SiRuDo Realty, LLC
10 West 40th Street
Savannah, GA 31401
912-232 8686

www.sirudorealty.com

Quarterly Newsletter
October 2007

Welcome

Dear reader,

When we published our first newsletter in August, we secretly hoped that it would strike a chord with all of you. We never envisioned so many of you would send us your comments and feedback for which we would like to thank you.

We decided to put our newsletter in a slightly different jacket and have added several new articles and comments that may be of interest to you.
Our newsletters are now also available on our website www.sirudorealty.com and in hardcopy at our office.

Our goal is to provide you with an overall and global perspective of market drivers that directly or indirectly impact you as an investor, homeowner, buyer, seller or resident.
Please continue to provide us with your feedback and suggestions so we may incorporate them in our next issue by contacting us at ndoms@sirudorealty.com.

Happy reading,
Nick Doms
Chief Financial Officer

Table of Contents

Economic Outlook

Everybody understands that economies, whether they are local or global, move through cycles of expansion and contraction, but the way we view them is fascinating.
Ask men what they think about the economy and all they talk about is expansion.
But if you ask women, they will tell you in detail about the contractions and the role they play in future expansions.
Getting back to the topic at hand, let's take a look at the current factors that will influence the outlook for the American economy, in particular from a consumer perspective.

It is widely known that consumer spending drives our economy. Predicting the course our local economy will take, can be found in future consumer behavior and what factors may impact such.
Who can forget the "Big Bang" of 2001 and the "Irrational Exuberance" speech of Greenspan. While the effect was immediate and the economy went into a mini-recession, something else played out, although less visible.
The interest rate slide was fast and furious, and our dear consumers were bombarded with the non-stop advice: "Your spending shall know no limits." And "Thou shall get what your neighbor has already."
The continuous cut in interest rates and the subsequent additional cash was relentlessly and convincingly directed towards spending and of course the economy. The effective Fed funds rate tumbled from 6.50% in early 2001 to a meager 1.00% by mid 2003 and the economy went roaring like a steam locomotive in a "global warming free" environment.
If the peak would have been found there, our current little problem would not have materialized, but we just could not get enough of the orgasmic growth of our economy.
It was like watching a consumer society on Viagra.

By early 2004, it was clear that certain side effects were becoming visible, like the tiny warning labels on prescription drugs that nobody really reads unless someone dies and it's time for a malpractice lawsuit. Rates increased gradually and by the end of 2005, the Fed funds rate was back at 4.00%. It took another five rate hikes to finally stop the train wreck and keep inflationary pressure under control but the damage was already done.

Everybody wants to read the fine print on the label today and I hereby declare that today will now be known as the "First Annual Lawsuit Remembrance Day".
But who will be our first victim? The oil companies? The farmer who grows corn this year? The mortgage companies? Ourselves?

One can easily find a single culprit but the fact is that neither the housing market nor oil is to blame for a potential slowdown of our economy.

This time, consumer spending is driven by the mundane but less obvious: food prices.
In the first quarter of 2007, energy prices rose by 2.5% and caused a major upheaval. In comparison, food prices rose by 7.5% within the same period but caused no reason for alarm.

Why are food prices so important?
First of all, they are more important than the price you pay at the gas station, because nobody can live on an empty stomach, but all can survive on an empty gas tank.
Secondly, as a consumer, you can influence the gas price by curbing the demand, but not so for basic food ingredients.

The pursuit of alternative energy sources to curb our dependency on foreign oil has resulted in the implementation of a government-subsidized plan to grow corn to produce ethanol. That is not a bad idea, if it were not for two factors:

1) More cornfields means less room for other needed crops such as soybeans and wheat. At the long end of the food chain, this means less natural food supply and higher food prices for the consumer.
2) The subsidized corn is intended for sale to ethanol factories, not live stock.
   This means, less natural feed, more factory-made blends, higher feeding prices and therefore higher food prices for the consumer.

This is already clearly visible in the commodities pricing but has not filtered down completely to the consumer level yet; even though dairy and flour products are on the rise. The third quarter of 2008 will be tarnished by rapid growth in consumer prices and will slow down consumer spending. Combine this with a rise in unemployment, rising fuel prices and a weak USD, and you can see why the inflationary pressure will continue to surface. The potential for a recession, as some point out, is not in the charts yet, at least not within the next 24 months.

