March 29, 2005

Compliments of Dr Bob... John, if there's one guy who doesn't hold back, it's Dr. Kurt Rich
Structural Drags

March 29, 2005

This from a friend who was watching CNBC this morning...
Coming up on CNBC "people are daytrading real estate properties, which begs us to ask
better to day trade - real estate or stocks? Coming up, stay tuned...."

March 29, 2005

Compliments of our friend Dr. Bob...John, I came across a few more quotes from people
called experts) that clearly indicate that we are very close to the peak in housing bubble (i
opinion):

Ron Shuffield, president of Esslinger-Wooten-Maxwell Realtors says that "South Florida is
of a totally new economic model than any of us have ever experienced in the past. " He p
limited supply of land coupled with demand from baby boomers and foreigners will prolon
indefinitely.

"I just don't think we have what it takes to prick the bubble," said Diane C. Swonk, chief ec
Mesirow Financial in Chicago, who was an optimist during the 90's. "I don't think prices ar
and I don't think they're even going to be flat."

"I look at this as a short-term investment," said Mr. Farquharson, 36, who works for a vent
firm, "and plans to unload it as soon as things look dangerous."

When it comes to future prices, of course, all is speculation. And perhaps, just maybe, this
time when famous last words will come true and everything will be different. Gregory J. He
economist at Brown Harris Stevens, is not sold on the inevitability of a downturn. He base
confidence in the market on things like continuing low mortgage rates, high Wall Street bo
the tax benefits of home ownership.

"It is a new paradigm," he said.

Hilarious stuff. Similar things were being said in the late 90's.

March 24, 2005

Putting Your Assets On The Line - Dr Marc Faber

March 24, 2005

A good argument as to why a recession lies ahead and CPI to continue higher
PPI / CPI Differential Indicates Serious Inflation

March 24, 2005

Some really great points made in this article:
The Great Real Estate Bubble
This is a great quote: David Lereah, chief economist for the National Association of Realto
quoted as saying, "There is no national price bubble. Never has been; never will be."

Again, classic bubble-top talk.

March 24, 2005

A good little article (in plain language) about market psychology
Why you lose money in stock markets

March 21, 2005

It's All About Dividends .....and valuation
WSW with Fortune - Jeremy Siegel Interview
Great comments on BRAND NAMES and paying a rational price. That's really what it's al

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March 20, 2005

Seth Klarman (Baupost Group) is very-well known in the "value investor" community. Her
snippet from his 2004 letter to shareholders of his hedge fund on risk:
Seth Klarman (Baupost Group)

A great quote:
"We continue to adhere to a common-sense view of risk—how much we can lose and the
losing it. While this perspective may seem oversimplistic or even hopelessly outdated, we
provides a vital clarity about the true risks in investing."

March 20, 2005

An interview with Jim Rogers ...:
Jim Rogers on Commodities

March 19, 2005

John Mauldin's "Thoughts from the Frontline"

March 15, 2005

Chuck Prince: Citigroup CEO: “The possibility of a liquidity bubble around the world conce
very cautionary thing is that it feels like the world is changing and traditional indices may r
complete picture.”

Wilbur Ross: “Risk is becoming almost an ignored term in the quest for yield.”

Hey - how was I to know you could buy a great big jumbo pea shooter and load it up with

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March 17, 2005

John,

In fact I think it is very reasonable to conclude that Warren will be getting desperate to rec
and bond weighting and get into some good growth situations; i.e. increase his equity allo
dramatically. Warren Buffet and thousands of managers just like him must find good stock
or their pension liabilities will sink them. And they will find them.

What I meant was that I believe Buffett will increase his stock allocation. This was the cen
my thesis that the Berkshire pension asset allocation at Dec 31 2004 is bullish for stocks.
and I agree on that point, not disagree as he (wrongly) states.

That was my entire point. I'm so sorry that it was lost on readers.

On the other points: I put as much faith in the ability to forecast actual beginning or ends t
do in the notion that it is somehow important to markets that years might end in 5. I don't b
either. Further I disagree that we are at the end of an earnings expansion. In fact I think w
going through a pit stop before the next advance. As with all advances sector rotation will

The article on current PE levels as a predictor of future return potential might be relevant,
am not going to tests it. I scanned it and did not see any references to the interest rate/PE
and how that has factored into the conclusions of the author. I further note that one would
into your earnings peak theory to interpret the current PE as bearish going forward. I do n
opinion.

