1.8%	6.9%
2	1.4	9.5
3	2.7	7.5
4	2.0	7.9
86 1	4.7%	7.3%
2	3.5	3.7
3	2.0	3.7
4	3.1	3.4
87 1	0.0%	5.7%
2	1.8	8.5
3	4.1	9.7
4	3.8	9.6
88 1	4.8%	7.9%
2	2.1	6.5
3	1.1	7.0
4	1.0	6.7
89 1 (Estimates)	0.4% −0.4	7.0% 6.4

Notes 1) Rates of Change are calculated on a year-over-year basis.
2) Supply-side spreads (=) percent change in productivity (+) percent change in prices (-) percent change in unit labor costs.

ENERGY FUTURES

The future is now

The economic production rate for oil is determined by the following equation: $P = MC + V$, where P is the market price of a barrel of oil; M C is the marginal recovery cost of a barrel of oil; and V is the present discounted value of a barrel of reserves. What we have, then, is revenues on the left-hand side of the equation and costs on the right-hand side, where costs include the costs of recovering the oil and also the opportunity costs of using oil reserves today rather than saving them for future production.

Two features of the production equation are noteworthy. First, to maximize profits, a producer should set production so that at the margin, revenues are equal to costs. If price exceeds costs, it pays to increase output until a balance between revenues and costs is achieved. If price is less than costs, it pays to reduce output until a revenue-cost balance is achieved.

For some time, we have argued that price of crude oil is well above its cost, and that inframarginal producers (for example, all the members of Opec) have an incentive to increase production. In consequence, we have concluded that crude oil is in a long-run bear market, which will continue until price is pushed down to the point where it is roughly in balance with cost. (For a detailed discussion of our analytics and data that support our conclusions, see *FC&CC* February, March, and April 1987.)

The second feature of the production equation that merits mention, particularly at the present time, concerns the opportunity costs using oil reserves today rather than in the future (V in the production equation). With the inclusion of this feature in the production equation, we are saying, in effect, that the future is now. In other words, the expectations about the future value of reserves are incorporated into production decisions today. For example, if the future price of oil is expected to fall, the value of V in the production equation will fall. In consequence, the costs of producing oil today will fall, and there will be a larger incentive to produce today rather than waiting to produce in the future.

Our oil production model allows us to analyze distant events that might influence the future value of oil reserves, and to determine how these distant events will influence today's oil markets. The big news in the energy field is the prospect that scientists might have found the Holy Grail of energy. The claim coming from a laboratory at the University of Utah is that the world's first controlled energy-yielding nuclear-fusion reaction has been achieved.

The assertion is that a rather humble palladium-platinum-heavy water apparatus, fueled with a form of hydrogen, has generated four times more energy than it consumed. Although claims made about the laboratory results have been met with a good bit of skepticism, it should be noted that if valid, this process could eventually be used to produce a virtually limitless source of cheap, clean power.

If expectations begin to favor the potential fusion breakthrough, even though it might take many years to develop, the value of V in the production equation will fall. This means that the costs of producing oil today will be reduced and producers will have an even greater incentive to increase present production. Hence, we would anticipate more current output and lower prices.

– Dr. Steve H. Hanke

Bull move will end suddenly

Opec's production — or rather overproduction — has become a non-event in the present euphoric climate. Nevertheless, there are a number of potentially very bearish developments on the horizon.

For one thing, last year's overproduction of as much as 300 million barrels has as yet not hit home. Even granting that *some* of the overproduction was taken up by a sudden increase in demand (equal to about 1 million barrels per day), the rest of the oil must still be afloat, possibly in the hands of strong oil speculators, enjoying the rising market.

Secondly, North Sea mishaps, accounting for output reductions of as much as 600,000 barrels per day (b/d), are slowly being resolved; by June, North Sea output should be back at full speed.

Thirdly, rising prices are likely to lull Opec into being a bit more accommodative in allocating quotas. As an example, Kuwait has been posturing for higher quotas and has made the point quite clear by already overproducing 350,000 b/d. More threateningly, war-torn Iran has been relatively successful in rebuilding capacity and is now producing 3.5 million b/d, well above its quota of 2.64 million b/d.

Some of this production is moving into storage, diminishing, at least temporarily, the impact on Opec's total production, where only export sales are counted. Sooner or later, Iran will unload its stored oil (falling prices act as wonderful incentives) and will proceed to obtain, *de facto*, a meaningfully higher quota.

In all, Opec's present overproduction threatens to become worse over the coming weeks — while the market has as yet to feel the impact of the last eight months of overproduction. And, of course, in the background still lurks the ominous possibility that the "future is now" (see Dr. Hanke's article, "The future is now").

Tightness of gasoline supplies — a function of diminished refining capacity, not crude oil shortages — were aggravated by the Alaska oil spill. As West Coast gasoline jumped to over $1/gallon, the nightly TV broadcasts gave prominent space to the "news" of another oil shortage. This mistaken perception has provided additional fuel to the energy complex bull move and has lifted gasoline futures 60% over the past 120 days, compared with the 44% rise in WTI crude oil futures.

The four-month-old bull move is nearing an end. The reversal is likely to be sudden and rapid, as low prices will force long holders out of their gigantic hoards.

