

SupplySideInvestor

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The treadmill effect is abating as expectations grow that the Fed will stop raising the funds rate at 4.5 or 4.75%.

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Director of Market Strategy
Paul K. Hoffmeister

Director of Global Research
Vlad Signorelli

Representative in the West
Wayne Jett

To subscribe call toll-free
(877) 879-7659 ext. 21

Inquiries may be directed to:
support@supplysideinvestor.com

Polyconomics & SupplySideInvestor were founded by Jude Wanniski.

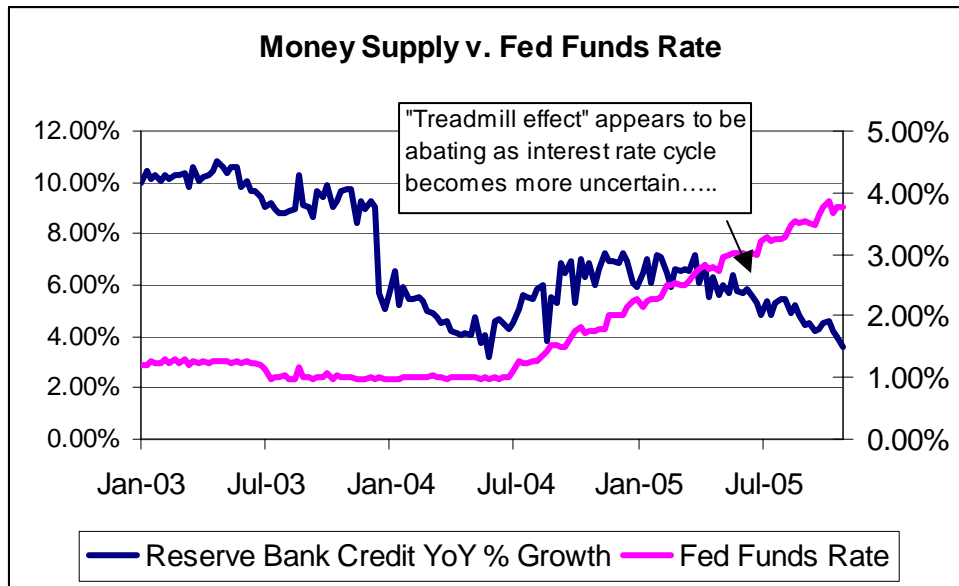
The Mechanics of a Disinflation

During the last year, increases in the funds rate were creating inflationary pressures because the "treadmill effect" was increasing money supply growth, while the slowing economy was demanding less money. Using "reserve bank credit" as a proxy for money supply and "MZM" as a proxy for money demand, it is clear that some of those inflationary forces pushing gold higher are weakening. These same monetary indicators are now signaling that the treadmill effect is abating as expectations grow that the Fed will stop raising the funds rate around 4.50% or 4.75%. Though the inflationary bias in gold still remains, some of the forces pushing gold higher may moderate since the supply pressures on the dollar have improved. Declining money demand is now the primary monetary variable pressuring gold higher. Using history as our guide, we expect money demand to strengthen in a material way only when the Fed clearly declares an end to the current rate cycle, at which point the worsening inflationary environment should come to an end. The following is a detailed assessment of the monetary indicators.

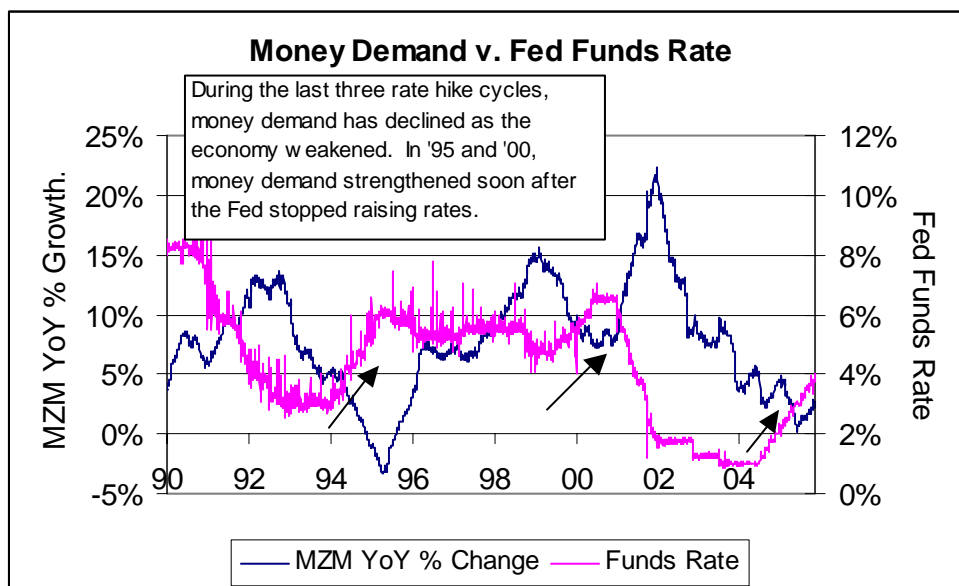
Current Behavior in the Monetary Indicators