On the Value article I acknowledge that as a market moves out of the value friendly (early

period and into the growth period that value investors will have a hard time justifying the v
That doesn't mean the market won't go up. It just means that the growth investors will hav
That is why I have been switching the little mutual fund money that my clients have out of
into growth.

And to your header that says "Don't confuse a Bull Market with Brains", I respond that I dc
that it is stupid to follow market dynamics as a basis for staying long in growth market con
perhaps I should say that if it truly stupid to make money in an overvalued bull market run
what I want to be.

/Walter

March 17, 2005

John,

I keep offering you a hit , and once again I urge you to try it - and I promise you, the whole
like a beautiful place man. It's good stuff. Here's what I've got in my pipe:

a) a normal yield curve (bear markets start with a curve inversion)
b) a thriving US economy
c) yields vs. earnings that will move money into stocks. (even at the worst of the earnings
@4.65 kept driving money into stocks!)
d) every analyst / market guru that I have interviewed since 2000 has been a long term be
without exception.
e) classic recovery story underway mirroring early 90's, including; out performance of sma
on commodities, GM tanking on bad earnings after sales slowdown during economic slow
(analysts will soon talk about pent up demand)
f) S&P and TSX have both confirmed strong bottom head and shoulders patterns - implies
huge upside. Dow had confirmed it now GM news is forcing a retest of support. S&P must
for pattern to remain valid.
g) a love for happy endings

That's the stuff man - put that in your pipe and smoke it!

/Walter

March 16. 2005

Hey - how was I to know you could buy a great big jumbo pea shooter and load it up with

Oh well, don't go baking that humble pie yet, I'm not that hungry. I also note that the best
the market was in 1992 when GM had lost 23 billion and was on the verge of bankruptcy.

March 15, 2005

Boys - consider this fair warning:
That little pea shooter you keep firin' ain't gonna take this bull down. /Snort

ps: In my opinion (I acknowledge that's a dangerous thing to bet on) you're putting too mu
on the position of the Berkshire pension plan as at Dec 31, 2004. Surely we have to at lea
Warren Buffet enough credit to assume that he can calculate the probability of achieving 6
12% in equities and avg yields under 4% on the fixed income! In fact I think it is very reas
conclude that Warren will be getting desperate to reduce that cash and bond weighting ar
some good growth situations; i.e. increase his equity allocation dramatically. Warren Buffe
thousands of managers just like him must find good stocks to buy soon or their pension lia
sink them. And they will find them. And they will sell bonds to buy them, and interest rates
30yr) will rise dramatically while the market rallies as a result. And it will be sustained until
earnings tank and risk free returns are relatively more attractive.

Please understand that I am writing not to criticize and disagree, but because I know you
once somehow satisfied and amused at this perfect example of market efficiency. I conclu
we have here is the classic divergence of opinion, where investors can have diametrically
opinions of the same data, and that is the basis for the continuing functionality of our mark
You see this Berkshire Pension statement as a symbol of the risk that's in the market, and
the exact same information as the 'Paul Revere' of the millennium. You've been warned la
Bulls are coming. THE BULLS ARE COMING!!!!!!!!

March 9, 2005

The state of Arizona joined forces with CitiMortgage to create the largest "affordable-hous
program in the state's history. The aid, which is modeled after a $4.5 billion California prog
started in 2001, will allow homes to be bought for as little as $500 in paperwork costs. "We
all borrowers," says one lender. "We're not excluding anybody." Obviously, these lending
part of the reason prices have gone up so high, but the newfound zeal for universal home
signals that it is now time for the new environment of falling prices to overwhelm their influ
zero equity loans, a 1% decline will put homeowners underwater. The reversal will certain
as these instruments and others like them make the 1920s stock leverage look like 100%

March 9, 2005

A Summary from Robert Prechter (author of "Conquer the Crash") regarding housing:
Best of Robert Prechter

March 9, 2005

From our good friend Bob who came across some VERY interesting information.
The following is from Berkshire Hathaway Annual Report:

As of December 31, 2004 and 2003, total plan assets were invested as follows:

Cash and equivalents ....
U.S. Government obligations ....
Mortgage-backed securities ....
Corporate obligations ....
Equity securities ....
Other ....
$

Weighted average assumptions used in determining projected benefit obligations were as
These rates are substantially the same as the weighted average rates used in determinin
periodic pension expense.

