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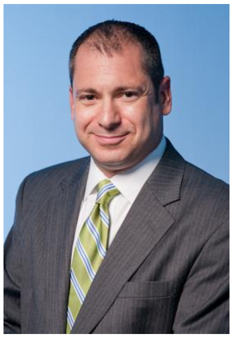

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Walk like an Egyptian…

Another small country; another big impact on global markets. This is how I would boil down the situation in Egypt into 4 areas, Economic, Regional, Political, and the Global balance of world power.

It seems to be happening with greater frequency and reaction that small countries; Greece, Portugal, Thailand (devalued the local currency, Baht, in '97 and sparked an immediate global selloff in major markets) and most recently Egypt, are reeking havoc on developed country financial markets. So, here we go:

Economic: The key thing investors need to focus on is the price of crude energy. Egypt is a very small producer of oil, but since oil is a "marginal" trade, it can have a big impact on the price direction of crude. Also, the Suez Canal is a major transportation route for oil. The impact on investors, first and foremost, is the potential for rising gasoline costs. The cost had been moving up lately already, and this simply reinforces the rising price trend. The economic recovery that has boosted financial assets, retail sales, consumer confidence, and corporate earnings, would potentially be in severe jeopardy as too many marginal consumers would have less to spend.

Regional: Fear of another Ayatollah radical Islamic regime or a Saddam Hussein style authoritarian government. Egypt happens to be owned by the all powerful army there and if it doesn't embrace the democratic process, which I doubt it will, then it will crack down on the protest. The US will then have to back the people there and distance itself from yet another government in the Mid-East. The Israeli's would no doubt have a little more to worry about, but I actually would be surprised if the Israeli government didn't see this coming. In any event, the army will be in control whether or not it backs Mubarak or another hand picked leader. The very young average age of the Arab nations combined with regional high unemployment is not going away any time soon. The sum of all fears here is that the other moderate Arab governments could fall as well, leaving the entire region in the hands of dangerous radicals under the direct influence of Iran. Unfortunately, a strong Egyptian army is our best shot at stability in the region.

Political: This highlights that the U.S. influence the world over is waning due to new powerful countries like China and Iran. This is the first real test for the Administration regarding how to deal with the change in world order. Secretary of State Clinton is straining to walk a fine line; Mubarak has been as good as it gets when dealing with Arab nations and yet the U.S. must come down on the side of democracy. The U.S. cannot afford and will be unwilling to sponsor Egypt, yet it can't let Iran fill in the vacuum of "big brother" to the rescue either.

Global aspect: The flight to the U.S. Dollar and Treasury securities seems somewhat muted. The Euro and Yen denominated assets have attracted a lot of "flight to safety" trades. This highlights the extended and precarious nature of our federal budget deficit. Whether one agrees with this assessment is irrelevant because that is how foreigners see it. And we are dependent on foreigners just as we are part of a global economy and not an island unto ourselves.

TO conclude, the big picture here is not really Egypt, but rather the declining proportion of our political and economic influence. I wouldn't draw the conclusion that this is negative; simply that with these challenges comes our greatest opportunities. This declination of U.S. influence is truly the greatest change to the Macro-economic environment and investors need to stop living in denial and accept the fact that they need to be more flexible in their strategic thinking. Eventually, any macro situation will be priced into the markets and then we'll get back to the micro- economics of strong individual company corporate earnings and productivity gains, which still bode well for investors.