



EurMountainVision

ONLINE Newsletter

THE PARTY MUSSSST GO ON!

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The bulk of economists and financial experts worldwide continue foreseeing a "prompt recovery from this temporary slowdown". This opinion is founded primarily in the perceived strength of the U.S. economy and the faith in Mr. Greenspan's powers.

It does make you wonder. In March, total U.S. credit stood at US\$ 28 trillion. That's a 90% increase over the last decade. The current account deficit, over the same period, has grown tenfold to US\$ 450 billion. At the same time, Treasury Secretary O'Neill went on record stating "This is a fabulous economy".

Meanwhile, the Fed's "tinkering" continues. Under the lead of Alan Greenspan it cut rates again on June 26th. This time it was cut by "only" 0.25%. However, stock markets no longer seem to react obediently to the Greenman's magic wand. As we write this letter, the Dow is once more testing its 10,000 level, despite all the "tinkering", which is by no means confined to Mr. Greenspan alone.

In April, shortly after Nasdaq's violent crash and the lows in the Dow, the U.S. Commerce Department's economic data report came out. It stated U.S. growth at 2.0% in the first quarter. That was far beyond expectations and supported the stock market's rebound since. Now, after the market has rebounded, the figures have been revised. First, the growth figure was lowered from 2.0% to 1.3%, then to 1.2%.

Now, the U.S. Commerce Department admits that they had also "overstated" the level of consumer spending in May. Oh, and Mr. O'Neill has revised his position too. He now admits at least a "temporary slowdown". But he offers a solution too: He wants Europe to join the great "tinkering" endeavor by cutting its rates more aggressively. And, he wants Japan, which has no more rates to cut, to start printing more money. After all, the "party" mussssst go on.

The only problem is that the "party" is already over. The guests are leaving one by one. The U.S. economy has turned down, followed by economies worldwide. And the stock markets are going nowhere - despite all the "tinkering".

After years of inflating the money supply, Mr. Greenspan and his friends have created a completely "artificial" situation in financial markets and the economies. Now they hope for loyal support from abroad. What ever happened to the "free market"?!

In this issue of Mountain Vision, we shall not dwell on the state of the stock market or economic conditions too much. By now, the dismal state of both is being discussed by everyone. No need for us to "beat the dead dog". Instead, we will focus on the Euro, the reasons why it still seems to lose out versus the Dollar, and why we think that a subtle but nonetheless forceful battle over world monetary supremacy has erupted.

In any case, don't let them „tinker you“ too much!

Your "Swiss Connection"

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1 MOUNTAIN VISION SPECIAL: IN THE DOLLAR WE TRUST!

The U.S. Dollar's exceptional strength is giving economists (and investors) headaches. Traditional currency indicators, such as interest differentials or the current account, appear to have lost their merit. Yet, worldwide investors are seeking „safety“ (?!) in the Dollar. A surge of European Dollar investments has led to another unexpected Dollar spike as citizens across Euroland get rid of "old cash" in exchange for Dollars, not for Euro.

Historically, the combination of negative savings, record level debt, declining consumer confidence, increasing unemployment, continued weakness in financial markets and record lows in interest rates would be considered a currency's death wish. However, the Dollar has proven great poise under pressure from all of these factors.

At the beginning of the year, the Euro stood at US\$ 0.9422. On July 5th, it stood at US\$ 0.8370. European Central Bank Vice President Christian Noyer went on record stating that "the current Euro exchange rate is ridiculous". He seems to have a point.

Over the past twelve months, the U.S. has run up a current account deficit of US\$ 450 billion. Europe has a trade surplus. On the most recent figures, the U.S. broad money measure is increasing (inflating) at an annual rate of 15.4% per annum. The figure for Europe is 5.4%. Since January 3rd of this year, the U.S. Central Bank has lowered its official interest rate 6 times for a total of 2.75% (275 basis points). The ECB has lowered rates only once for a total of 0.25% (25 basis points).

What is wrong with this picture? What is the problem with the Euro? Is the U.S. economy stronger than it seems? Is Europe weaker than it appears? Is it a continuation of the boom in U.S. stock markets? Or is it simply the faith in Mr. Greenspan and the fact that the U.S. has proclaimed a strong Dollar policy.

Ironically, at least part of the problem is European-made. Knowing that exchanging their local currencies (D-Marks, French Francs, etc.) for Euros might attract the attention of the taxman, Europeans have decided in hordes to exchange their currencies for NON-EURO currencies instead. The vast majority has chosen the Dollar for that purpose.