Discount
rate...
Discount rate – non-U.S.
plans..
Expected long-term rate of return on plan
assets...
Rate of compensation
increase...
Rate of compensation increase – non-U.S.
plans..

So basically, Buffett's own pension plan currently has 33% of it's assets in cash and cash
28% in US Government bonds and only 12% in equities!

Now how many $3 B pension funds do you see with these types of allocations???? And r
B is not a lot of money, particularly when you are Warren Buffett. I find this to be extraordi

What else can we glean from this? He still sees about 6.5% return on his pension fund as
long term.

Also, if he is using a discount rate of 5.9% for plan assets is he revealing what rate he use
future cash flows for all the businesses he analyzes?

Pension funds can save themselves some of the hefty consulting fees that they normally
generate these long-term rate of return numbers by referencing the expectations of the w
investor????

March 2, 2005...

John Mauldin's "Thoughts from the Frontline"

March 2, 2005...

Why China will overgrow India
Martin Wolf
Published: February 27 2005 17:38 | Last updated: February 27 2005 17:38

Almost two out of every five people on the planet are either Chinese or Indian. China alon
people than Latin America and sub-Saharan Africa combined. The economic rise of Asia's
therefore, the most important story of our age. It heralds the end, in the not too distant futu
much as five centuries of domination by the Europeans and their colonial offshoots.

What sort of economic performance have the two giants shown in the past quarter-century
growth accelerate at much the same time in both? Why has China performed so much be
India? Will both continue to grow rapidly? Will India even catch up on China? These five q
need to be addressed if we are to understand the world of tomorrow and, even more, of th

Let us start with what has happened. During the 19th and 20th centuries, the two Asian co
behind the rapidly growing economies of Western Europe and North America. In 1820, Ch
generated about a third of world output (measured at common international prices) and In
another 16 per cent (see chart); by the mid-20th century, China's share in world output wa
and India's 3 per cent.

After both of these giants gained independence in the 1940s, India became the world's la
democracy and China a communist despotism. Yet, though they differed in their politics, b
embraced similar economic ideas. Scarred by their countries' experience with 19th centur
their leaders feared renewed subordination to foreign economic interests. Both saw capita
unjust and inefficient. Both, as a result, embraced socialist economics.

The pursuit of socialist self-sufficiency failed. By the 1970s, neither had begun to regain its
position. Since then, however, a transformation has occurred. Both economies have begu
from state controls to the market and from would-be autarky to international economic inte
have begun to catch up on the world's leading economies. But China has done far better t

In the mid-1970s, the gross domestic products per head of the two giants, at common inte
prices, were similar, at roughly a twentieth of that of the US (see chart). By last year, howe
real income per head had reached 15 per cent of US levels, while India's was roughly half
level.

If both have done well, China has done far better. Between 1980 and 2003, China's econo
an average rate of 9.5 per cent a year, against 5.7 per cent in India. China's real GDP per
constant domestic prices) rose faster than that of any other economy, while India's was ni
common international prices, China's real income per head rose by 300 per cent over this
India's increased by 125 per cent.

Since the beginning of its take-off into accelerated growth, in 1978, China's GDP per head
relative to that of the world leader, the US, in almost exactly the same way as Japan's bet
and 1973, Taiwan's between 1958 and the late-1980s and South Korea's between 1962 a

1990s (see chart). But it has done so from a much lower relative starting point. Today, Ch
per head, relative to US levels, is roughly where South Korea's was in 1972, Taiwan's in 1
Japan's before 1950. For China, then, these are early days in the catch-up process.

For India, they are earlier still. Not only has its convergence on US GDP per head been sl
China's but it remains far behind. Relative to US GDP per head, India is today where Chir
1986. Even in absolute terms it is only where China was in 1993.

Now let us turn to the second question: why did the acceleration in economic growth begi
giants at much the same time? The broad answer is that both countries moved from the p
market at much the same time and for much the same reason: their economies were perf
dismally.

Both of the giants were then able to exploit the opportunities created by their huge supply
working people, on the one hand, and the yawning productivity gap with the world's leadir
on the other.