Put into context, economists encourage consumers to spend more and save the economy from a recession, but at the same time they curb consumer spending by indirectly increasing prices of much needed products.

If we want to draw a lesson from previous economic interventions to save the economy, one should really stand out: don't rely on "irrational exuberant" consumer spending.
Instead, spend what you can pay for and all will be well.

ND – 9/1/2007

The Housing Market

I cannot keep track of the number of people who dub the housing market as mystifying and mysterious. Most of them seem to think that somehow the tooth fairy stopped by suddenly and didn’t leave a reward under the pillow and now people are losing their teeth but don’t get anything in return.
Explaining this magical occurrence rationally and the fact it found its roots in the irrational exuberant spending of 2001, seems to be met with blank stares and glossy eyes.

So I pretty much stopped explaining the origin and the meaning of the apple and the snake in Genesis, and have moved on to point out the disaster that will soon follow if and when Washington DC gets its way.

Here is a recap of what is being thrown on the political table, all under the umbrella of protecting the American economy.

-Save the blind, recycle glasses
Congress wants to appropriate 1 billion USD and place the funds into a trust to financially help homeowners who are on the verge of foreclosure.
Besides the fact that nobody knows where these funds are supposed to come from, given that our current budget deficit is larger than the hole in the ozone layer, it is inconceivable that our government feels the ones that could not read the small print of their loan agreement, should be financially compensated for their suffering.
That sounds like the old adage of giving a hungry man a fish.
Au contraire, mon ami. Teach the man how to catch a fish by allowing all of them to get a free eye exam and prescription glasses so we know that the next time around, they will be able to read.

-Credit or not, borrowing more is better
The NAR, among other renowned associations, is wearing out the steps of Capitol Hill with their proposal to vote HR 1852 into law.
Not only do they propose to ease the borrowing limits, imposed by the government, they want to increase the limits to a whopping 125% of the collateralized value.
This is a great idea if you are trying to push more people into bankruptcy. After all, right from the start, homeowners have already accumulated a 25% negative equity portion in their home. That sounds like an LBO with a success rate of zero.

-Inflation? Says who?
Since 2004, everybody has been talking about curbing inflation, raising employment, monitoring productivity, CPI, PPI, GDP etc.

Today everybody seems to have fallen on the other side of the fence. You know, where the grass is always greener because the neighbors have a sprinkler system.
The sheer mention of recession plays right in their cards to substantiate their demand for lower interest rates.
The fact that commodities are running rampant and the USD continues to weaken seems to have no effect on them. They strongly believe that lowering the Fed funds will solve the housing problem. It will have no bearing on the credit markets at all. Now, if they were to make a case for lowering the discount rate further by 50Bp, I would certainly agree with them.

-I want to play in your sandbox
Congress constantly lambastes mortgage lenders and banks for their role in the sub-prime market. According to our politicians, they are the root of the problem and therefore should take responsibility to fix it.
On the other hand, they propose to relax the lending restrictions currently imposed on FNMA and FMAC so the government agencies can now play in the same sandbox and reap the same lucrative benefits.

Neither one of the above propositions will ultimately impact the housing market in a positive and constructive way.
It is true that the problem is serious, but rest assured, we have not seen the bottom of the pit yet. Slowing down the fall, which so many seem to want, will only result in extending the fall and the panic that accompanies it.
The solution is to let the fall happen, get to the bottom, recover and climb out of the hole we created ourselves.
In order to do that, we need new and improved means to build a solid foundation that will not crumble. This has to involve the lenders, borrowers, real estate agents and insurance companies.
What if insurance companies would offer a policy similar to the existing default and credit risk policies available to institutional investors?
I'll explain in our next issue how this can work for the current housing market and for the individual investor.

Despair not! While the dust settles and we cannot see the sand underneath our feet, we are still standing. But pay attention to those who want to vacuum the dust before it settles completely.

ND – 9/17/2007

The Federal Reserve

It is 2:15pm on Tuesday 9/18 and I am patiently waiting for the FOMC's decision, like waiting for the jury to read the verdict.
And here it is; the Fed eased the Fed fund rate by 50Bp and the discount rate by an equal 50Bp.
While Wall Street obviously liked the reaction, even though all were surprised by the size of the monetary easing; all stock indices jumped up, the yields on the bond market fell (the 2yr note fell through the 4% bottom), oil and gold had a great day, but the USD took a hit against the Euro and to a lesser extent to the JPY and GBP.