STRATEGY: *As indicated in the Hotline (April 6), we purchased August crude oil puts, $18 strikes, at under $1/barrel and sold June '89 futures with stops at 2050, good anytime.*

Chart 2

NY UNLEADED GAS JUN '89

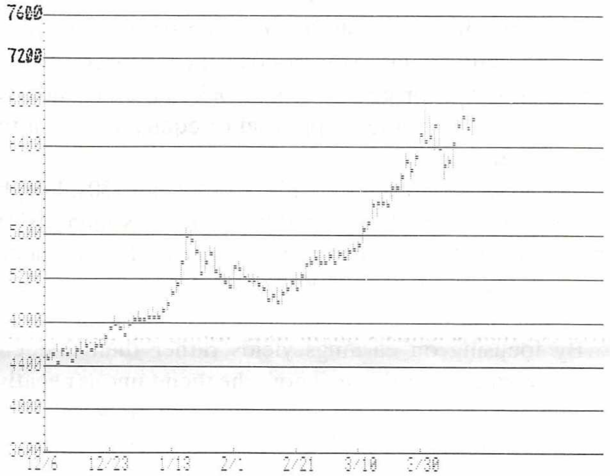
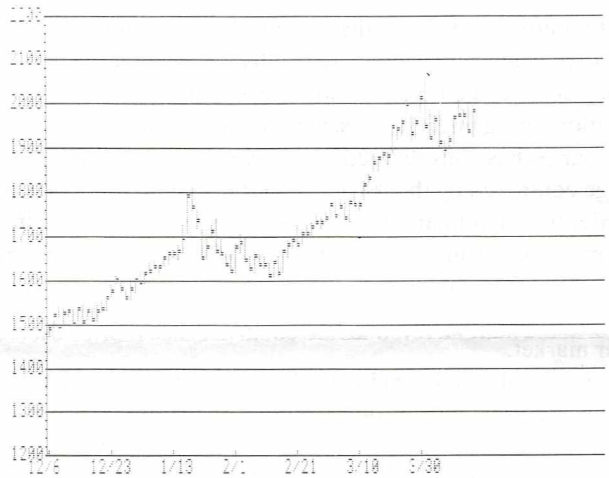


Chart 3

NYME CRUDE LIGHT JUN '89



EURODOLLAR FUTURES

Inflation on the rise . . . still

A number of statistics confirming that the US economy had slowed down considerably in February and March caused LIBOR rates to ease from their recent highs. In the cash markets, three-month Eurodollars, which had peaked at 10-1/2%, fell by last Friday to 10-3/16%, a net drop of 35 basis points, hardly a ripple in the long 350 basis-point advance since last year.

The futures markets, however, which had contained a strong element of *anticipation*, reversed more than 100 basis points. Chart 4 shows how June '89 Eurodollars traded at a significant discount to cash before the most recent rally. By Friday, this discount had been all but erased, leaving the market far more vulnerable to "bad" news, namely more inflation and signs of an economic recovery.

While neither of these, of course, is guaranteed, it is almost certain that the pace of US inflation has accelerated (see Chart 6), and it *may still be some time before we see it decelerate*. In our opinion, the low US dollar is acting as an inflationary engine; short of a substantial *revaluation*, the pace of inflation will continue to rise towards double-digit numbers.

STRATEGY: *Maintain long positions in June '89 and September '89 Eurodollar puts. Add via purchases of slightly out-of-the-money December '89 puts.*

Chart 4 – 3-MONTH EURODOLLAR DEPOSIT RATES – JUN 89 IMM EURODOLLAR

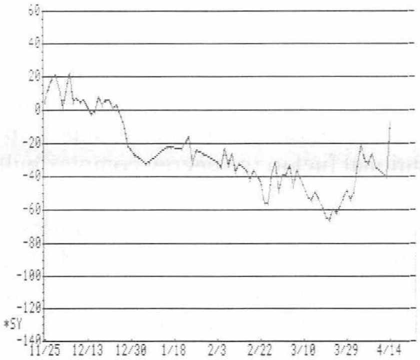


Chart 5
EURODOLLAR RATES – 3-MONTH

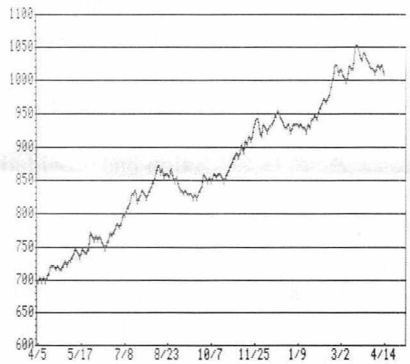
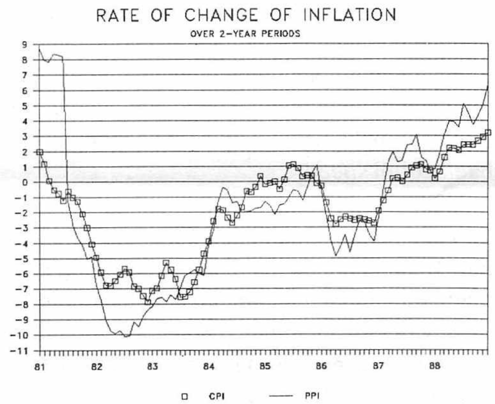


Chart 6



STOCK INDEX FUTURES

The market as takeover target

Last month we admitted that the market had climbed a wall of worry, usually associated with bull markets. For the past 75 days, despite all kinds of adverse economic news (rising inflation, rising interest rates, massive S&L withdrawals, etc.), the market has consolidated its post-Crash recovery in a wide range contained by the 300 level on the S&P 500 Index. This barrier was significant in that it represented a full two-thirds retreat of the August to November '87 bear move. Technically, the implication was that a move *above* this barrier would almost certainly lead to a complete retracement of the bear market.

