

GLOBAL INVESTING WHITE PAPER

By Monty Guild

1. Introduction to Global Investing

Global Investing means investing with a global viewpoint. It requires understanding the interconnectedness of markets, understanding the cause and effect relationships that create opportunity and risk, and then investing in markets throughout the world's developed and developing countries to take advantage of wherever the growth in economic activity and opportunity is greatest.

For Americans, investing in the U.S. has been the primary focus for the last century. As the new millennium has dawned, many have become aware of the rapid economic growth experienced in the world outside of North America. Certainly, the U.S. and Canada are an important part of any investment portfolio, and investors have been aware for decades that Japan, Europe and Australia have grown. Now, investors see and hear of the rapid economic growth and development in China, India, Brazil, and other parts of Asia, Europe and Latin America. They are beginning to take notice of the growth, but do not know how to, or if they should participate.

GLOBAL GDP STATISTICS AND GLOBAL STOCK MARKET VALUES

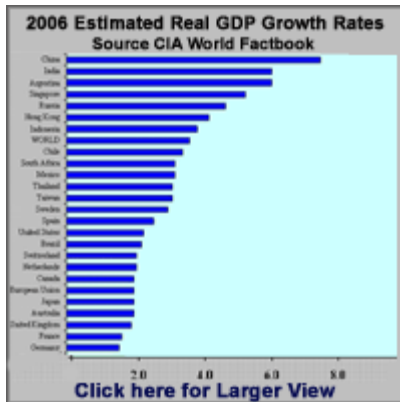
- Global GDP is about 65 trillion USD (Q4 2006 Est.)
- Value of all publicly traded stocks is over 50 trillion USD (Q4 2006 est.)
- Value of U.S. publicly traded companies is over 18 trillion USD (Q4 2006 est.)
- Total value of all stocks (both U.S. and foreign companies) listed on U.S. exchanges is over 25 trillion USD (Q4 2006 est.)

The above statistics imply that U.S. stocks make up about 36% of all global stocks that are traded in the world. Other statistics suggest that 70% of all stocks traded in the world (as measured by value) are non-U.S. companies. So, if you only own U.S. stocks, you are ignoring 65 to 70 percent of the value in the global stock markets. Also if you only own stocks that are traded in the United States, then you are ignoring half of the stocks traded around the world.

Since many of the stocks are of companies in parts of the world growing faster than the U.S., you may be ignoring some of the best opportunities.

1.1 HOW DO YOU BENEFIT FROM THIS GLOBAL ECONOMIC GROWTH BY INVESTING ABROAD? IS FOREIGN INVESTING WORTH THE RISK?

Investing outside the United States has proven to be profitable. Lately, outside the U.S. is where the growth is, and, while there are many variables, stock prices follow the growth in the underlying economies.



So, how fast are the underlying economies growing?



How is this growth impacting foreign stock markets?

The opportunities to profit are many. How do you take advantage of those opportunities without taking unnecessary risk? Can individuals navigate the markets effectively? How can individuals improve their likelihood of success? It can be done, but it requires considerable information gathering and analysis.

In the coming pages, we will discuss how we at Guild Investment Management, Inc. identify opportunity and risk in the global markets. Please feel free to use this "white paper" as a resource, or feel free to contact us at Guild Investment Management www.guildinvestment.com if you would like to discuss our global portfolio management services. Investing yourself in the global markets requires time and significant background in financial analysis to be successful. The information below can also help you evaluate your current money manager or one you may be considering.

The international investing process has three elements to which investors must be more alert and skilled at accessing.

- I. Understanding the mechanics of investing abroad.
- II. Deciding which countries holds the best opportunity for profit.
- III. Deciding what to buy, which industries and companies offer the best values?

2. The Mechanics of Investing Abroad

The world of investment has many opportunities. The countries and exchanges where investments have been placed by foreign investors for at least a few years are listed in our Stock Exchange Directory. There may be countries and or exchanges not listed. We believe we have many of them. Check back often as we will be adding to the list frequently.

(http://www.howtoinvestglobally.com/ARhome.asp?void=1&sPID=0&VAfg=1&RQ=EDL,1&AR_T=1&linkid=73&T_ARID=30) to view, our **Stock Exchange Directory**.

ARE THERE WAYS TO PLAY THE GLOBAL MARKETS, WITHOUT VENTURING INTO STOCKS TRADED ON FOREIGN EXCHANGES?