Fortunately, the treadmill effect appears to be abating. This is most likely occurring because the certainty of

future rate hikes has diminished as the 4% funds rate nears current peak expectations that the Fed will stop at 4.5% or 4.75%. Since this would indicate that the supply side of the supply/demand dynamic looks better, we expect gold to experience less upward pressure compared to earlier in the year. **There will still be, however, an upward bias in gold prices, but it should originate primarily from the demand-side of the monetary equation.**

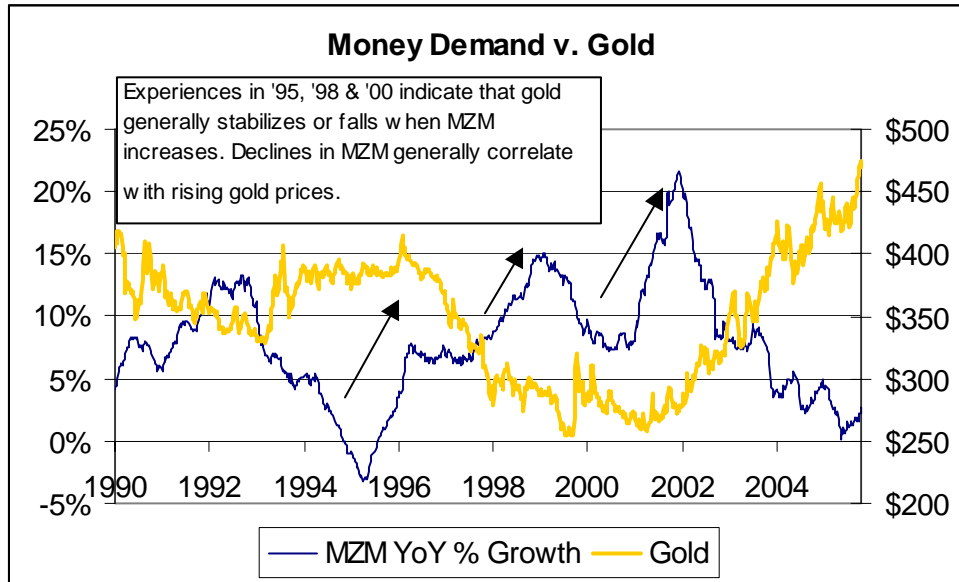


Over the last 15 years, the evidence strongly suggests that MZM growth and the funds rate are inversely correlated. That is, when the funds rate rises, MZM growth declines, and vice versa. It makes sense intuitively that money demand declines as interest rates rise, because as the economy slows due to the burdens of rising financing costs, economic actors will demand less liquidity for transactional purposes.



During each of the last three rate hike cycles ('94-'95, '99-'00, and '04-'05), money demand has declined as the economy has correspondingly weakened. Soon after the '95 and '00 cycles ended, however, money demand quickly strengthened. **Therefore, once the Fed officially declares an end to its current tightening campaign, we expect the declining trend in money demand to reverse and materially strengthen. If reserve bank credit grows at a steady pace, then the increase in money demand growth should mark an end to the worsening inflationary monetary environment and cause a modest stabilization in gold prices.**

Over the last 15 years, each general upward growth trend in MZM has corresponded with either a stabilization or decline in gold prices. Strong MZM growth is a hallmark of a strong dollar environment. Essentially, as economic participants demand more liquidity at the margin, gold has tended to fall and the monetary environment has become either stable or dis-inflationary/deflationary.



Of course, this analysis is conditional, since it focuses on Fed conduct and does not address the possibility of an unexpected event that severely disrupts economic activity, such as terrorism. The Fed under Greenspan has staked its "credibility" as an inflation-fighter above all else and may therefore wish to hold the threat of higher rates over the economy. This would bode negatively on the inflation outlook. Yet Chairman Bernanke, who has claimed that the "neutral" funds rate could hover around 3.5%, may introduce a dovish posture to the FOMC when he is expected to join the board on February 1, 2006. In which case, we'd expect gold to gradually end its four-year inflationary trend.