In my point of view Bernanke got it wrong this time around. The current credit crunch and the problems in the housing market were definitely the dominant factor in the decision-making. However, The Federal Reserve Board has never in its history faced a situation similar to the one they face today. On previous occasions, similar liquidity crunches all happened when interest rates were sky-high and the economy was in a recession. Today, neither one of these conditions apply, which makes the easing controversial and dangerous.

The inflationary pressures still exist and as long as commodities rise sharply (think oil, gold, wheat, corn) and the USD continues to weaken, there is no reason to lower interest rates, even if the argument stands that potentially we may face a recession by mid 2009.

The lowering of the discount rate may seem to make sense to some, but think about this. Since August, the Fed has made 200 billion USD available to the credit markets. This intervention is not going to light a fire underneath the housing market for the very simple reason that new borrowers are not causing the issue here, the lenders are.
The readily made available credit has hardly been used and the less expensive borrowing cost or less stringent transaction collateral requirements are not going to change that.

Why borrow from the Fed even at 5.25 when the inter bank borrowing rate now stands at 4.75?

Both interventions leave us with a lot to worry about for the next two years and the consumer will continue to feel the pain.

ND – 9/18/2007

Currency Markets

As I mentioned in the previous newsletter, Japan continues to be a topic of interest and a market to watch very closely. While in the past two months the JPY has not strengthened considerably against the USD, other than testing a 113 level, the prime reason can be found in the status quo of the BoJ rather than the USD performance.
A neutral growth and a continuous investment in Uridashi bonds by Japanese investors warrant the BoJ's reluctance to increase interest rates, much more so than the international carry trades.
In 2008, this picture will change. Watch for a considerable strengthening of the JPY versus the USD and the fallout against the Euro.

High yield currencies, such as the NZD, AUD and TRL continue to be strong. This is primarily due to the fleeing from weaker yield investments, at least on a short-term basis. The traditional carry trades are definitely the influential factor in this scenario and will stabilize once the swap and repo contracts unwind.

The only exception, and probably the highest risk currency is the ZAR whose current strength cannot be substantiated by economic data. South Africa suffers from hyper-inflation and astronomical unemployment, which make this a risky investment long-term.

Our focus for 2008 is on the Euro and the path it will follow. From a pure inflationary perspective, with Europe at a steady 2% for 2007 and the USA projected to be in the 2.8% range by year-end, the strengthening of the Euro is easy to explain.
Combine this with the fact that the yield spread between the two currencies is getting smaller with the short-term rate in Europe at 4% and America’s steady 5.25%, one can easily see why the USD fell to its lowest point this month.
Let’s assume that the lobbyists get their wish and the Fed lowers the rate to 4.75% that would mean the USD will slide down a path of 1.40 to 1.45 through the remainder of the year and into 2008.
This is a very plausible scenario even without a rate cut. The ECB is notorious for defending the Euro within reason, while the Fed is notorious for ignoring the strength or weakness of the USD.

In the end, 2008 will become a very interesting year. Japan is now known for the land of the rising sun, but 2008 will prove that both Europe and Japan will be the lands of the rising currencies.
If you plan a trip abroad, buy your hard currency now and book later.

ND – 9/16/2007

SiRuDo Realty, LLC
10 West 40th Street
Savannah, GA 31401
912-232 8686

www.sirudorealty.com

Quarterly Newsletter
October 2007

Global Perspective

As the world keeps being captivated by newspaper articles and glued to TV sets, the global economy continues to grow at a steady and healthy pace.
So, what is it exactly that causes headaches and panic attacks among investors and people in general?
If I didn’t know any better, I wish I had listened more carefully to my parents and become a psychotherapist instead of a banker.
However, given my career choice, I’ll stick to the rational explanations instead of a Freudian analysis intertwined with Victorian embarrassment.

The concept of a global economy versus individual local economies is still a novelty product that is not totally accepted by the mainstream, or dare I say the American mainstream.

It is increasingly important to determine the role America can and wants to play in the global arena. So instead of focusing on outsourcing jobs to India or the trade deficit with China, let’s just keep some other factors in mind that will ultimately determine America’s position.

-We currently use 75% of the global energy supply to fuel our economy. This is an unsustainable level that will be tested in the future as other economies (India, China) continue to grow rapidly.

-We monopolize the international credit market and use 65% of the available liquidity to finance our transactions. We will face stiff competition from other countries that want to have access to the same cash pool and will demand a larger slice of the pie.