WHAT ABOUT BUYING FOREIGN STOCKS THAT TRADE IN THE U.S. AND IN EUROPE, BUT ARE DOMICILED IN OTHER COUNTRIES?

GDR's (Global Depository Receipts) and ADR's (American Depository Receipts) are available if you want to invest in large foreign companies. Many professionals will tell you that they are the best way to play foreign markets. In some cases this is true. In most cases, we believe it is not true. These are our opinions:

- It is true if you are very conservative, and you only want to buy the biggest, and thus probably the slowest growing companies.
- It is true if you are a small investor at a brokerage firm that doesn't want to give you access to the faster growing foreign stocks.
- It is not true if you are an investor with over \$100,000 to invest.
- It is not true if you want the lower price to earnings ratios, better values, and faster growing stocks, and are willing to tolerate some additional risk.

WHAT ABOUT ETF'S AND CLOSED END FUNDS?

ETF's (exchange traded funds) and other foreign funds are derivative instruments which are meant to duplicate the performance of an index or group of stocks in a country or industry. They also exist for a number of commodities and currencies, and can be a good vehicle for investors to gain exposure to countries, markets, or sectors.

Many of these vehicles are available on the major U.S. and London exchanges, and they are becoming more common in other countries as well. These derivative instruments are proliferating rapidly, and some are better than others. They differ in structure, fees, liquidity, leverage, and in how well they track their respective index.

For a listing of exchange traded funds, there are web sites devoted to the topic. The major world stock exchanges especially the U.S. exchanges and the London stock exchanges will list the ETF's traded there.

Do your homework or make sure your money manager has done their homework. New derivatives are constantly being created, and they are not created equal. Some do a good job of tracking their index or commodity, others do not. Some are funds that buy the individual components of an index, and some are notes that promise to pay the investor the performance of the underlying index. There are differences, and it pays to know exactly what you are buying.

ONCE YOU HAVE DECIDED TO PURSUE INVESTING IN FOREIGN MARKETS DIRECTLY, SELECTING THE RIGHT BROKER OR BANK TO FACILITATE YOUR INVESTING IS THE NEXT STEP. THESE ARE OUR SUGGESTIONS:

If you are a substantial client most of the major banks and brokerage houses have international investment options. Major banks and investment firms have memberships on foreign stock exchanges, or relationships with local firms, and thus can transact business in several countries around the world.

It is getting easier for investors to gain access to overseas markets. Opening accounts, and buying and selling stocks directly (even smaller companies) is no longer only for the very wealthy. Many of the major online brokers have begun to, or are planning to, offer direct international trading to their clients. In addition, there are new online brokers overseas that are willing to take investors accounts. Some need only a copy of your passport, and proof of residence, others are more restrictive. Some require that the investor have a bank account in that country, while others are more flexible. Some of the brokers are well regulated, and others are not. Do your homework and make sure your money manager has done theirs. Remember, you can contact a country's stock exchange and get a list of approved brokers.

To get the best service, you will probably want to make sure your money manager or you have developed relationships with brokers in each of the major markets in which you wish to invest. We at Guild Investment Management have developed relationships over many years. For an individual getting started, it can be more difficult. These brokers should be checked out with their home country's SEC equivalent if one exists, make sure you or your money manager can vouch for them as a reputable organizations before sending them money. Checking them out with the legal authorities in their home country is a good idea also. For our list of many

International Regulatory Agencies, please visit:

<http://www.howtoinvestglobally.com/home.asp?RQ=EDL,1&sPID=0&linkid=21>

IMPORTANT ISSUES OF WHICH INVESTORS MUST BE AWARE

Fees and commissions: Remember, negotiated commissions and discount commissions exist primarily in North America, not in Europe, Asia and other parts of the world. Be sure to research, and if possible negotiate and establish the cost of each order with your broker before trading. The fees can be a flat rate, or a percentage of the trade value.

Online trading may seem instantaneous, but does not guarantee a good execution. In foreign markets where the SEC or its equivalent may not exist, and there may be little or no protection for foreign individual investors.