SUPPLYSIDEINVESTOR EXCHANGE TRADED FUND (ETF) LIST

Given the macroeconomic and political environment, we consider the following exchange traded funds among the most attractive investments within the ETF universe. For your reference, this list will be updated with each issue of SupplySideInvestor.

OPEN POSITIONS	TICKER	Name	Date Rec.	Rec. Price	Last Price*	Gain/ Loss
Sector - Longs						
Benchmark Index	IYW US EQUITY SPX INDEX	ISHARES DJ US TECHNOLOGY SEC Standard & Poors 500 Index	7/11/2005 7/11/2005	47.66 1219.44	49.50 1230.96	3.86% 0.94%
Benchmark Index	IYM US EQUITY SPX INDEX	ISHARES DJ US BASIC MATERIAL Standard & Poors 500 Index	11/29/2004 11/29/2004	50.48 1178.57	48.78 1230.96	-3.37% 4.45%
Benchmark Index	SMH US EQUITY SPX INDEX	SEMICONDUCTOR HOLDRs TRUST Standard & Poors 500 Index	9/27/2004 9/27/2004	29.8 1103.52	36.16 1230.96	21.34% 11.55%
Benchmark Index	SWH US EQUITY SPX INDEX	SOFTWARE HOLDRs TRUST Standard & Poors 500 Index	9/27/2004 9/27/2004	34.1 1103.52	36.77 1230.96	7.83% 11.55%
Global - Longs						
Benchmark Index	CEE US EQUITY MXEA INDEX	CENTRAL EUROPE & RUSSIA FUND Morgan Stanley Capital International EAFE Index	7/25/2005 7/25/2005	34.00 1499.70	44.45 1587.83	30.74% 5.88%
Benchmark Index	IIF US EQUITY MXEA INDEX	MORGAN STANLEY INDIA INVEST Morgan Stanley Capital International EAFE Index	11/29/2004 11/29/2004	26.16 1459.73	40.46 1587.83	54.66% 8.78%
Benchmark Index	EWO US EQUITY MXEA INDEX	ISHARES MSCI AUSTRIA Index Morgan Stanley Capital International EAFE Index	9/27/2004 9/27/2004	17.7 1300.57	25.50 1587.83	44.07% 22.09%
Benchmark Index	EWZ US EQUITY MXEA INDEX	ISHARES MSCI BRAZIL Morgan Stanley Capital International EAFE Index	9/27/2004 9/27/2004	17.94 1300.57	33.07 1587.83	84.34% 22.09%
Benchmark Index	EWZ US EQUITY MXEA INDEX	ISHARES MSCI MEXICO Index Morgan Stanley Capital International EAFE Index	9/27/2004 9/27/2004	20.13 1300.57	32.96 1587.83	63.74% 22.09%

CLOSED POSITIONS	TICKER	Name	Date Rec.	Rec. Price	Last Price*	Gain/ Loss
Sector						
CLOSED 7/11/05	IAH US EQUITY SPX INDEX	INTERNET ARCHITECT HOLDRs TR Standard & Poors 500 Index	12/23/2004 12/23/2004	37.68 1194.20	34.70 1230.96	-7.91% 3.08%
CLOSED 11/29/04	RKH US EQUITY SPX INDEX	REGIONAL BANK HOLDERS TRUST Standard & Poors 500 Index	9/27/2004 9/27/2004	132.15 1103.52	139.09 1178.57	5.25% 6.80%
CLOSED 12/10/04	OIH US EQUITY	OIL SERVICE HOLDRs TRUST	9/27/2004	81.08	81.12	0.05%
CLOSED 12/10/04	IXC US EQUITY SPX INDEX	ISHARES S&P GLBL ENERGY SECT Standard & Poors 500 Index	9/27/2004 9/27/2004	69.56 1103.52	72.48 1188.00	4.20% 7.66%
Global						
CLOSED 7/25/05	TKF US EQUITY MXEA INDEX	TURKISH INVESTMENT FUND Morgan Stanley Capital International EAFE Index	12/23/2004 12/23/2004	15.95 1493.64	17.36 1587.83	8.84% 6.31%
CLOSED 12/9/04	TRF US EQUITY MXEA INDEX	TEMPLETON RUSSIA & EAST EURO Morgan Stanley Capital International EAFE Index	9/27/2004 9/27/2004	37.28 1300.57	37.62 1439.81	0.91% 10.71%
CLOSED 12/23/04	EWC US EQUITY MXEA INDEX	ISHARES MSCI CANADA Morgan Stanley Capital International EAFE Index	9/27/2004 9/27/2004	15.07 1300.57	16.76 1493.64	11.21% 14.85%

* Last Price reflects the last available closing price on the date of issue publication (11/10/2005).