Friday, the S&P 500 Index closed at 301.36 (see Chart 7), an upside breakout, in our opinion, of major significance. This milestone was greeted on Wall Street with a yawn, perhaps because the much more widely followed Dow Jones Industrial Index (see Chart 8) did not achieve the same distinction of achieving a new recovery high.

Interestingly, the broad-based Value Line Index, which since 1983 has been lagging the more blue-chip S&P 500, has also broken out rather conclusively (Chart 9), indicating that the path of least resistance is upwards.

Logically, 9% long-term yields should put a lid on price-earnings ratios of 11 (equities should get credit for growth but debit for risk), especially when the denominator, earnings, is at or close to the top of the economic cycle.

It appears, however, that a shift has taken place in the valuation of "earnings": It may very well be that investors are beginning to focus on cash flow or even pre-tax cash flow, using arithmetic similar to that used by the takeover artists. If this perception is correct, then the stock market is undergoing the second dramatic reappraisal of equity values in the post-war era.

The first reappraisal took place in the late '50s. For the better part of the century, it had been an investment axiom that stocks were "dear" when their *dividends* fell below money market yields. By the late '50s, stocks were being touted as inflation hedges and therefore deserving of lower yields.

By focusing on earnings yields rather than dividend yields, investors were able to ignore the then-famous negative dividend gap. In the run-up to the final bull market peak of 1966, stock prices doubled despite a considerable gap in yields in favor of bonds.

Rising bond yields put an end to the 1961-66 bull market, because they had become competitive with *earnings yields*. This took place, once again, in early 1973, when new highs in bond yields put a ceiling on stock prices, because their yields had become competitive with earnings yields.

The run-up to the August 1987 top should have proved, in retrospect, that bond yields were no longer competing with earnings yields but rather with pre-tax cash flow yields. Without a good estimate of this number, at this time, we are unable to estimate a ceiling to stock prices. What does seem clear is that present *government* bond yields offer little or no competition to stock prices, if valued on the basis of pre-tax cash flows. Of course, LBOs are not financed at government yields. Therefore, the relevant comparison is between junk bond yields (now averaging 14½% to 16% for new issues) and pre-tax cash flow yields. We suspect that the net result, however, is still slightly positive.

In conclusion, it appears that the general market is beginning to trade as a takeover target, being valued on the basis of pre-tax cash flows and compared with (junk) financing costs. The gigantic arbitrage that has developed to remove the "excess value" is the driving force behind this deceptively sluggish market.

STRATEGY: *Reverse course. Cover June '89 S&P short positions at market, liquidate June 270 puts at market, and go long, placing initial stops at 290.00, basis June '89 S&P, close only. Alternatively, buy June 310 calls at present levels.*

Chart 7
CME S&P 500 INDEX

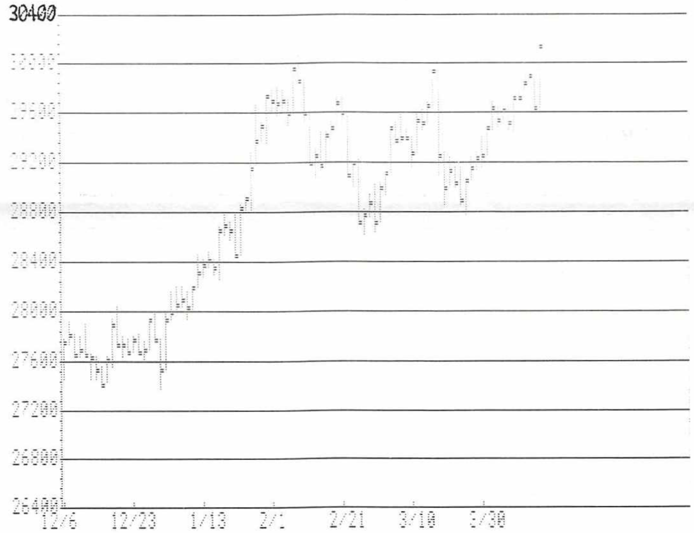


Chart 8
DOW JONES INDEX

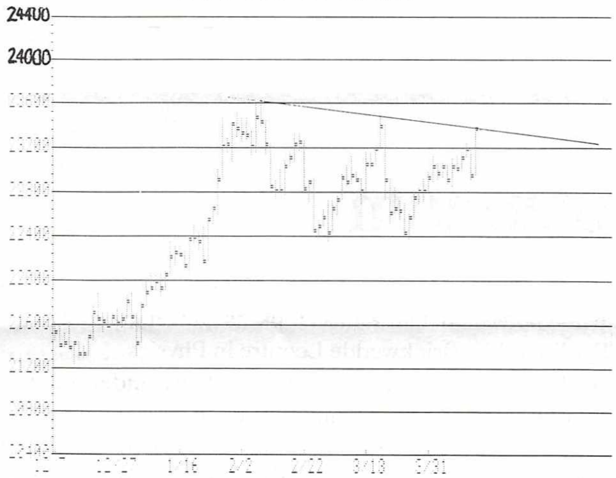
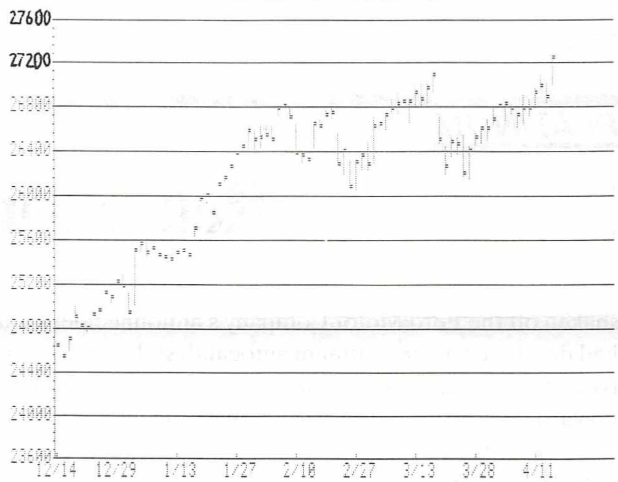