Execution Quality: **USE LIMIT ORDERS or make sure your money manager uses limit orders.** Place limits on all orders in the local currency. Never place orders without limits until you or your money manager is experienced in global investing. You can note volume and price action for the last several months in the stock before investing in it. Try to avoid stocks where liquidity is suspect. If the stock needs to be sold quickly, liquidity will be an important consideration. Will you be able to sell your whole position near the market price, or will you have to take a big mark down to get out?

Currency Pricing: An easy and free way to check the currency quotes and executions is to go to International section of *Yahoo! Finance* and click on the currency translator to determine the fair price of the currency in which the stock or bond you are transacting is denominated.

Many banks and brokers make a good deal of their money on the high mark up, or spread, on their currency transactions for their customers. While the global currency markets are very liquid, and trade at a very low spread between buying and selling prices, banks and brokers often try to use their currency desks as profit centers. You or your money manager should negotiate this spread.

3. Selecting Countries for Investment

DECIDING WHICH COUNTRY IS MOST ATTRACTIVE FOR INVESTMENT:

WE FAVOR MARKETS WHICH HAVE THE FOLLOWING CHARACTERISTICS

1. The country should have a strong central bank; one which manages the country's economic system in an appropriate manner.
2. Country should have a strong financial system.
3. The country's companies should be fairly well run. In almost every country, the larger and medium sized companies are better run than small companies. (Note: in all countries, beware of nepotism. Do not invest in companies where the suppliers or customers are relatives of the company management.)

LOOK FOR TAILWINDS

We recommend using global economic analysis to determine which part of the world is most attractive. We analyze economic, political, social and demographic trends to decide which parts of the world offer the most investment opportunity.

Listed below is the way I, and our staff at Guild Investment Management, have gained global economic, political, social and demographic knowledge over the last four decades investing in global markets.

Read constantly, or find out what publications your money manager reads. You or your money manager should seek out and read news media and informed opinion from all corners of the economically developed and developing world. Some of the generally available publications that we try to read every time they are published are:

- [Barron's](#)
- [Business Week](#)
- [Forbes](#)
- [The Economist](#)
- [Macleans](#)
- [The Financial Times](#)

- [The International Herald Tribune](#)
- [TheWall Street Journal Asia](#)
- [The Wall Street Journal](#)
- [The New York Times](#)
- [Foreign Affairs Magazine](#)

It is also important to read the writings of intelligent economists and strategists. Some of my favorites are (in alphabetical order): Larry Jeddelloh, the editor of The Institutional Strategist; David Rosenberg, U.S. economist of Merrill Lynch; Jim Sinclair, who publishes www.jsmineset.com; and Dung Tao, the Asian economist of Credit Suisse.

In addition, find out if your money manager has a network of professional investor friends, who are successful investors in one or more areas of investing such as commodities, small cap U.S. stocks, U.S. value stocks, international value stocks, international growth stocks, cyclical stocks, technology stocks, mining stocks, and energy stocks. Your money manager or you should be in regular contact with this network.

HOW WE MANAGE MONEY USING THE INFORMATION WE GATHER

All of the information that we read, or get from calls or personal meetings with economists, company managements and industry analysts is entered into the top of a "funnel".

TOP OF FUNNEL

- Global economic information
- Global political information
- Global social events and societal changes
- Global demographic events

MIDDLE OF FUNNEL

Analyze the above information to determine how the individual regions of the world are impacted

- Asia
- Europe
- North America
- South America
- Australia / New Zealand
- Africa
- Middle East

BOTTOM OF FUNNEL

After analyzing the impact and trends in each region, determine the areas and countries that have

the strongest economic tailwinds as a result of the impacts and interactions of the trends. Countries determined to have headwinds that dampen their growth prospects are avoided.

END OF FUNNEL

A list of countries which are attractive for investment is created.

DETERMINING IF THE MARKET IN QUESTION IS UNDERVALUED, FAIRLY VALUED OR OVER VALUED

Once we have decided that a country or group of countries is attractive, we then analyze the country's stock market using various financial analysis measures including: the price earnings ratio, price to book value, price to cash flow, enterprise value, to EBITDA, etc. These measures help us determine if the market is cheap or overpriced with respect to the economic, demographic, political and other trends mentioned above.

The economic, demographic, and sociopolitical trends can create tailwinds or headwinds. The valuation measures can point out to the investor whether a high current valuation of the market nullifies the benefits received from the tailwinds, or a low valuation makes headwinds tolerable.