In China's case the direction of reform has been both relatively consistent and remarkably
managed. In India's, however, it has been less so. A period of half-hearted reform ended i
of payments crisis in 1991. This proved the opportunity for a burst of radical reforms unde
of the then finance minister (and present prime minister) Manmohan Singh. That came to
mid-1990s and so, in due course, did the economic acceleration.

Now let us look at the third and, in many ways, most interesting question: what explains th
growth performance of China, at least hitherto? To answer that, we need to appreciate the
not just in economic strategies, but also in the polities.

Both are the heirs of great civilisations. But China's civilisation is inseparable from its state
India's is inseparable from its social structure, above all from the role of caste.

This difference permeates the two countries' histories and contemporary performance. As
of the London School of Economics has noted, “for India, the problem [is] achieving unity
China, however, is a “unitary hard state, which can pursue a single goal with determinatio
mobilise maximal resources in its achievement.”*

These political and social differences explain, in large measure, the contrasts between the
development strategies. China has largely replicated the growth pattern of the other east
success stories, though its financial system is still weaker and its economy more open to f
investment than those of Japan and South Korea. Its growth is based on high savings, ma
investment in infrastructure, universal basic education, rapid industrialisation, an increasir
deregulated labour market and an internationally open and competitive economy.

India's pattern of growth has been extraordinarily different, indeed in many ways unique: i
service-based and apparently jobless. Savings are far lower than in China, as is investme
infrastructure. India's industrialisation has hardly begun. Literacy is low, while elite educat
developed. India's formal labour market is among the most regulated in the world. Regula
relatively high protection against imports continue to restrict competition in the domestic m

China has accepted both growth and social transformation. India welcomes growth but trie
social dislocation. The Chinese state sees development as both its goal and the foundatic

legitimacy. Indian politicians see the representation of organised interests as their goal an foundation of their legitimacy. Chinese politics are developmental, while India's remain pre clientelist.

Consider, in this light, the following contrasts between the two giants (see charts).

- In 2002, China's gross national savings were 44 per cent of gross national income, \ were only 22 per cent.
- In 2002, China's trade in goods was 49 per cent of gross domestic product, while Inc per cent.
- In 2003, China generated 5.8 per cent of world merchandise exports, which made it fourth-largest exporter, and 2.6 per cent of world exports of commercial services, wh the world's ninth-largest. India generated just 0.7 per cent of world merchandise exp put it at 31st, and 1.4 per cent of world exports of commercial services, which put it a
- By 2001, China's weighted average tariff was down to 12.8 per cent, from 35.6 per c while India's was still 28.4 per cent, down from 70.8 per cent in 1992.
- In 2003, the stock of inward foreign direct investment in China was $501.5bn, agains $30.8bn in India. In the same year, the FDI inflow into China was $53.5bn (12.4 per capital formation) against $4.3bn into India (4 per cent of capital formation).
- In 2000, India's overall illiteracy rate was 35 per cent, against just 6 per cent in China 19992000, only 47 per cent of all Indian children had passed through five years of p schooling, against 98 per cent in China.
- In real terms, China is now spending eight times as much as India on infrastructure. GDP it is spending more than three times as much.
- Between 1996 and 2002, private investment in Chinese telecommunications was $1 $9.2bn in India. In energy, it was $14.3bn in China, against $7.5bn. In transport, it w against just $2.3bn.
- Between 1990 and 2002, China's agricultural value added grew at 3.9 per cent a yea 2.7 per cent in India and its services grew at 8.8 per cent a year, against 7.9 per cer China's industrial value added grew at 12.6 per cent a year, against a mere 6.0 per c
- In China, the share of the population engaged in agriculture dropped from 68 per ce 45 per cent in 2001, against a slower decline, from 67 per cent to 59 per cent, in Ind
- India's consolidated fiscal deficit is running at 9 per cent of GDP, against less than 4 China. India's public sector savings have been running at minus 3 per cent of GDP, surplus of 12 per cent in the 1990s.
- The formal sector employs less than 10 per cent of all Indians in employment, with c these employed in the private sector. The proportion of the labour force employed in modern sector is at least 20 per cent and rising.

It is not difficult, therefore, to see why China's growth has been far higher than India's. Ch
only saved and invested far more, it has exploited, to a far greater degree, the opportuniti
the global economy. Its population is also more skilled, while the social and economic trar
has embraced is more profound.