Note: The SupplySideInvestor 'ETF List' is not a model portfolio. It is a list of ETFs that are believed to be among the most attractive investments through ETF investing, based on Polyconomics' assessment of the economic and political landscape. The trade results posted for SSI are hypothetical but reflect changes and positions with the last available prices. SupplySideInvestor staff may hold positions in some or all of the funds listed.

Note to Investors

With the recent changes to our portfolio recommendation service, we are highlighting the advantages of Exchange-Traded Funds (ETF's), and how they can be effectively used in conjunction with our macroeconomic and political analytics.

ETF's are baskets of securities that are traded like individual stocks on an exchange. They can be country-specific, sector-specific, or broad-market specific. Unlike traditional open-end mutual funds, ETF's can be bought and sold anytime during the trading day, and generally have much lower expense ratios.

We believe exchange-traded funds can be especially suited for individual subscribers as our research primarily focuses on the macroeconomic and political effects on countries and industries, rather than specific companies. If our recommendations are bullish or bearish, for example on Brazil or semiconductors, subscribers can easily long or short those general investment themes via Brazil iShares (EWZ) or Semiconductor Holder's (SMH). By their nature, ETF's mitigate company-specific risk while enhancing industry-specific reward. Yahoo! Finance's ETF Center -- <http://finance.yahoo.com/etf> -- is an excellent source for ETF news and information. ETF information can also be found in the pages of the Wall Street Journal and Barron's.

We believe that ETF investing fits in well with our investment philosophy and provides SupplySideInvestor subscribers with a superior approach to investing via our analytical framework. Where corresponding ETFs do not exist, bellwether companies within given sectors can often be located through Yahoo! Finance <http://biz.yahoo.com/ic/> and for information relating to ADRs, in conjunction with our global macro research, www.adr.com is an excellent online resource.

THE ETF UNIVERSE

SECTOR/INDUSTRY

HOLDRs	
Ticker	Name
BHH	B2B INTERNET HOLDRs TRUST
OIH	OIL SERVICE HOLDRs TRUST
HHH	INTERNET HOLDRs TRUST
IHH	INTERNET INFRASTRUCTURE HOLD
SWH	SOFTWARE HOLDRs TRUST
WMH	WIRELESS HOLDRs TRUST
UTH	UTILITIES HOLDRs TRUST
TTH	TELECOM HOLDRs TRUST
BDH	BROADBAND HOLDRs TRUST
RTH	RETAIL HOLDRs TRUST
RKH	REGIONAL BANK HOLDERS TRUST
SMH	SEMICONDUCTOR HOLDRs TRUST
IAH	INTERNET ARCHITECT HOLDRs TR
BBH	BIOTECH HOLDRs TRUST
PPH	PHARMACEUTICAL HOLDRs TRUST

iShares	
Ticker	Name
IGE	ISHARES GOLDMAN SACHS NAT RE
IYE	ISHARES DJ US ENERGY SECTOR
IGV	ISHARES GOLDMAN SACHS SOFTWA
IYT	ISHARES DJ US TRANSPORT INDX
IYM	ISHARES DJ US BASIC MATERIAL
IYZ	ISHARES DJ US TELECOMMUNICAT
IDU	ISHARES DJ US UTILITIES SECT
IYW	ISHARES DJ US TECHNOLOGY SEC
ICF	ISHARES COHEN & STEERS RLTY
IYR	ISHARES DJ US REAL ESTATE
IYC	ISHARES DJ US CNSMR SERVICE
IGW	ISHARES GOLDMAN SACHS SEMI
IYJ	ISHARES DJ US INDUSTRIAL SEC
IGN	ISHARES GOLDMAN SACHS NETWORK
IYF	ISHARES DJ US FINANCIAL SECT
IBB	ISHARES NASDAQ BIOTECH INDX
IYK	ISHARES DJ US CONSMR GOODS
NEW!!	
GLD	STREETTRACKS GOLD TRUST