You or your money manager must also understand accounting to evaluate the accuracy and fairness of the accounting representations made by companies and industries, and must undertake financial analysis to make good use of the accounting information.

A thorough understanding of traditional financial analysis and of accounting and the analysis of numerous financial ratios is essential to make a good investment decision.

A few ratios we use for a country's market as a whole, or an industry as a whole (as well as for individual companies) are:

- Price to Book Value
- Price to Earnings ratio
- Price to Cash Flow ratio
- Price to EBITDA ratio
- Enterprise Value to EBITDA ratio

It is necessary to personally spend many hours each week reading and analyzing global markets through the media mentioned above, and by obtaining the reports of numerous analysts. Other analysts at this firm also do a similar amount of reading and analysis. In addition, I read reports from our analyst at Guild Investment Management and other firms about global markets, industries, and stocks.

4. Industry & Company Selection

DETERMINING THE INDUSTRIES AND COMPANIES THAT ARE ATTRACTIVE

The next step is selecting the most attractive industries. To find industries that have superior growth prospects and tailwinds, we employ many of the same techniques used to identify attractive countries.

INDUSTRY SELECTION IS KEY. MANY PROFESSIONAL INVESTORS WILL TELL YOU THAT AS MUCH AS 75% OF A STOCK'S PERFORMANCE COMES FROM ITS INDUSTRY'S TRENDS AND DYNAMICS.

Sectors and industries have unique characteristics, growth rates, and different metrics that are important to determining their attractiveness. Understanding these differences (some of which are very subtle) is a key component to investing. Some industries are cyclical, others may be more growth oriented. Recognizing whether an industry is being commoditized and knowing what the product life cycle in the industry looks like, are some of the possible items to consider.

Look for trends that can prolong the growth (and the visibility of that growth to investors) in the industry you are looking into. Our newsletter on www.guildinvestment.com frequently discusses different sectors and industries that we think have tailwinds. Please feel free to use it as a guide.

COMPANY/STOCK SELECTION

Once determination is made as which countries and Industries have the strong tailwinds and which are appropriately valued for investment, what next?

INTERVIEWING COMPANY MANAGERMENTS

Here are some of the questions we like to ask when we visit with the management of a company. For your list of questions for your potential money manager or you should ask a company's management please visit:

http://www.sortweb.com/cwsimages/Miscfiles/4462_HTIG_Co._Questions.pdf

A. INDUSTRY BACKGROUND

- What is the expected growth rate for your industry?
- Why do you believe that the industry will grow at this rate for the next 1, 3 and 5 years?
- What economic social and political drivers impact the expected industry growth rate?
- What are the barriers to entry in this industry?
- Who are your major competitors?
- In each line of business who are your major competitors?
- Are they focused only in your industry or are they multi industry companies?

- Who are your most skilled and direct competitors?
- What is your ranking as a national and international competitor in each line of business?
- What competitive advantages do you have as a company?
- What competitive advantages do your major competitors possess that you do not?
- What barriers to growth exist that may keep you from becoming dominant in each line of business?
- What are the major industry changing developments on the horizon (positive and negative)?
- What are the barriers to entry for new companies to come into this industry?
- What economic variable may we monitor to get an idea of the growth prospects for your industry?

COMPANY BACKGROUND

- Please describe the business segments of your company.
- What are the growth rates, current and expected by division / business segment?
- What are the probabilities that your internally budgeted growth rate will be achieved in your opinion?
- What are the potential events or circumstances which could cause you to fail to meet your projected growth rates?
- Please describe your markets (e.g. young women's apparel ages 20 to 30).
- Please describe your plan to approach and grow your presence in these markets?
- On which of your markets will most of the company's resources be focused?
- Will you grow internally or by acquisition?
- What type and size of company would make an attractive and compatible acquisition?
- Would acquisitions be made for cash stock or a combination of debt cash stock and etc?

NOTE: IF THE COMPANY GROWS BY ACQUISITION THERE ARE MANY POTENTIAL RISKS. A WHOLE SERIES OF QUESTIONS ABOUT THEIR PROCEDURES FOR THE ACQUISITION AND ASSIMILATION OF THE NEW BUSINESS MUST BE ASKED.

- How many employees do you have?
- What are their areas of focus, for example how many in production, research and development, sales, marketing, finance?
- Who are your major suppliers?
- How long have you worked with these suppliers?
- How many suppliers do you use for each major component or product area?