Chart 9
KBT VALUE LINE JUN '89



CURRENCIES

Short the low-yield currencies

Inflation rate differentials continue to underpin the US dollar, despite lack of progress in reducing, at least in nominal terms, the trade deficit. This problem does not concern us. We have repeatedly observed in the past that: a) the US dollar is already so undervalued, in *real terms,* that it is not likely to fall any lower nor would it help even if it did; b) US domestic demand holds the key to a real improvement of the trade deficit; and c) a trade deficit of approximately $10 to $11 billion per month is in effect a falling relative deficit.

Exchange rates continue to converge towards a narrow range in line with the Louvre and subsequent accords. This means that capital will be best rewarded in the high-yield currencies (US, Denmark, UK (?), and Canada) and least rewarded in the low-yield currencies (Japan, Switzerland, Netherlands). It is thus not surprising to see the relative weakness of the Swiss franc (see Chart 10) and the Japanese yen (see Chart 11).

Futures traders can still benefit from this low-volatility scenario by being long the high-yielding currencies such as the US and Canadian dollars, mindful, of course, that severe economic weakness in these countries will bring about an end to their advantage.

STRATEGY: *We are short currencies, particularly the Japanese yen (see Hotline April 7), hoping to,* at the very least, *capture the forward discount (on the IMM, this "gravy" translates into 100 points, or $2,500 every three months, per contract).*

Stops are currently at 77.75, 62.75, and 55.00, basis the June contracts of yen, Swiss francs, and DM, respectively, close only. If stopped out, we would like to re-enter market at 79.30, basis June '89 yen, and 63.80, basis June '89 Swiss franc.

Chart 10
DEUTSCHEMARK/SWISS FRANC JUN '89

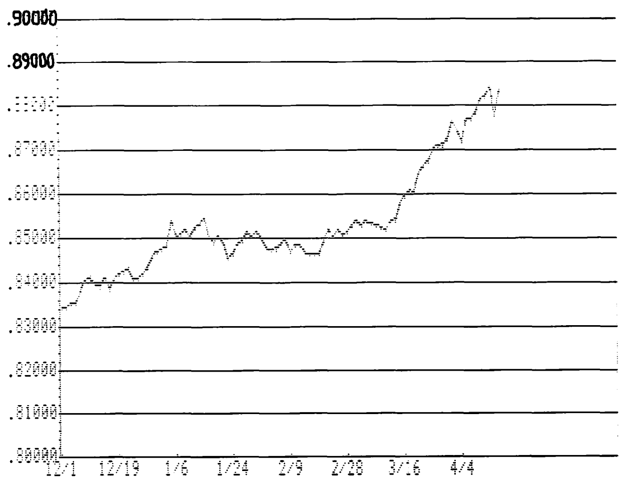
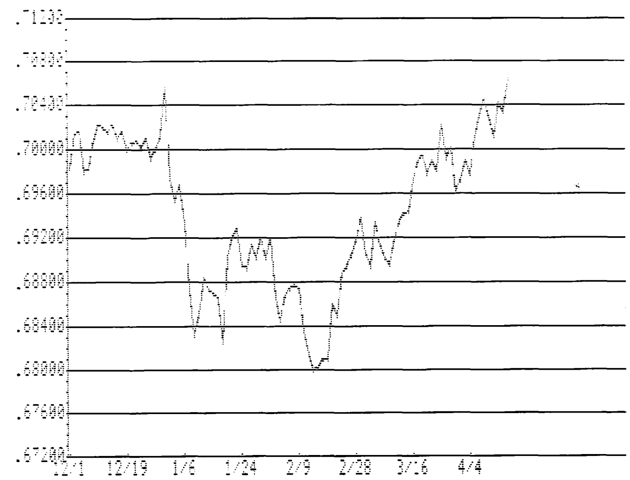


Chart 11
DEUTSCHEMARK/YEN JUN '89



PLATINUM

Reflections on platinum

In February, we observed that platinum had seemed to have shaken off the Ford Motor Company's announcement that it had developed a non-platinum autocatalyst. Indeed, our analytics showed that platinum was ready for a significant move upward. However, until April 13, 1989, the action had been somewhat disappointing. It now appears that this market will continue to move upward.

On the demand side of the market, there are some constructive developments that merit mention.