1.1 EUROPEANS DO NOT TRUST "EUROPE"

What appears as a contradiction in itself, points to the very core of the problems the Euro has faced so far. Fact is that Europeans do not trust Europe being built in Brussels. Europeans do not trust „Europe“ because it has become obvious that when socialists run „the show“, taxes rise and nothing less than financial privacy and freedom are at stake.

The "original" idea of a united Europe is a good one. Uniting Europe can be an answer to Europe's long history of wars and conflicts. There is reason and value in uniting the European nations. However, the right format and framework have not yet been found.

1.1.1 Lack of identity and values

Why is it that the U.K. and Norway have not joined the European Monetary Union? Why do polls show that a majority of Germans, Austrians and French, if they had the choice to decide over EU membership, would rather revise their politicians' choice to become part of the EU?

Contrary to Switzerland, most European countries have no direct democracy, which would allow them to vote on issues rather than merely elect representatives to parliament. Such representatives, unfortunately, have the bad habit to forget about those who elected them once they make it to the „big

house“. Brussels' increasing distance from the European citizen is reflected in the policies and laws passed. These seldomly reflect popular sentiment. Polls show that people in Germany, France, Italy or Great Britain would not vote for EU-membership, if THEY had the choice.

Moreover, the EU does not have a constitution. Although it is driving hard to introduce a "real" single currency in 2002 and expanding East, the EU has not yet created an all-encompassing "raison-d'être", a definition of its core values and principles.

Its recent dealings with Austria, and even more so the EU's non-reaction to Ireland's referendum regarding the EU's eastern expansion, have done nothing to improve the level of trust amongst Europeans. After all, neglecting the fundamental rights of these small nations is seen as the mode in which personal rights might be dealt with in the future. Ultimately, only a constitution that (at least theoretically) would anchor the rights of an EU citizen in a trustworthy and sustainable manner could improve the Europeans' acceptance of „Europe“.

1.1.2 Loss of financial privacy

Last year, the OECD's worldwide efforts to rule so-called "non-cooperative jurisdictions" - all under the camouflage of a "concerted battle against organized crime, money-laundering and harmful tax practices" - reached an unprecedented scale, driven primarily by both the EU and the U.S. Administration.

The reasons for "offshore" asset accumulation are manifold. Contrary to common wisdom, we do not consider the primary reason being a fiscal one. To a far greater extent it is a means of protection against the confiscatory nature of socialistic governments and high-tax regimes. The higher those taxes are and the less privacy is given to the individual, the more "offshore" protection is sought.

The European continent has experienced numerous and extended periods of conflict. Therefore, in times of peace, Europeans have learned to build a safety net. They are big savers and hold substantial assets in cash and in their pension plans. Many have held bank accounts, insurance policies and physical assets „across the border“ for decades.

The ultimate motivation for holding assets in foreign jurisdictions is one of INSURANCE and SAFETY. The true need for privacy stems from the fact that Europeans are concerned about the EU's obvious lack of respect for financial privacy and its perceived incompetence of managing the future wisely. So far, Brussels has done little to eliminate these concerns. And, the OECD's actions stand testimony to the fact that socialist powers are not interested in privacy.

1.1.3 Tax Harmonization = Higher Taxes

The high-taxation countries of Europe have acted like tax cartels over the past years, fighting tax competition on all levels. The name of the game is "Tax Harmonization". However, competition is healthy! Competition supports the formation of a good price-performance-ratio. This principle stands at the center of free market theory. This same basic principle applies to taxation as it would to standard goods or services. It is also a principle socialists will never accept.

Tax competition tends to force politicians to more wisely manage the funds entrusted to them by the taxpayer. This again leads to lower taxation. The lower taxes are, the more financial freedom each citizen retains. Citizens are better savers, more savvy investors and more critical consumers than government can ever be.

Tax harmonization is undemocratic. Territorial borders within a political unit must always represent taxation boundaries. This is a basic and fundamental principle of democracy. This allows citizens to either directly or indirectly (by election of political representatives) vote on the territorial allocation of resources, i.e. the overall level of taxation and how much is used for what, when and

how. This democratic principle is completely ignored in Brussels, by the OECD and all parties in favor of tax harmonization.

The choice of U.S. Dollars over Euro stems from the fact that Europeans recognize these issues. And now, they are simply taking precautionary measures.

