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Strategic International Securities Inc.

A Registered Investment Advisory



# SISR International Finance\*

## International Finance

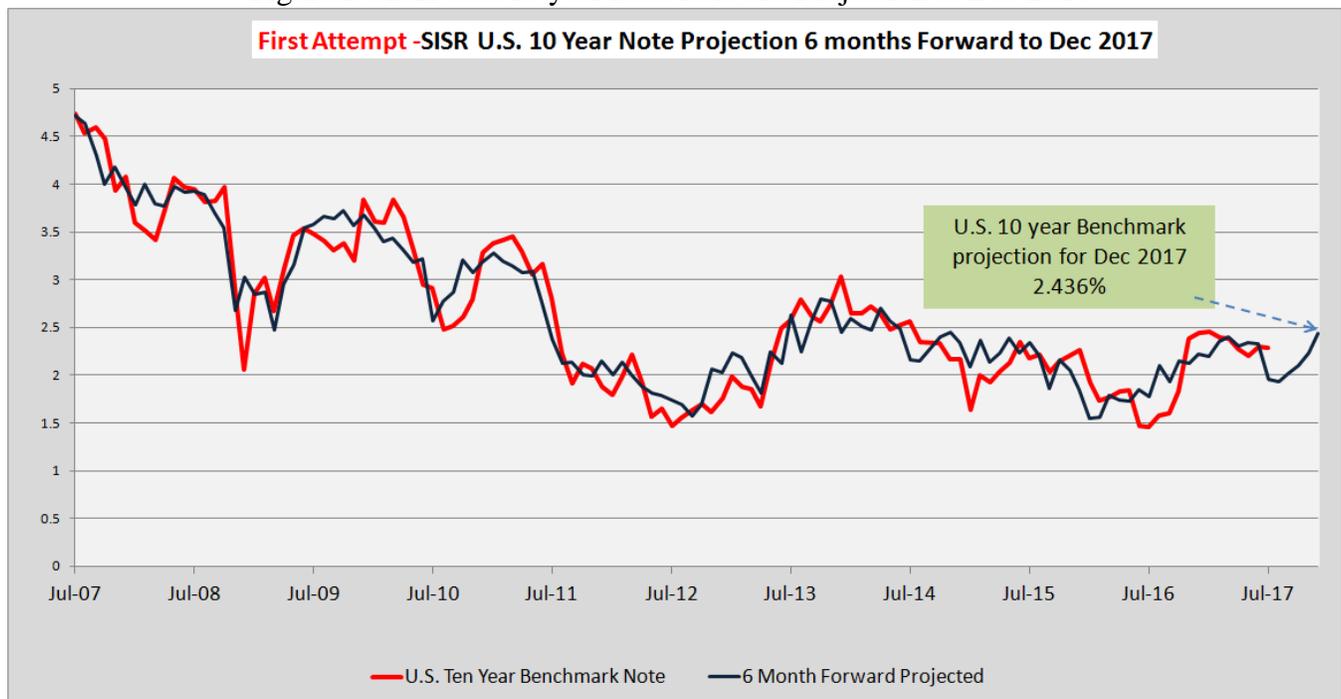
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## U. S. 10 Year Benchmark Year End Projection -Initiation Report

Figure I: SISR U.S. 10 year Note Forward Projection to Dec 2017



Source, SISR proprietary Model

### Introduction

Over the past 7 years we at SISR have worked with various 6 month forward economic models. In 2010 we initiated our U.S. model which projected major forward returns based on existing economic data projected forward. The success of the U.S. models has encouraged us to pursue other kinds of models.

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Two months ago we initiated our international model, which like the U.S. model has worked much better than we had ever expected.

Since stocks domestically and internationally, bonds, interest rates, and currencies are all interrelated, we thought we would start to work on some bond interest rate projections. In some ways this may be a stretch, but in others the process of the projection exercise is the same. This is the first attempt at projecting the U.S. 10 year benchmark note, and in that respect while our confidence is high we are cautious given that it had taken almost two years for us to develop the international models, and one year to construct the U.S. model, we developed this first attempt at U.S. interest rate projections in less than a month.

The approach which we have taken is more similar to traditional approaches than is much of our other work. We assumed that the 10 year note is a composite of inflation and economic growth expectations; we reject the expectation theory, the liquidity theory, and the habitat theory. We also vary from others in our disdain for individual perception data, strongly believing that perceptions are created in large part by groups think, and group think interpretations of the economic data. In this respect, as usual, we trust the economic data to guide us with the machine telling us what the numbers should be.

In coming weeks we will write up the theory behind this work, but for now we simply wanted to get this out there. As a first try, we are sure it will get revised hundreds of times, and as we begin to forward test this work (back testing always appears suspect to us in that it is proving what has already happened), expecting that we will come to better understand possible problems with this work. Once we are more confident in this approach, we will write up a more detailed report on the method.

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I, Philip L. Miller (or any research analysts at SISR Inc.) certify/certifies that the views expressed in this report accurately reflect my personal views about the subject companies and securities. In addition no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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## Stock Rating:

1 – Recommended List – The stock has our highest recommendation and is expected to outperform the average equal weighted expected total return of the overall Market irrespective of sector. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.

2 – Overweight – The stock is expected to outperform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.

3 – Neutral – The stock is expected to perform in line with the equal weighted expected total return of the sector coverage. Our investment horizon is 12 -18 months except as specified by the reporting analyst.

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5 – Rating Suspended – The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when SISR Inc. is acting in an advisory capacity in a merger or strategic transaction involving the company.

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2 – Positive – The sector fundamentals and valuations are improving with a positive second derivative.

3 – Neutral – The sector fundamentals and valuations are flat with the second derivative close to zero or with a neutral slope.

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**Price Chart:**

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

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