-44% of our outstanding debt is currently held by foreign central banks, primarily the UK, Japan and China. While this is not necessarily a problem, it does show our high dependency on foreign investments to finance our deficit.

Whether we will be able to graduate in the end will be determined by how well we can play as a team member rather than individually.

ND – 7/30/2007

SiRuDo Realty, LLC
10 West 40th Street
Savannah, GA 31401
912-232 8686

www.sirudorealty.com

Quarterly Newsletter
October 2007

Headlines

Don't play with my toy

Mattel is really outdoing itself although I don't think this is what investors had in mind.
Three recalls in two months, not a bad track record for such an established American icon.
While the news causes a panic attack with concerned mothers across America, politicians and financial gurus take a different spin on the whole issue.
The "Made in China" and "Buy American" sentiment has reached a whole new level. The barricades are overpopulated with volunteers crying for help to save Barbie and Ken from the roaring tiger and its popular lead tainted claws. Politicians work diligently to finish their "Trojan horse" stuffed with proposals on their merry way to another trade negotiation.
I would suggest stuffing an oversized piñata and park it in one of the Chinese manufacturing plants fully owned by…. you guessed it, Mattel.
I don't care if they paint Barbie and Ken in lead, as long as they don't touch my GI Joe.

ND 9/7/2007

Following the S&P 500
Is following myself.

What happens on Wall Street, stays everywhere.

It is hard to imagine that a narrow one-way street can pave so many international roads. I am sure that our Buttonwood Tree founders did not envision such an impact.
But when US traders and investors go into a panic attack over sub-prime lending symptoms, the other side of the world starts a mass vaccination program.
We could have contained the disease of course if only Steve Jobs would have thought about incorporating a defibrillator into the I-Phone.
I think I am on to something.
The international fall-out and exposure to sub-prime paper will never really be known, because theoretically, there is none, unless…
Wall Street is so inventive that Wal-Mart should hire them for their annual Christmas wrapping department.
They master the art of packaging junk-rated paper in a triple-A rated shiny wrap, complete with bow and curly strings.
As long as nobody opens the package, the world will never know what is inside.
Let's just keep it that way and hope for another Merry Christmas.

ND 9/12/2007

---

www.SiRuDoRealty.com

Green versus polycolor

There is no stopping the price increase in oil, or so it seems.
OPEC is not really happy but blames the gas guzzlers around the globe who in turn blame the local price gougers who blame the oil companies who blame the next hurricane and so on and so forth…
I think I have the solution at hand.
Why don't we start quoting oil contracts in polycolor money instead of green, one size fits any denomination, paper?
You know what I am referring to. That monopoly paper you get when you swim across the great lake east of us.
Just as in the game, it seems it can buy anything these days and it charges a small fortune just for passing through.
Did you know that Americans, who go on vacation in Europe, now send food supplies ahead of time? After all, who would not dream about a feudal vacation, PBJ sandwich in hand?
Perfectly cropped vacation pictures to show the neighbors how Europe is still 100 years behind even though they discovered us, or at least the Indians.
Now you know why the Indians had to give the settlers a duck and a bag of corn flour.
I am all in favor of polycolor. Green is getting too dull for me. Let's spice it up a little just for history's sake.

ND – 8/20/2007

If time is money,
Why do I have plenty of one,
But none of the other.

A tu manera – Dans vos mains
In uw handen – In your hands

When I go to Tybee Island once a year to replace my parking sticker, I get completely confused.
All the signs are in English and when I try to get directions to the parking booth, everybody addresses me in English too, which makes it worse.
What is going on?
Imagine that a miracle would happen and I went swimming in a red algae infested rip tide, would I have to yell for help in English? Or would I drown bubbling up foamy words of Spanish, French, Dutch or Ebonics?
Hey, stop yelling in a language we don't understand, just send a universal text message.
We are no different from any other country, really.
Except that in Europe, Asia, Australia or Japan, I can order from the menu in any language I want, but I still can only get rescued from drowning in one.
It's not a social issue, it's all economics.
Face it. The mark up in the food industry is much higher than in the funeral business.
And the best part is, you will never know how they translate the original menu anyway. Not until you get it on a plate, served with a mischievous smile and pay for it in the most universal language possible: plastic.
Next time you drown on Tybee Island, don't scream, just wave your universal language for all to see.

ND – 8/1/2007