
April 29, 2005

Dr Doom - Marc Faber

April, 26 2005

Mark O'Byrne: "One billion is a lot of money. Let's put one billion in perspective. It has nine digits in it and for purposes of illustration:

A billion seconds ago, it was 1959.

A billion minutes ago, Jesus was alive.

A billion hours ago, our ancestors were living in the Stone Age.

A billion dollars ago was only 8 hours and 20 minutes, at the rate Washington is spending today."

April, 26 2005

Stephen Roach (Tokyo)

Global: Original Sin

April 26, 2005

Compliments of Dr Bob...John, here's a snippet from the article in the WSJ I mentioned to you yesterday:

Value Managers Are Flush With Cash

By TOM LAURICELLA

Staff Reporter of THE WALL STREET JOURNAL

Late last year, many top mutual-fund managers who focus on undervalued stocks began pulling back from the market, saying they couldn't find investments at attractive prices. In recent weeks as stock prices dropped, some were back nibbling, but most say it is still hard for them to find good buys.

As a result, a number of value managers are sitting on the biggest hoards of cash in the history of their funds, in some cases topping more than 30% of assets -- six times as much as the typical actively managed stock fund. They are essentially stashing money under the mattress, in this case, often super-short-term investments that pay low returns.

"People are learning that cash isn't such a bad thing to have," says Robert Rodriguez, chief executive and a portfolio manager at First Pacific Advisors. Mr. Rodriguez's FPA Capital Fund currently has about 36% of assets in cash, a record,

according to Mr. Rodriguez. He figures earning a guaranteed 3% is better than stretching to buy stocks that aren't as cheap as he would like.

These portfolio managers, at shops such as Third Avenue Funds, Yacktman Funds and Ariel Funds, didn't set out to call the direction of the market and aren't basing their opinions on the outlook for the economy, interest rates or corporate earnings. Instead, they have come up dry after looking one by one at stocks, trying to find issues that are trading at substantially below their estimates of the true value of the company.

"We are all finding it more challenging to find ideas that meet our very strict valuation criteria," says Charles Bobrinsky of Ariel Funds. The Ariel Fund, which invests in small companies, has been holding roughly 20% of its portfolio in cash, a record level, according to Mr. Bobrinsky.

As has been the case in recent years, a move to the sidelines by value-stock managers has preceded trouble for the market. Since the start of the year, the Dow Jones Industrial Average has lost 5.8%. It has fallen 7% from its 3½-year high in March.

Some think there is more rough sledding ahead. "Odds are that the best prices for '05 will have occurred in the first half of '05, and most likely in the first quarter of '05," says First Pacific's Mr. Rodriguez.

During the market's recent selloff, the number of stocks meeting Mr. Rodriguez's criteria increased, he says, but "nothing has popped up that says 'you have to own this now.' " As a result, he has added to some existing holdings, but hasn't added a new name to his portfolio in 10 months.

April 26, 2005

Compliments of Dr Bob...John, the housing mania in LA continues:

The Christian Science Monitor

This is actually becoming quite sad since these people have no idea that they are basically committing **financial suicide**:

"They are in some neighborhoods of Los Angeles where, in addition to offering as much as \$75,000 over the asking price, buyers are sending flowery bios, pictures, and letters to sellers."

And one statement by the author that I **disagree** with:

"Of course, housing prices don't rise and fall like stock prices. They move more slowly and because of different dynamics."

Who says???? This is where liquidity becomes a real issue...

Let's just hope the insanity doesn't spread to other areas.

April 25, 2005

Compliments of Dr Bob...John, I mentioned to you the survey regarding house price expectations:

Economist - Will The Walls Come Falling Down

Here's the part that struck me:

"But given how many homebuyers in booming markets seem to be basing their purchasing decisions on expectations of outsized returns—a recent survey of buyers in Los Angeles indicated that they expected their homes to increase in value by a whopping 22% a year over the next decade"

Remember that similar double digit return expectations were being made by tech stock investors in 1999/2000.

April 25, 2005

Here's this week's commentary from Hussman (a great analyst/portfolio manager)

John Hussman

One particular quote of interest:

"Historically, the current set of characteristics has occurred less than one-quarter of the time, but has contained nearly every major market plunge of note, including 1929, much of the 1973-74 decline, 1987, and of course the most brutal portions of the 2000-2002 bear market, among many other less notable losses." (emphasis mine)

Also, I read (yet another) article in the WSJ about "Value" investors holding VERY HIGH levels of cash because there's no value in the market.