Fortunately, there are some EU members, which have not joined the socialist band wagon blindly. Most importantly, the U.K. stands out as a ray of hope. They have stayed out of the monetary union. Contrary to their EU partners, they have lowered taxes. And, they have improved the general conditions of doing business in England significantly over the past years. It is not a mere coincidence that the center of European financial markets remains in London. To the great aggravation of German leaders, it is not in Frankfurt, where the European Central Bank is located.

What is particularly encouraging about all this is that out of all EU countries, and next to Switzerland, the U.K. economy is the most solid. Their success stands testimony to the fact that policies for independence and free markets are more beneficial than unconditional submission to EU doctrine.

Now, with the appointment of its new leader Mr. Berlusconi, Italy's government has taken a swing to the right. That too increases hopes for a less socialistic trend in Europe. These developments raise the possibilities for Euro success. They also support Switzerland's position of independence.

1.2 WHOSE MONEY RULES?!

Now, to our all great surprise, U.S. Treasury Secretary O'Neill quite candidly indicated that the U.S. would have no part in current international anti-tax proposals. It appears that President Bush, contrary to his predecessor, favors tax competition. What are the reasons for this change of policy?

President Bush, in his recent speeches, has repeatedly made commitments to a STRONG DOLLAR. He does so against the silent outcries of U.S. manufacturers and multinational companies that are being hurt severely by a strong Dollar's negative effect on exports. But, he does so for „good“ reasons.

First of all, Non-Americans own a substantial portion of U.S. securities (stock, bonds, T-Bills, mutual funds). According to Bloomberg, they owned 37.4% of all U.S. Treasuries in June 2001. A weakening Dollar would lead to a flight of foreign funds out of U.S. securities. This would be devastating to the stock market and U.S. consumer confidence.

Secondly, and this reason is one less noted by the public, it all comes down to a battle over world monetary supremacy. Only the nation with the number one currency can print money and "buy the world for paper". And, only the number one world currency can afford to run a credit expansion of the magnitude the U.S. has over the past decade. And that is precisely what the U.S. intends to have some more of - boom or bust.

On a geo-political level, the issue is: "Whose money rules?!" Is it the U.S. Dollar, is it the Euro, or is there a "third money" that could underpin world currencies?... In this power game, both sides are displaying creativity and determination.

To give you an impression of what is happening, here are some of the recent moves that describe the game being played:

- U.S. credit expansion leads to "irrational exuberance". The whole world takes part in the feast. EU officials, and particularly ECB head Wim Duisenberg openly criticizes U.S. monetary

policies. However, Greenspan keeps going. Strong financial markets = foreign funds that are not in the Euro = strong U.S. Dollar.

- OECD under the direction of both EU and U.S. put the squeeze on "offshore" and low-taxation jurisdictions. The ultimate purpose on both sides = drive home taxes in support of a strong currency.
- In January, while still keeping the heat onto "offshore", the U.S. passed a foreign capital depository program in Colorado, all in an effort to offer „Swiss Style Private Banking“ to foreign investors and in support of the Dollar.
- Economic conditions in the U.S. deteriorate rapidly. Greenspan frantically lowers rates - six times in a row within only half a year. Europe, despite a downturn of economic indicators, keeps rates steady in fear of inflation - and in support of the Euro. A smaller interest rate differential = stronger Euro, weaker Dollar.
- Europe prepares for the big hit. Cash Euro to be introduced in January 2002. But, unpleasant surprise: Europeans go for the Dollar instead of the Euro. The Dollar surges.
- This is an ace up Mr. Bush's sleeve. Understanding that Europeans are worried about privacy and taxes, the U.S. answer is prompt: they declare their "respect" for tax competition and call back the OECD hounds. Simultaneously, the U.S. invites Europe to ease on credit, accusing Europe of underestimating the growing risks for worldwide recession.
- Etc. Etc. Etc. - you get the picture. Currently the Dollar is still in the lead. You pick your long-term favorite.

1.3 PRACTICAL IMPLICATIONS FOR INTERNATIONAL INVESTORS

The current climate presents tough choices to the international investor. The path to Euro success is still a narrow and steep one. Equally, U.S. economic fundamentals warn us about Dollar risks. Financial privacy is being eroded in a concerted worldwide campaign. And the stock market, a source of magnificent returns over the past decade, is not telling us which way the voyage will go...