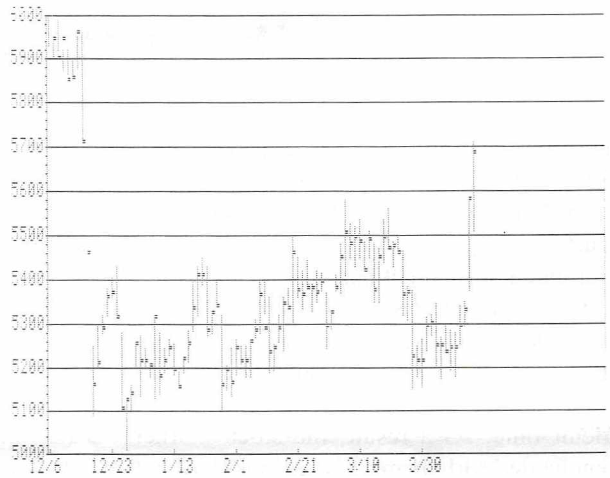
- The potential fusion breakthrough has moved the palladium market to its highest level since 1980. Almost forgotten is the fact that the process used in the early experiments has also used platinum. Although some don't think that the fusion work will ever bear fruit, it will increase the demand for platinum, even if the process is never commercialized. This new demand will result from the fact that everybody and his brother will begin to work on fusion in the laboratories. This interesting point was brought to our attention by Dr. Melvin Schwartz (1988 Nobel Laureate in Physics) when he visited The Johns Hopkins University to deliver the Ferdinand G. Brickwedde Lecture in Physics.
- The Europeans, as we anticipated, are under increasing pressure from the environmentalists. In consequence, the European Parliament has recommended that the schedule for requiring air pollution control devices on autos be moved forward. This will increase Europe's demand for platinum earlier than had been anticipated.
- The Japanese have lowered their tax rates for luxury items, such as platinum jewelry, to 3% from 15%. In anticipation of this reduction, demand before the April 1989 change had been sluggish, because customers were deferring purchases until taxes were reduced. Now that tax rates are down, we anticipate a pick-up in platinum jewelry sales in Japan, and jewelry amounts to about 55% of Japan's total platinum demand.

On the supply side of the market, the most noteworthy development is the dramatic decline in New York stocks that has occurred during the past month. Stocks have fallen from 246,750 ounces in mid-March to the relatively low level of 131,200 ounces, a 47% decline. After some inquiries to knowledgeable sources, we have been unable to explain this drawdown in stocks. We find it curious, particularly in light of the fact that the market (via commodity interest rates) is not indicating a severe physical scarcity at this time.

STRATEGY: *Remain long; raise stops on July '89 to 528.00, close only.*

– Dr. Steve H. Hanke

Chart 16
NYME PLATINUM JLY '89



GOLD/SILVER

Retain profitable spreads

STRATEGY: *Retain long 5 December '89 silver/short 4 December '89 gold spreads (Chart 17). Also retain the highly profitable 2 CRB/short 7 gold spread (Chart 18).*

Chart 17
GOLD/SILVER DEC '89

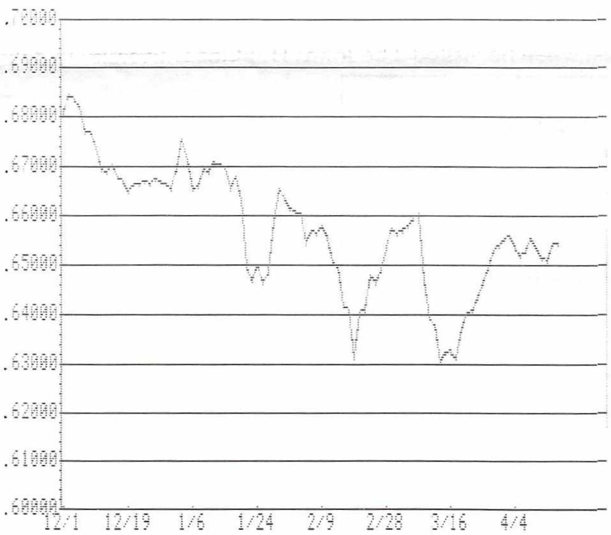
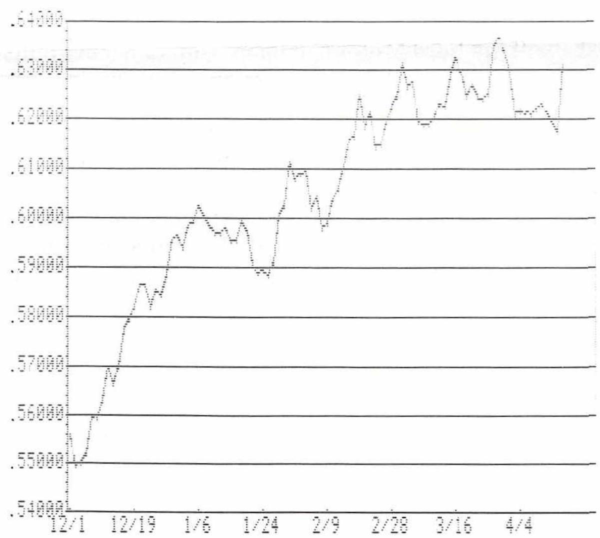


Chart 18
CRB/GOLD



FRIEDBERG CAPITAL MARKETS

High yields in convertibles

Convertible bonds are fixed, high-yielding convertible income securities and can be exchanged for the issuing company's common stock at a specified price. They were conceived to provide the investor with the best of both worlds: a means of participating in the stock market along with the safety and larger income stream of bonds.

Our approach to selecting convertibles is rather simple. First, we look for high yields *outside of the junk bond market.* Rather, we concentrate on companies that at one time were glamorous and solvent and have recently gone through a very difficult time. As a result, the stock market has become disenchanted with them and the stocks have fallen to historic lows.