I guess what we have here is a combination of "negative market action" and a BROAD-BASED overvaluation in stocks (at least in the US).

April 25, 2005

Compliments of Dr Bob...John, here's the latest on insider buying versus selling:

Insider Activity Totals

Total dollar value of all insider purchases and sales provides an aggregated measure of how insiders may feel about the market's short-term prospects. A low sell/buy ratio indicates bullish Insider Sentiment. A high sell/buy ratio indicates bearish Insider Sentiment.

Month	\$ Value Sells	\$ Value Buys	Sell / Buy Ratio
APRIL	\$2,191,904,290	\$114,897,121	19.08
MARCH	\$8,626,913,865	\$307,834,471	28.02
FEBRUARY	\$8,757,576,115	\$652,765,663	13.42
JANUARY	\$4,937,319,220	\$295,420,064	16.71
DECEMBER	\$8,051,464,768	\$548,819,593	14.67



Even after the very high number in March (which I speculate was a record... at least since I've been looking at this).....

April 22, 2005

Thanks to Dr Bob... John Mauldin's latest is good

[John Mauldin's "Thoughts From The Frontline"](#)

April 21, 2005

John, here's a Powerpoint summary of a presentation by Matthew Simmons on peak oil in Saudi Arabia. Guess this justifies Canada's oil sands as being VERY valuable.

Peak Oil in Saudi Arabia

April 19, 2005

Thanks to Dr Bob...John, good article on James Grant and his comments on Fed are good – as well talking about problems with Euro-zone.

Standard Bear - James Grant

Here's a link to an article in Asia Times, of all places.

Asia Times - America's Riotous Real Estate

One part caught my eye:

“In fact, as LAPD Captain Michael Downing later told the press: "You had some very desperate people who had a mob mentality. It was as if people were trying to get the last piece of bread." The bread-riot allusion was apt, although the crowd was in fact clamoring for the last crumbs of affordable housing in a city where rents and mortgages have been soaring through the stratosphere. At stake were 56 unfinished apartments being built by a non-profit agency. The developers had expected a turnout of, at most, several hundred. When thousands of desperate applicants showed up instead, the scene quickly turned ugly and the police intervened.”

We live in interesting times.

April 19, 2005

A superb piece and a 'must read'... By Dan Norcini
Commercial Price Capping in Gold for Week Ending

April 18, 2005

Thanks to Dr Bob...John, interesting to see value manager Tweedy Browne closing 2 funds to new investors:

Due to “lack of investment opportunities.”

By John Spence, MarketWatch

BOSTON -- Tweedy Browne said late Friday it's closing two value funds to new investors on May 4 due to a "lack of investment opportunities."

The pair of funds closing their doors to fresh investors are the \$6.7 billion Tweedy Browne Global Value fund (TBGVX: [news](#), [chart](#), [profile](#)) and the \$661 million Tweedy Browne American Value fund (TWEBX: [news](#), [chart](#), [profile](#)) .

"Current stock market levels worldwide present few investment opportunities selling at an attractive discount to intrinsic value," said Chris Browne, a co-manager at both funds, in a statement. In 2000, Browne and his team won investment research firm Morningstar's coveted Manager of the Year award for international stock funds.

"Moreover, certain holdings of both funds have risen to levels of full value in our view, resulting in both funds being net sellers of securities," Browne added.

Year to date, the Global Value fund has gained 4%, while the American Value fund is down 4.6%.

In particular, Browne said his team is nervous about high valuations in value stocks, which have outperformed their growth peers since the technology bubble burst in 2000.

"The result is that the price difference between the most expensive and the least expensive stocks is narrower than we can recall in more than 30 years," Browne said.

The funds have adequate levels of cash to take advantage of future buying opportunities, and if they remained open, new investors "could excessively dilute existing fund shareholders' investments in a limited pool of cheap stocks," he added.

April 17, 2005

Excerpt from Alan Abelson's column in Barron's - Up and Down Wall Street...

The real drag on this economy has been that those excesses never got a chance to fully correct, thanks to the Fed's fervent espousal of a liquidity cure that flooded the system with cheap credit and the Administration's extravagant, near-maniacal pursuit of stimulus, the fiscal consequences be damned. As all of history and human experience suggests, a binge is never the preferred remedy for a hangover.