1.3.1 Where to find financial privacy

Financial privacy has become a scarce resource. The OECD's pounding is starting to show first effects on "non-cooperative jurisdictions". After finding themselves on the OECD's "black list", they are hustling to satisfy OECD requirements. Some jurisdictions are in fact doing more than is required.

Bermuda authorities, for instance, have recently stated that they consider tax evasion a criminal offense now and that they will cooperate fully with other countries. Others have now committed to full cooperation with FATF on any exchanges of financial information. The Bahamas has gone so far as promising to raise its taxes. That is the first step to closing down the Bahamas as an offshore financial center!

1.3.2 What about privacy in Switzerland

The status of financial privacy and banking secrecy in Switzerland has been dealt with abundantly in the press. Popular media stories have created two contradictory pictures: Some say that Swiss secrecy hinders law enforcement officers from prosecuting criminals, while others claim that Swiss secrecy does not exist anymore and is just as full of holes as a Swiss cheese. In fact, neither is true.

Already in 1990, Switzerland implemented a law against money laundering that has since become a model for international anti-money-laundering legislation. As a matter of fact, the country's often criticized and misunderstood banking secrecy is not there to help criminals hide their dirty money but for a very different purpose: the protection of privacy.

Tax avoidance is not a crime, and will not be considered a crime in Switzerland. And, recent polls have demonstrated powerfully that the Swiss have no intentions whatsoever to eliminate banking secrecy.

Switzerland's position is manifested in its civil law: Information concerning a customer and the customer's financial dealings is protected as part of the individual's legal and constitutional right to privacy. Therefore, secrecy and privacy, contrary to a general perception, is not confined to banking. It spans the entirety of Swiss financial services.

According to banking secrecy laws, Swiss banks are prohibited from disclosing any information about their clients to Swiss or foreign authorities. However, Swiss secrecy is not absolute. In international cases, a foreign authority that wants information from a Swiss bank may not approach the bank directly. It must use the official channels and place a formal application with the Federal Department of Police. If the department decides in favor of disclosure, the application is forwarded to the respective cantonal authority (the state attorney's office). The actual lifting of banking secrecy, however, can only be effectuated by order of a judge in the respective canton (state).

Thus, it can be said that the Swiss policy of secrecy is strict and is only put aside in cases clearly defined by Swiss law and pursuant to Swiss rules. It is, however, not absolute and therefore does not at all protect criminals.

1.3.3 The emergence of two primary private banking centers

In conclusion, not too many jurisdictions offer the kind of protection investors are seeking. In view of current trends and the development of "Swiss style banking" in the U.S., it is conceivable that two contenders will emerge as the top private banking centers of the world, Switzerland and the United States.

While Americans will tend to drift towards Switzerland, non-American funds will start being channeled to Colorado and other states introducing similar privacy legislation.

Investors around the world have already started reallocating their assets to Switzerland and America. This trend can be expected to accelerate as Europeans seek new safe harbors and the Caribbean jurisdictions see their legal shields being chipped away leaving the investors exposed.

1.3.4 Currency choices

At this time, we do not recommend investing in the Euro or the U.S. Dollar. In our view, it is better to take advantage of those currencies that are not directly linked to the two "big guys in the bout". Instead, the Swiss Franc, gold (the only real currency) or possibly the UK Pound should be considered as a hedge against home country risk and economic crises.

For this purpose adequately structured Swiss annuity policies or a Swiss bank account provide good options.

2 GLOBAL ECONOMIC HIGHLIGHTS

2.1 GREENSPAN IS DOING WHAT HE KNOWS BEST

Mr. Greenspan is „printing money“ as if there was no tomorrow. The level of U.S. debt is staggering. The trend of rising U.S. debt has increased the household sector's debt-service burden to a level that could at least impede growth. If borrowers are overextended, they might be less able or willing to borrow in the future, and they might cut back on purchases of cars, home furnishings, and other big-ticket items that are usually paid for on credit.

At the end of 2000 household sector debt totaled US\$ 6.6 trillion. That is twice as much as the amount outstanding at the beginning of the boom a decade ago. The question arises whether the nominal level of debt is sustainable. Or put differently, are households' balance sheets strong enough to support continued spending and avoid the consequences of a serious retrenchment in consumer spending?