Next, we determine if these bonds trade close to their *investment value* (the price at which the issue would trade if it were not convertible) so as to *minimize our downside.* In effect, we buy a straight bond with a *free call option*, many times running as much as 10 to 14 years.

Of course, we must carefully gauge the company's ability to service debt uninterruptedly. To this effect, we examine the most recent three years' debt service *coverage ratio*, i.e., pre-tax earnings plus non-cash charges such as depreciation and amortization plus interest expense divided by interest expense. Our minimum criterion for purchasing these high-yielding "fallen angels" bonds is an average coverage ratio of 2.5:1.

Below are a few terms that investors should be familiar with in considering convertible bonds:

- **Conversion ratio** is the number of shares received upon conversion. For example, if the conversion price were $50 per share, 20 shares would be received in exchange for a $1,000 debenture, and the conversion ratio would be *20.*
- **Conversion value** is the amount received in the event that the bonds were converted into stock "today." For example, if the conversion ratio were 20 and the stock's current price $40, the convertible's conversion value would work out to 20 times 40, or $800, which in bond market parlance is a price of 80.
- **Conversion premium** is the percentage by which the convertible's price exceeds its conversion value. If the price of the convertible debenture in the example were 96 ($960 per $1,000 bond), its conversion premium would be 20% (960 - 800/800 = 160/800 = 20%). The higher a convertible's premium, the more it tends to act like a bond. The lower its premium, the more it performs like a stock. Convertibles almost always trade at a conversion premium. In a sense the premium is the price an investor pays for the security's higher yield and reduced downside risk *vis à vis* the common. The fact that the convertibles rank higher than the common in the company's capital structure also contributes to the premium.
- **Investment value** is an estimate of the price at which the issue would trade if it were *not* convertible. A downside risk of holding a convertible bond, aside from interest-rate risk, which affects straight fixed-rate bonds as well as convertibles, is that the underlying stock price falls to a level that the exercise of the conversion privilege becomes an unlikely possibility. In this case, the convertible would lose its "premium" and decline to a price that yields a return similar to "straight" (without the conversion feature) bonds with similar ratings and maturities. This price is referred to as the "investment value" of the bond.

Recommended bond portfolio allocation:

New Zealand dollar bonds:	10%
US dollar floating-rate notes:	85%
US dollar high-yield convertible bonds:	5%

Friedberg Capital Markets is currently offering the following convertible bonds:

Pacific Scientific

Coupon: 7¾% convertible, due 15/06/03
Yield to maturity: 13.23%
Price: (subject to change) 67 1/4
Traded: US over-the-counter market and listed on the NYSE.
Conversion terms: 26.32 shares per $1,000 bond or convertible at $38 per share. Recent stock price $13 1/8.

Pacific Scientific's core business is to design, manufacture, and market technology-based proprietary products for niche markets. The markets served are primarily aerospace, general industrial, and electrical utilities.

Net earnings have been erratic:

(000's)	1988	1987	1986
	4093 (loss)	4447	2840

However, cash flow available to support debt service has been adequate:

	1988	1987	1986
Net income before income tax	6,204 (loss)	6,638	3,608
Add back:			
Interest expense	4,676	3,332	2,318
Depreciation and amortization	7,819	6,557	4,725
Restructuring writedowns	1,919	—	—
Accrued litigation expense	3,500	—	—
Total	11,710	16,527	10,723
Debt service	4,676	3,332	2,318
Excess	7,034	13,195	8,405
Coverage ratio	2.5:1	4.96:1	4.63:1

Other relevant statistics (Fiscal 1988)

Net sales	$180,886,000
Current assets	$98,525,000
Current liabilities	$66,733,000
Long-term debt	$22,183,000
Book value per share	$10.12
Earnings per share	0.74 cents (loss)
Long-term debt/total capitalization	28%
Debt-equity	0.40:1
Bonds outstanding	$21,651,000 (issue size — $30,000,000)
Investment value	60 (source: Value Line)
Rating:	BA3 (Moody's)

Fixed charges coverage is far superior to popular junk bonds.

As can be seen, the risk at these price levels (67 1/4) is relatively small when compared with investment value, while providing an attractive 13.23% return, thus paying very little for a 14-year call option.

Sunrise Medical Inc.

Coupon: 7.25% convertible due 26/06/96
Yield to maturity: 18.61%
Price: (subject to change) 56 3/4
Traded: US over-the-counter market (listed on NASDAQ).
Conversion terms: 56.738 shares per $1,000 bond or convertible at $17.625 per share. Recent stock price $3 5/8.

Sunrise Medical designs, manufactures, and markets medical products used in the rehabilitation, home healthcare, extended care, and hospital settings. Products include prescription manual and electric wheelchairs; ambulatory and bath safety aids, patient-room beds and furnishings, and specialty mattresses for the management of pressure sores.

Net earnings have been erratic:

(000's)	1988	1987	1986
	7,700 (loss)	850	1,874

However, cash flow available to support debt service has been adequate:

	1988	1987	1986
Net income before income tax	5,608	1,710	5,290
Add back:			
Interest expense	6,229	5,098	2,810
Depreciation and amortization	3,242	4,480	2,130
Amortization of goodwill and other intangibles	1,643	1,069	384
Total	16,722	12,357	10,614
Debt service	6,229	5,098	2,810
Excess	10,493	7,259	7,804
Coverage ratio	2.68:1	2.42:1	3.78:1

Other relevant statistics (Fiscal 1988)

Net sales	$140,290,000
Current assets	$43,913,000
Current liabilities	$23,228,000
Long-term debt	$71,874,000
Book value per share	$5.65
Earnings per share	$1.74 (loss)
Long term debt/total capitalization	72.7%
Debt-equity	2.87:1
Bonds outstanding	$25,000,000 (issue size — $25,000,000)
Investment value	not rated

Fixed charges coverage is superior to popular junk bonds.