FINANCIAL DATA

After examining the company's balance sheet, income statements and statements of cash flow and the appended notes, many different types of questions may be appropriate. Here are a few examples.

- What is your capital spending budget for the next 12 and 24 month periods?
- What are the capital spending plans for longer periods if available?
- How will the capital spending plans be financed?
- What about investing cash flow plans from bank loans, share issuance, or other?
- Your gross margins are currently what percent? What is your internal goal for gross margins this year, in 3 years, and in 5 years?
- Where can you expect operating margins to be long term?
- Selling general and administrative expenses are what percent of revenues this year?
- Given your expected rate of sales growth, where will SG&A expenses be this year, in 3 years, and in 5 years?
- Your R&D (research and development) is what percent of revenues? Do you plan to keep it at this level or increase or decrease it?
- Your tax rate is what percent this year? Will it continue at this level? What will your full tax rate be long term under current tax law?
- How many shares do you have outstanding fully diluted?
- How your options and warrants, if any, are structured; and how much of your total capitalization is options and warrants?
- What is the reporting number of shares and how does it differ from the fully diluted number?

DIVIDENDS

- What is your dividend policy if any?
- How do you determine your dividend payout ratio? What financial variable within your financial statement should we watch to determine how you will act with regards to dividends or other distributions (raise /lower)?
- Do you plan any offerings of debt or equity in the next year?

PROFESSIONAL SERVICES

- Who is your banker?
- Who is your auditing firm?
- Who may we speak to at your auditing firm to answer questions about the notes to your financial statements and to clarify the accounting policies that you employ?
- Who is your investment banker?
- What investment banks currently follow your company on a research basis?
- Which of these analysts understands your company best?
- Who is your Public Relations firm?
- When will you be having meetings with the professional investment community?
- Will you be attending conferences sponsored by industry organizations or investment banking firms where you will speak to and answer questions from the investment community?
- Which type of news items will you be releasing, and how frequently?
- Will you have periodic conference calls to discuss earnings reports?

- Will you sponsor analyst meetings at your facilities and welcome calls from analysts such as me?

FOLLOW UP QUESTIONS

- Are there any questions that I have missed and should have asked?
- Are there any parts of your company story that I have not adequately asked about and understood?
- What are the best industry metrics that I can monitor to understand the trends in your business?
- What are the industry publications that I can read to keep up on trends in your business?

INVESTORS SHOULD UNDERSTAND THAT THESE ARE NOT THE ONLY QUESTIONS THAT CAN BE ASKED WHEN VISITING COMPANIES. DEPENDING ON THE BUSINESS, SOME OF THESE MAY NOT BE RELEVANT.

Many other questions may come up, especially questions pertinent to a specific industry.

As mentioned above, the questions asked to understand an insurance company are very different than the questions asked to understand a software company. Different types of business have different sets of questions which will be pertinent to understanding that business.

WE DETERMINE WHAT THE VALUATIONS ARE FOR THE STOCKS IN THE INDUSTRY GROUP AND WE SORT FOR THE LOWEST PRICE TO GROWTH RATE.

Other firms have different investment parameters. We use several factors and valuation parameters to pick stocks such as: Price to Book value, Price to Earnings ratio, Cash Flow per Share, Earnings per Share, Enterprise value to EBITDA, and others.

The appropriate valuation metrics will differ with different industries. As different businesses use different financial valuation methods to determine how they are doing, an analyst must also look at different parameters to value different types of companies. A steel company is looked at in a much different way than a retailer. A bank is valued using much different metrics than a retailer and so on. Once we have done our analysis and spoken to analysts and, if possible, the company.

We rate the companies by valuation and other valuation metrics looking at both the current and expected valuation. For example, we look at the current P/E ratio and other valuation metrics, as well as next years, two years, five years, etc., and the same methodology applies for other valuation metrics.

A valuation is a function of not just current earnings, but also of many other financial ratios including book value, enterprise value, cash flow, EBITDA and others. It is also valued on other financial metrics and on the discounted value of various future dates in many of these metrics.

Finally, an array of valuations for comparable companies is created and for that the best opportunities are selected.

THE STOCK SELECTION PROCESS

Let me give you an example of part of the process that we often undertake to pick stocks for investment at GIM.