A common sense approach to answering this question is to compare the amount of debt with the financial resources available to service it, i.e. the ratio of debt to disposable (after tax) income. This relative level of total household debt has risen to a new record of 93% at the end of 2000. The largest share of that increase is found in mortgage debt, accounting for approximately 70% of total household debt.

This is significant, because the Fed's attempt to boost (or save) the U.S. economy, by drastically cutting interest rates is directed toward two objectives:

First, it is obviously an attempt to save the stock market. From a strictly mathematical perspective, lower interest rates translate into better company valuations as projected cash flows are subjected to a lower level of discounting. This (the method of discounted cash flows) is how the boys on Wall Street commonly come up with their value estimates.

Secondly, the Fed, by cutting interest rates, aims to facilitate the ability of consumers to service their debt load and, thereby, invites them to "please keep spending". Unfortunately, the Fed does not (at least not yet) control mortgage rates, which have changed little since the beginning of the Fed's "cutting campaign".

If the cost of borrowing does not decrease sufficiently to facilitate mortgage payments and refinancing, consumers may become more cautious and slow down their spending. Possibly, this will be the beginning of the end to Mr. Greenspan's growing nightmare...

2.2 WHAT DOES A BEAR MARKET LOOK LIKE?

The U.S. CPI rose by 0.4% in May after a 0.3% rise in April. It is now running at an annual rate of 4%. Nonetheless, Alan Greenspan continues preaching that "inflation is not a problem"...

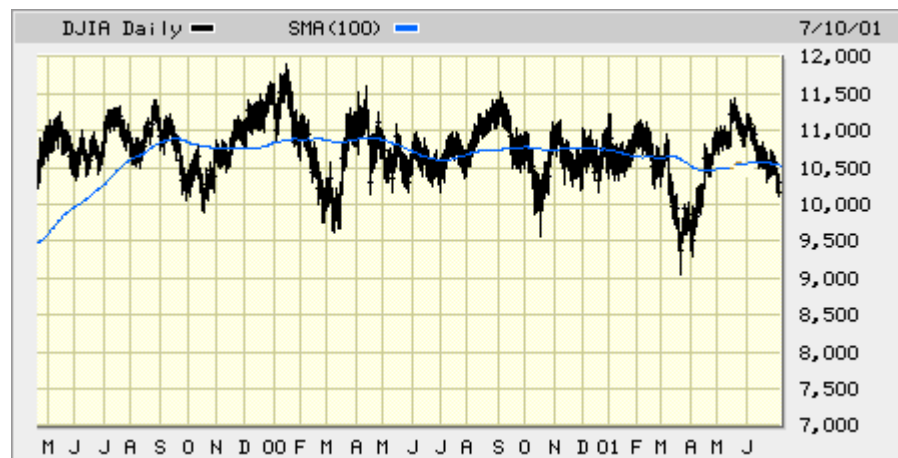
The price/earnings ratio for the Dow still remains at 24. The S&P 500, which has fallen further than the Dow, still has a P/E ratio of 28, while its yield stands at only 1.25%. All of these valuations remain in "bull market territory". They are higher than any valuations found in the peaks of every previous U.S. bull market. Buying and/or holding U.S. shares at these valuations means buying or holding at the absolute top of bull market values.

Pictures are worth more than words. The following two graphs should give you a better idea of the bear market we are in. The Nasdaq's 100-day moving average is still in steady decline. Current valuations remain at historical highs despite the continuous and rapid deterioration since March of 2000.



Source: www.bigcharts.com

The Dow has been in a slow but steady downward trend since August of 2000. The blue 100-day moving average line portrays this well. The primary peaks and lows of the market are decreasing steadily. It's unclear whether the lows have been reached. The accelerating worldwide decay of economic fundamentals does not support the view that an uptrend should be expected anytime soon.



Source: www.bigcharts.com

2.3 WORLD ECONOMIES FOLLOWING THE U.S. LEAD

The ten-year-old hierarchy amongst the three global economic superpowers - the United States followed by Europe and Japan - is shaking. The U.S. has slowed down, but this time Japan is not playing the balancing counterpart as in previous cycles. The repercussions are not only felt in Latin America and Southeast Asia, whose economies are closely linked to the U.S. and Japan respectively, but globally, including Europe.

Today, countries are no longer only interconnected through the exchange of goods. Increased globalization has created transmission channels that allow shock waves to spread faster and farther. This includes a new composition of exported products, the size of direct investments and last but not least, the strongly intertwined financial markets.