Chart 19
FOREIGN CURRENCY BONDS

Date: April 13, 1989
We offer the following Bonds subject to change without prior notice: Minimum amount US$5,000 (Cdn.$7,000)

ISSUER/MTY.DATE/COUPON	BID	OFFER	CURRENT ANN. YIELD TO MTY	LAST PAY NEXT PAY DATE
NEW ZEALAND DOLLAR DENOMINATED BONDS				
TORONTO DOMINION BANK 02/04/90 18% RRSP eligible	102 1/2	103 1/2	13.79	04/02/89-04/02/90
SALLIE MAE (semi annual) 04/08/90 17%	103 1/4	104	13.91	04/02/88-04/08/89
MCDONALD'S (semi annual) 15/08/90 16 3/4%	102 3/4	103 1/2	14.18	15/02/89-15/08/89
TOURIST HOTEL (N.Z.) 04/06/93 zero coupon	55 1/2	57 1/2	14.37	matures 04/06/93
AUSTRALIAN DOLLAR DENOMINATED BONDS				
COMMONWEALTH BANK OF AUSTRALIA 01/07/94 14%	96	97	14.82	01/07/88-01/07/89
WORLD BANK 15/03/93 12 3/4% RRSP eligible	97 1/4	98 1/4	13.33	15/03/89-15/03/90
CAN.IMP.BANK OF COMMERCE 13/03/91 13% RRSP eligible	92 3/4	-	-	13/03/89-13/03/90
DANISH KRONE DENOMINATED BONDS				
STOCKHOLM 10/11/91 10 5/8%	102 1/4	103	9.20	10/11/88-10/11/89
BRITISH POUND DENOMINATED BONDS				
KGDM of SWEDEN 14/4/93 9 3/8%	92 3/4	93 1/2	11.50	14/04/88-14/04/89
DEUTSCHE MARK DENOMINATED BONDS				
QUEBEC HYDRO 1/5/96 5 1/2 RRSP eligible	93 1/4	94 1/4	6.55	01/05/88-01/05/89
SWISS FRANC DENOMINATED BONDS				
GOVT.OF AUSTRALIA 30/10/98 5%	98 1/2	99 1/2	5.06	30/11/88-30/10/89

ISSUER/MTY.DATE/COUPON	BID	OFFER	CURRENT ANN. YIELD TO MTY	LAST PAY NEXT PAY DATE
JAPANESE YEN DENOMINATED BONDS				
GOVT.OF CANADA 23/7/93 5 5/8% RRSP eligible	101 7/8	102 5/8	4.92	23/07/88-23/07/89
U.S.DOLLAR DENOMINATED FIXED CONVERTIBLE BONDS				
PACIFIC SCIENTIFIC 7 3/4% (semi ann.)15/06/03 CV Sh's per $1000 bond 26.32 @$38 p/sh.	66 1/4	67 1/4	13.23	15/12/88-15/06/89
SUNRISE MEDICAL INC.7.25% 26/6/96 CV sh's per $1000 bond 56.738 @ 17.625 p/sh.	54	57	18.52	26/06/88-26/06/89
U.S.DOLLAR DENOMINATED FIXED RATE BONDS				
ALBERTA 9/12/91 7 3/8% RRSP eligible	93 1/4	94	10.04	09/12/88-09/12/89

U.S.DOLLAR DENOMINATED FLOATING RATE NOTES

ISSUER MAT.DATE COUPON	BID	OFFER	CUR.COUP.	LAST PAY NEXT PAY DATE
UNITED KINGDOM 24/9/96 3 mo.LIBID-1/8 (quarterly)	100.20	100.50	10 5/16%	28/03/89-28/06/89
REPUBLIC OF ITALY 30/4/93 3 mo Limean (quarterly)	99.10	99.50	9 3/8%	31/01/89-28/04/89
REPUBLIC OF PORTUGAL 8/12/93 (semi annual) 6 mo LIBOR +5 B.P.	99.57	99.87	9.425%	08/12/88-08/06/89

L.D.C. PAPER DENOMINATED IN U.S.DOLLARS

ISSUER MAT.DATE/COUPON	BID	OFFER	CUR.COUP.		LAST PAY NEXT PAY DATE
BANCO CENTRAL De CHILE (restructured) 12mo.LIBOR +1 1/8 (annually)	58	60½	10 11/16	* 17.67%	20/01/89-20/01/90
ARGENTINA 15/2/92 BONEX ser.82 LIBOR (sem.ann.)	.6840	-	9 5/8	** -	15/02/89-15/08/90 amortized:12½% of principal paid yearly

For further information and current prices please call:
FRIEDBERG CAPITAL MARKETS (416) 364-2700 F/MICHCM

Chart 20
Breakeven exchange rates for US$ – based investor

This analysis shows a "snapshot" of the relationship between interest rate differentials and rates of exchange. The breakeven rate measures how far the foreign currency has to devalue (for NZ$, A$, DKr) or revalue (for DM, SF, JY) before the interest rate advantage/disadvantage is overcome by currency depreciation/appreciation. **BOND YIELDS AND RATES OF EXCHANGE AS OF APRIL 13/89.**