1. We look for companies that have fallen in price or have not appreciated recently due to:
 - a. Stock market declines leaving the stock cheaper on a statistical basis than its mean valuation over the past 10 years.
 - b. Industry group declines due to cyclical reasons or due to market perceptions about a specific industry.
 - c. Company specific problems that lead to a stock's underperformance for a period of several quarters.
 - d. Problems of market perception that lead to undervaluation because the market does not understand the nature of the company and its prospects, or the market has a difference of opinion with us as to the appropriate valuation for the company.
2. Once the proof of low valuation is established, determine by thorough research and communication with the company, industry peers, competitors and analysts that the problem is short lived or is drawing to a close and a new day is dawning for the company. Outside proof of this is reassuring, like insider stock purchases, changes in the company's growth rate, etc.
3. Wait until the end of the period of underperformance is approaching in your judgment and begin to accumulate shares.
4. Use the following traditional valuation parameters EV/EBITDA, PE, Price/sales, discounted cash flow, earnings models, cash flow models, inventory turns, etc.
5. Be sure to account for enough strength in the balance sheet to avoid unnecessary and dilutive financing if current cash flow is a problem.
6. In turn around cases, the cash flow statement is important. Be sure to know and understand the sources and uses of cash for the coming months.

5. Buying & Selling Advice

OTHER BUYING AND SELLING ADVICE - SOME RULES THAT WE LIKE TO FOLLOW

At Guild we like to buy the dips. When you or your money manager has identified a stock that you want to own, the company has tailwinds, good fundamentals, and the overall market is not in a general decline, a good strategy is to buy during periods of weakness.

If a stock you own moves up a lot, it is OK to sell some and trade around a core position. If it doubles, why not sell a chunk, or maybe all? We recommend that investors not be afraid to sell a winner.

We also recommend that investors not be afraid to sell a loser. Remember, loss cutting is important to performance. Once a major disappointment occurs, we believe that the first markdown is often the least markdown. If the fundamentals deteriorate, we recommend that investors sell completely and immediately.

Continue to re-evaluate the company and its price versus the historical valuation the company has enjoyed. We look to sell when it gets to high historical valuations, or in a strong market, as it gets to the upper end of historical band of valuation. We often, purchase more on dips if the fundamentals remain intact. Keep the position within a predetermined position of total portfolio appropriate for the company; usually 5% for a full position, and 2½% for half position.

HOW TO HANDLE DISAPPOINTMENTS

If a stock has a negative company-changing event, we think investors are wise to sell immediately, and sell the entire position!

If the problem that occurs is of a temporary nature, and may take one or two quarters to work out, we might use this as an opportunity to buy more. On the decline, or after the decline has ended and the stock is building a base, we may buy for our longer term investors, anticipating the stock to resume its upward move.

MARKETS ARE ALWAYS CHANGING DUE TO CHANGES IN MANY VARIABLES INCLUDING BUT NOT LIMITED TO POLITICAL, ECONOMIC AND SOCIAL EVENTS ON A GLOBAL SCALE.

Demographic trends and financial activities of market participants are a couple of an unending array of other considerations that investors are wise to be aware of.

It is important to be alert to changes. We try to stay on top of the developments by reading the media outlined above.

6. Have a Thorough Plan

MAKE SURE YOUR PLAN IS REALISTIC AND APPROPRIATE FOR YOU

Be sure to rationally consider yourself in terms of the following: age, income, net worth, and investment experience in the different areas of investing such as income, capital appreciation, speculative trading, domestic and international.

What other variables do you consider important? Obviously, a 70 year old retiree will have different goals and objectives than a 25 year old new entrant in the workforce. Make a thorough

plan outlining your goals and objectives and how you plan to reach them. Have a feedback mechanism and a plan to adjust your goals as you progress on the journey.

Be sure your goals and expectations are reasonable.

Have you determined what a reasonable expectation for appreciation might be? How you will attain it? Will you have to utilize leverage?

Have you decided how you will deal with risk? How you will recognize and manage poor results?

Periodically, measure your performance against the plan. Reevaluate and adjust your plan if you are not meeting your goals, or your situation changes.

How will you handle results that are outside of your expectations? Be aware, that both depreciation and appreciation of your portfolio caused by better or worse than expected results may force you to alter your plan.

It is very important to determine (and be comfortable with) your goals for reward and appetite for risk before you venture into the markets.

GOOD LUCK!