During the first half of 2001, all regions have experienced a substantial slowdown in economic growth. Europe too will not be unaffected by the U.S. slowdown:

- Industrial sentiment in the EU slid in June for a sixth consecutive month to the lowest level since July 1999, shortly after the emerging-markets economic crises. The figure slipped to minus seven from minus five. Economists said the speed of the drop suggested that the slowdown in Europe hadn't bottomed out yet.
- Consumer sentiment, meanwhile, edged lower for the third month in a row to a level not seen since August 1999. Though sentiment is still at historically high levels, consumers are feeling the pinch of job cuts, higher oil prices, and less buying power for imports because of the weak Euro. The index for June was minus five, compared with minus four in May.
- A separate report confirmed that the pace of job growth is slowing. The unemployment rate in April was stagnant at 8.3%. In the past six months, the rate has dropped only 0.2 percentage point, compared with a 0.4-point drop in the previous six months.

Still, the ECB justifies its reluctance to cut interest rates by pointing to the risk that the current 3.4% annual inflation rate, though temporary, could translate into a permanent trend if wage earners demand and win pay raises. The ECB does recognize, however, that lower growth from the global economic slowdown reduces inflationary pressure.

3 INVESTOR BRIEFS

3.1 GOLD TENSION BUILDING

The term "bubble" is a useful one in financial analysis, referring to any market that has seen prices blown up and out of proportion. Recently, a client of ours called and asked whether we knew of the term "elbbub". Admittedly, we were not familiar with that one. He explained quite simply: "A "bubble" has nowhere to go but down. An "elbbub" has nowhere to go but up."

Though quite amusing, this reference to the gold market has merit. Gold, and possibly some other precious metals, now represents an attractive, and actually one of the few choices for that portion of your portfolio devoted to growth. As inflationary pressures build and/or the Dollar shows signs of weakness, investing in gold serves a dual strategy:

1. Protection from a crisis in worldwide economies, and particularly one involving the Dollar.
2. Substantial upside growth potential.

If you are interested in acquiring and/or storing precious metals in Switzerland, contact our offices in Zurich. In view of current developments EurAxxess now offers a very interesting precious metals program.

3.2 OUTPERFORMANCE IN NEW ERA ANNUITY CERTIFICATES

The results of the professional currency management option offered in "New Era Annuity Certificates" continues to be most refreshing, particularly in view of the current non-performance in (all) other asset classes. Clients that have signed up for this service are able to watch the developments in currencies with a healthy dose of ease and confidence.

Professional currency management is definitely a big step in the right direction. And, to your great satisfaction, we will have more to report on the front of Swiss annuity innovation and currency management soon. So stay tuned.

3.3 PROPOSED U.S. TREASURY LEGISLATION ON FOREIGN ANNUITIES

On March 6th, we advised you of some proposed new tax regulations on foreign-issued annuities as follows: "The U.S. Treasury has proposed new tax regulations related to foreign-issued annuities. If the U.S. Treasury's newly intended legislation is enacted (note the "if"), annuities offered by foreign-domiciled insurance companies would lose their tax-deferability.

In other words, non-U.S. tax paying insurance companies would lose their right - going forward - to claim that their annuities can and do benefit from U.S. tax-deferability. If the said regulations are indeed enacted, the U.S. Treasury would then make applicable its new regulations retroactive to January 12th, 2001."

The Treasury had scheduled a hearing for May 30th, which we awaited with the expectation that we would be able to finally inform our clients of a final and clear resolution to the matter. May 30th has passed. There is no resolution. The hearing was cancelled. And so far, we have not been able to get much more information than that. In fact, the attempts on our part of getting the Treasury's attention or a simple explanatory statement have been without success.

At this point, the implications of the canceled hearing are unclear. It appears that the change in Administration presents some opportunity for a "re-hearing" on this matter, although we dare not hold our hopes up too high for a change in the Treasury's position.

We are sorry that we cannot offer any more than that at this time. As soon as we learn more, you will be amongst the first to know. Unfortunately, past experience with the Treasury and the IRS have decreased my hopes for promptness...

4 JUST FOR FUN... - ONLY THE ANSWERS CHANGE

An economist returns to visit his old school. He's interested in the current exam questions and asks his old professor to show some to him. To his great surprise the questions are exactly the same as those he had answered 10 years ago!

When he asks about this the professor answers: "The questions are always the same - only the answers change!"

Found somewhere on the web. Author unknown.



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