So the poor old recovery, instead of a fresh start, actually began life saddled with widespread and formidable overcapacity. That virtually assured companies would be exceptionally timid in expanding and hiring, the two main spark plugs of a strong rebound. A glaring result has been a lopsided upswing, conspicuously lagging in jobs, wages and innovation. Not surprisingly, as the latest readings confirm, it has not inspired anything extraordinary in the way of manufacturing output or consumer or business confidence.

What it has provoked is a peculiar disquiet among a smattering of economists and any number of civilians as well, a disquiet that was rather eloquently expressed by

Paul Volcker, Mr. Greenspan's predecessor as the big cheese at the Fed, in a recent speech at an economic gabfest at Stanford and an even more recent op-ed piece in the Washington Post.

Citing "disturbing trends, huge imbalances, disequilibria, risks" lurking beneath the placid surface of the economy, he confesses they strike him "as dangerous and intractable as any I can remember, and I can remember quite a lot." And what bugs him even more is that no one appears very interested in, let alone capable of, doing anything about it.

Even those sectors of the economy that bespeak strength on closer inspection prove less than encouraging. "We're buying a lot of housing at rising prices," Mr. Volcker concedes, but goes on to echo someone's nifty formulation that houses are now as much an ATM machine as a place to live in.

He points out that as a nation, we're consuming and investing roughly 6% more than we're producing. That's a neat trick, and we're able to pull it off by grace of huge gobs of money imported from abroad, some \$2 billion worth a day. In the process, we're absorbing a mind-boggling 80% of the world's net flow of capital.

Central banks in China and Japan and elsewhere in East Asia for the moment are happy to supply the dough, while their countries provide the stuff that crowd our shops and our garages. But, Mr. Volcker cautions, those indulgent foreigners, whether central banks or private institutions, at some point "will have their fill of dollars."

April 12, 2005

Compliments of Dr Bob...John, the importance of dividends and this from Grantham:

The 770 fair value figure for the S&P 500 is interesting, because it's very close to the estimate of fair value (725 on the S&P 500) recently published by Jeremy Grantham at GMO (one of the most astute value managers you'll find, next to Warren Buffett). Grantham arrives at this valuation using earnings-driven analysis that adjusts for abnormally high profit margins, differences between operating income and net income, and other factors. Grantham's recent analysis gets the issues exactly right, noting "you simply cannot look at unnormalized p/e ratios when dealing with the total market. In addition to adjusting for the profit cycle, you have to allow for write-downs of prior claimed earnings. In theory, operating income and net income should be the same, with unusual debits in the long run being offset by unusual credits. In real life there is a bias to unusual debits because of systematic overstatement of earnings. In the last 10 years, there has been an average of 14% net write-downs." Grantham estimates that the probable real return on stocks over the coming decade is likely to be about -2.2%, with nominal returns averaging about -0.6% annually.

Investors Insight

April 12, 2005

Great stuff regarding dividends and returns:

[Financial Sense Storm Watch Update](#)

April 9, 2005

A great article on problem US faces:

[Economist - You need us we need you](#)

The chart tells it all. Remember that Japan owns the majority by a LARGE amount.

April 7, 2005

Compliments of Dr Bob...John, here's a quote from the May issue of Playboy. (Just to let you know....I got this from somewhere on the web and I'm not a subscriber!)

The interview for the May PB centerfold includes the quote:

"While modeling, a photographer asked Jamie if he could send her photos to Playboy. "I had never posed nude before," she said, "but I thought, How cool would that be? Now here I am." Jamie, a former Body Glove swimwear model, admits that she is thinking about a new career. "This is my going-out-of-the-modeling-business shoot. Now I'm getting into investment-type real estate."

April 5, 2005

From Benefits Canada...CFOs think there is a pension crisis The number of chief financial officers who believe Canada is facing a pension crisis more than doubled from 20% in 2004 to 43% this year

April 5, 2005

Compliments of Mark Hugh Sam...

This month's Bill Gross (the Warren Buffett of Bonds) reminds us that rates of returns going forward are going to be dismal and may be worse than we expect if there's an economic shock. In 1999, I wrote and spoke about the fact that the market could not go any further up. However, I was wrong in my assessment of

how low real interest rates could go. However, now that they have indeed bottomed, Bill Gross makes a convincing argument of why we will be seeing market tops and low growth. The best defence continues to be investing in businesses that can grow real owner's earnings faster than 3% real or 5% nominally. Price is paramount and so is margin of safety. **Bill Gross**