



## **Baldwin Investment Management, LLC**

### **IN LIKE A LION...**

The first three months of 2005 certainly have not been the most rewarding. Coming off a strong last quarter in 2004, the stock market hit a wall in January and sold off for no particular reason other than some traders wishing to secure profits they had garnered during the previous year. During February, the markets reversed course and the focus seemed to be on the superlative earnings reports for the last quarter of 2004. In March, the markets again reversed course enough so that the first quarter did not end in the plus column for too many investors.

The Fed met a couple of times during the first three months of the year and continued to raise interest rates. This was not unexpected as the Fed advertised its intent for quite some time. However, the language surrounding the Federal Reserve's most recent decision has some believing that the Fed might be getting a little more worried about inflation and thus might get a wee bit more aggressive (i.e. larger rate increases than simply 25 basis points per meeting) than it has been in the past. Some are worried that the Fed will no longer be "measured" in its approach. Obviously, a more aggressive Fed is a possibility. However, we still do not see any evidence of significant inflation that would warrant a more aggressive stance by Chairman Greenspan and his colleagues.

Politics were generally quite positive during the first quarter of 2005. Internationally, things seemed to be going quite well for the Bush administration and its desire to "spread liberty" around the world. At the end of January, the Iraqi elections were far more successful than had been expected. In spite of Sunnis abstaining from the political process, millions of Iraqis turned out to vote in the face of great personal danger. Since the election, the Sunnis have tried to insert themselves into the Iraqi political process. All in all, the Iraqi election was a good start. There was also good progress in the peace process between Israel and the Palestinian people. The new leader for the Palestinians made some very sensitive moves and Ariel Sharon, the Israeli prime minister, responded in kind. For the first time in quite a while there is renewed hope that the "roadmap" is back in place and that possibly peace will be at hand in this part of the world. After the assassination of a former Lebanese prime minister, the Lebanese people have demanded that Syria pull out of Lebanon. Lebanon had historically been democratic even though recently they have been under the Syrian thumb. The removal of Syria, which is being called for by the United Nations, France and the United States, would be a very positive step. Even in Kyrgyzstan, a regime tied to Moscow has been "tossed out on its ear" quite peacefully. Kyrgyzstan is another former Soviet satellite which seems to be leaning much more toward the West and away from President Putin. Domestically, President Bush and his allies have been "making the rounds" throughout the United States, talking up Social Security and the need for fixing a growing problem. It is still early days. There are a lot

of people who are against tampering with Social Security, the retirement solution for the American worker since the Great Depression. There are also quite a few people who believe that some sort of change is necessary to fix the system which is potentially headed for bankruptcy. Stay tuned! Drilling in Alaska seems as though it is going to finally happen. After years of failed attempts, with the Republicans firmly in control of the Congress, drilling in Alaska to find crude oil will probably be allowed in the relatively near future. Environmental concerns which have delayed drilling for decades are being pushed aside during a time when a barrel of oil is trading in the commodities markets at \$56.

The price of oil continues to go up. Even though there are ample supplies of crude oil, natural gas and gasoline in the U.S., the price of oil and concomitantly, the price of natural gas continue to rise and reach new heights. Yes, demand is up but with inventories well within historical bands, it seems odd that the price of oil would nominally reach new records. Momentum investors and hedge fund players seem to be the driving force behind the price increases because certainly the oil companies are selling every barrel they have.

First quarter earnings will soon be reported. To date, there have been just a few “pre-announcements” which have disappointed. Hopefully, this is a good indication that first quarter earnings, compared to last year, will be as good as expected. If so, investors should be able to look forward to a better April and possibly second quarter in the markets before the summer. With the U.S. economy still growing quite strongly, with corporations flush with cash and committing it to capital expenditures, and with unemployment down, we would expect that there would be enough good signs to encourage investors to reinvest in the stock market and push prices higher.

## PREDICTIONS FOR 2005

## COMMENTS

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|--|---|
| 1. The dollar will rebound to \$1.15 per Euro as a result of interest rates elsewhere in the world declining                   | \$ is stronger!                           |
| 2. U.S. economic growth will slow to approximately 3.5%  | Looking Good                              |
| 3. Chinese and Indian demand will keep oil in the low 40s to mid-30s in spite of increased supply                              | Oil still much higher                     |
| 4. Japan will grow more quickly (~2% GDP growth) because of its China trade  | A Little Shaky!                           |
| 5. President Bush will not be successful in radically overhauling the U.S. Tax Code or Social Security                         | Still feel this way                       |
| 6. Chinese economic growth will still support high (but not astronomical) commodity prices                                     | So far -                                  |
| 7. The "Road Map" in the Middle East will be pursued again   | Yes                                       |
| 8. The Iraqis will hold scheduled elections at the end of January but no resolution of the insurgents efforts will be lessened | Yes                                       |
| 9. The U.S. stock markets will end up higher similar to the performance of 2004  | So far, incorrect - but the year is young |
| 10. Osama will be sold out and captured (we're <i>still</i> sticking with this!)   | Not Yet!!!                                |

## A FINAL THOUGHT



*“Tell Washington we’ve lost Osama bin What’s-His-Name’s trail.”*

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A list of our Proxy voting procedures is available upon request.

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