Fixed Income

iShares	
Ticker	Name
AGG	ISHARES LEHMAN AGG BOND FUND
TIP	ISHARES LEHMAN TRES INF PR S
SHY	ISHARES LEHMAN 1-3YR TRS BD

iShares	
Ticker	Name
IEF	ISHARES LEHMAN 7-10YR TREAS
TLT	ISHARES LEHMAN 20+ YR TREAS
LQD	ISHARES GS\$ INVESTOP CORP BD

INTERNATIONAL

Closed-End Funds	
Ticker	Name
TRF	TEMPLETON RUSSIA & EAST EURO
MXE	MEXICO EQUITY AND INCOME FD
SOA	SOUTHERN AFRICA FUND INC
LDF	LATIN AMERICAN DISCOVERY FD
RNE	MORGAN STANLEY EAST EUROPE
LAQ	LATIN AMERICA EQUITY FD INC
MXF	MEXICO FUND INC
BZF	BRAZIL FUND INC
SNF	SPAIN FUND INC
KF	KOREA FUND
IRL	NEW IRELAND FUND INC
SGF	SINGAPORE FUND INC
KEF	KOREA EQUITY FUND
CEE	CENTRAL EUROPE & RUSSIA FUND
BZL	BRAZILIAN EQUITY FUND
JOF	JAPAN SMALLER CAPITALIZATION
APF	MORGAN STANLEY ASIA PACIFIC
GF	NEW GERMANY FUND
TKF	TURKISH INVESTMENT FUND
EF	EUROPE FUND INC
CH	CHILE FUND
SWZ	SWISS HELVETIA FUND
ISL	FIRST ISRAEL FUND INC
IFN	INDIA FUND INC
GRR	ASIA TIGERS FUND INC
TWN	TAIWAN FUND INC
MF	MALAYSIA FUND INC
APB	ASIA PACIFIC FUND INC
JEQ	JAPAN EQUITY FUND
SAF	SCUDDER NEW ASIA FUND INC
TFC	TAIWAN GREATER CHINA FUND
GER	GERMANY FUND
IF	INDONESIA FUND INC
TDF	TEMPLETON DRAGON FUND INC
IIF	MORGAN STANLEY INDIA INVEST
TTF	THAI FUND INC
TF	THAI CAPITAL FUND INC
GCH	GREATER CHINA FUND
CHN	CHINA FUND INC
JFC	JF CHINA REGION FUND INC

iShares	
Ticker	Name
EWZ	ISHARES MSCI BRAZIL
EWA	ISHARES MSCI AUSTRALIA INDEX
EWC	ISHARES MSCI CANADA
ILF	ISHARES S&P LATIN AMERICA 40
IXC	ISHARES S&P GLBL ENERGY SECT
EWD	ISHARES MSCI SWEDEN INDEX FD
EPP	ISHARES MSCI PACIFIC EX JPN
EWV	ISHARES MSCI MEXICO
EWO	ISHARES MSCI AUSTRIA INDEX
EWK	ISHARES MSCI BELGIUM
EZA	ISHARES MSCI SOUTH AFRICA IN
EWI	ISHARES MSCI ITALY INDEX FD
EWP	ISHARES MSCI SPAIN INDEX FD
EWG	ISHARES MSCI GERMANY INDEX
EWU	ISHARES MSCI UNITED KINGDOM
EZU	ISHARES MSCI EMU
IEV	ISHARES S&P EUROPE 350
EFA	ISHARES MSCI EAFE INDEX FUND
EWY	ISHARES MSCI SOUTH KOREA IND
EWQ	ISHARES MSCI FRANCE INDEX FD
IXG	ISHARES S&P GLBL FINL SECTOR
EWS	ISHARES MSCI SINGAPORE
IXN	ISHARES S&P GLBL TECH SECTOR
EWN	ISHARES MSCI NETHERLANDS INX
EWH	ISHARES MSCI HONG KONG INDEX
EWT	ISHARES MSCI TAIWAN INDEX FD
ITF	ISHARES S&P/TOPIX 150 INDEX
EWJ	ISHARES MSCI JAPAN INDEX FD
EWM	ISHARES MSCI MALAYSIA
IOO	ISHARES S&P GLOBAL 100
EWL	ISHARES MSCI SWITZERLAND IND
IXJ	ISHARES S&P GLBL HEALTHCARE
NEW!!	
FXI	ISHARES FTSE/XINHUA CHINA 25

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