	U.S. $	NEW ZEALAND $	AUSTRALIAN $	DEUTSCHEMARK	SWISS FRANC	JAPANESE YEN	DANISH KRONE
1 year	9.56%	Tor Dom 18% 2/4/90, yields 13.79% (.587 NZ/US)					
2 year	9.64%						Stockholm 10⅝% 10/11/91, yields 9.20% (7.23 Dkr/US)
4 year	9.56%	Tourist Hotel 0% 4/6/93, yields 14.37% (.513 NZ/US)	World Bank 12¾% 15/3/93, yields 13.33% (.705 A$/US)			Canada 5⅝% 23/7/93, yields 4.92% (1.11 US/JY)	
5 year	9.47%						
6 year	9.44%						
7 year	9.40%			Quebec Hydro 5½% 1/5/96, yields 6.55% (1.56 US/DM)			
10 year	9.34%				Australia 5% 30/10/98, yields 5.06% (1.15 US/SF)		
Spot Exchange Rate	N/A	.6097	.8070	1.873	1.6465	132.25	7.289

**For example, in parentheses, since a US$ based investor would receive 423 basis points (1379-956) by holding the Tor Dom NZ$ bond, NZ$ can depreciate to .587 NZ/US from the present spot exchange rate of .6097 NZ/US over the next 1 year for the NZ$ investment to break even with current US$ rates of interest. Assumes that bonds are held to maturity, and coupons are reinvested.

FOREX RATES & UPDATE

Currency	*Spot*	*3-Month*	*12-Month*	*Comments vis à vis US$*	*Comments vis à vis DM (Spot DM: 1.8700)*
Australian dollar	.8095-.8105	.7957-.7972	.7612-.7627	Neutral	Neutral
Belgian franc	39.24-39.27	39.01-39.08	38.24-38.37	Remain short**	Neutral
Danish krone	7.2870-7.2920	7.2545-7.2635	7.1550-7.1740	Remain short**	Neutral
Dutch guilder	2.1135-2.1150	2.0950-2.0970	2.0400-2.0425	Remain short**	Neutral
Greek drachma	159.70-159.80	161.90-164.00	166.70-175.80	Remain short	Remain short
Hong Kong dollar	7.7795-7.7805	7.7940-7.7975	7.8020-7.8130	Neutral	Neutral
Irish punt	1.4255-1.4270	1.4325-1.4355	1.4465-1.4500	Remain short**	Neutral
Italian lira	1374-1375	1379-1381	1384-1389	Remain short**	Neutral
Kuwaiti dinar	.29050-.29100	.28920-.29015	.28455-.28669	Remain short	Neutral
Malaysian ringgit	2.7270-2.7285	2.7010-2.7050	2.6270-2.6480	Neutral	Neutral
New Zealand dollar	.6105-.6115	.6057-.6077	.5952-.5987	Neutral	Neutral
Norwegian krone	6.80-6.81	6.81-6.83	6.82-6.85	Neutral	Neutral
Portugese escudo	154.40-154.70	155.65-156.70	158.65-161.95	Neutral	Neutral
Saudi Arabian riyal	3.7515-3.7520	3.7485-3.7500	3.7480-3.7500	Remain short	Remain short
Singapore dollar	1.9525-1.9535	1.9305-1.9330	1.8685-1.8725	Remain long	Remain long
Spanish peseta	116.45-116.55	116.77-116.97	118.90-119.10	Neutral	Neutral
Swedish krona	6.37-6.38	6.39-6.40	6.41-6.43	Neutral	Neutral

Explanatory Notes

*Indicates change in recommendation from last issue.		
**As per Hotline Update of April 7, 1989.		
Currency expected to firm against both currencies.	Buy	Buy
Currency expected to strengthen against US$ and weaken against DM.	Buy	Sell
Currency expected to weaken against both major currencies.	Sell	Sell
Currency expected to weaken against US$, but strengthen against DM.	Sell	Buy
Term used to liquidate short position but does not imply a new buy recommendation.	Cover	
Term used to indicate sale advice of previous long position, but does not imply a new short sale recommendation.	Liquidate	

HOTLINE UPDATE

Thursday, March 23:
No changes or new recommendations.

Tuesday, March 28:
No changes or new recommendations.

Friday, March 31:
No changes or new recommendations.

Tuesday, April 4:
No changes or new recommendations.

Thursday, April 6:
In our opinion the long bear market rally in oil is over. Sell June oil at the market, risking 2050, good anytime. Alternatively, we prefer using options. Buy August $18 put options at $1.25, or better.

Friday, April 7, 12:40 p.m.:
Sell June yen, SF, DM, and other EMS currencies at market, risking 77.75, 62.75, 55.00, respectively, on close only. From a speculative point of view, we prefer the yen.

Friday, April 7:
Here is a review of this week's changes and new recommendations:

1) On Thursday, April 6, in a Flash Update, we sold June crude oil at the market, risking 2050, good anytime. Also we bought August $18 puts at around $1/barrel.

2) Today, at 12:40 p.m., we sold June JY, SF, DM, and other EMS currency at market, risking 77.75, 62.75, 55.00, respectively, on close only.

3) One new recommendation: Lower the stop on June S&P to 304.40, good anytime, from 306.50, good anytime. If stop is executed, sell your June S&P put option at the market.

Tuesday, April 11:
No changes or new recommendations.

Friday, April 14:
There is one change: On Friday, April 7, we lowered the stops on June S&P to 304.40, good anytime. This is to be changed to 304.40 stop, close only.

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