This, however, brings us to our fourth question: will the two giants continue to grow as rap
certainly can do so. The potential for rapid growth is determined by the gap in average prc
the world's leaders and the quality of institutions and policies.

On the former point, if China replicated the catch-up performance of Japan or South Kore
the US, it could grow extremely rapidly for another three decades.

On the latter, Transparency International ranks China 71st equal in the world for corruptio
ahead of India, on 90th equal. In the 2005 Index of Economic Freedom, China is ranked 1
India is ranked 118th. The World Bank's investment climate and "doing business" indicato
that China and India both offer problematic business environments, with the law's delays
insolence of office a slightly more serious handicap in India than in China (see chart).

The quality of institutions and policies is, in short, poor in both countries. Yet this also indi
room for large improvements in the years ahead. Bad institutions are both constraints anc
opportunities.

Now consider the fifth and last question: can India match China? This depends on the per
both countries. The principal internal constraints on China's growth are institutional: the la
law, the consequent uncertainty of property rights, the inefficiency of state enterprises anc
weakness of the financial system. Important symptoms of these weaknesses have been tl
foreign entrepreneurship and an offshore financial and legal centre, namely, Hong Kong.

Behind these weaknesses lies something more profound: a political system that is unlikel
suitable for an increasingly sophisticated economy and society. The political transition fro
state to a more democratic regime could prove highly problematic. An important symptom
institutional weaknesses is the inefficiency with which capital is used. As I have noted else
China's investment rate has been substantially higher than those of other fast-growing As
economies at comparable levels of development, but its growth is not.** The explanation f
partly the scale of investment in infrastructure needed by such a vast country. But it is als
fact that 60 per cent of all loans between 1993 and 2000 went to state enterprises. It is as
that, in the world's fastest growing economy, as much as 40 per cent of existing loans is c
bad. The scale of the waste is breathtaking.

China does not only confront domestic challenges. It may well also confront external cons
China's extraordinary success in export markets has been a powerful engine of growth. Y
believe that this can continue, now that China is such a huge player in world trade and its
economy is already so open.

The challenges ahead are large, by any standards. But it is a good bet that China will con
rapidly for at least another two to three decades. This will require continuing and painful re
the alternative of letting the economic dynamism slow must seem worse to China's policy

If China's growth does remain rapid, can India match it? The optimistic view has been wel
by Vijay Kelkar, a former senior civil servant.*** Mr Kelkar argues that India's political stab

entrenched democracy, relatively effective financial system, deepening international econ
integration and improving environment for provision of infrastructure augur well for future (

More fundamentally, India enjoys a greater demographic dividend, with the population of \
expected to rise as a share of the total until 2050, unlike in China, while the quality of the l
also improving. The private savings rate should continue to rise as living standards impro\
child dependency ratio falls. Finally, the growth of productivity has been reasonably good
1980, with total factor productivity (the rise in output per unit of input of labour and capital)
about 2 per cent a year.

Yet India, too, suffers from many constraints. Public sector dis-saving imposes a significa
capital formation. The political and legal systems, though well developed, are also cumbe
inefficient. Politics lacks a focus on development. Hitherto, in addition, the growing supply
not been matched by a rise in demand. As a result overall employment has risen at only 1
year over the past decade. Literacy remains too low. There is also evidence that trend grc
slowed since 1996-97 to below 6 per cent a year.

Faster growth is certainly possible in India. But that will also need substantially higher sav
investment, greater inflows of FDI and significantly more rapid industrialization.

What then should the world expect of the Asian giants? More of the same is the reasonab
Morgan Stanley concludes an excellent analysis with the view that "today it is India and C
is not wrong, even though it will remain more China than India for some time. Lord Desai (
similar vein, that "China will again become a viable great power; India may become a grea
democracy."

As Arvind Virmani of the Indian Council for Research on International Economic Relations
by 2025 China is likely to be the world's largest and India the world's third-largest econom
purchasing power parity.***** The impact of the rise of the two giants on the world's dema
resources, centre of economic gravity and balance of power will be enormous. Adjusting t
changes has always proved difficult. The rise of China and India is likely to pose the bigge
of all.

* "India and China: an Essay in Comparative Political Economy", **www.imf.org**
** "Why is China growing so slowly?", Foreign Policy, January/February 2005;
*** "India: on the Growth Turnpike", 2004 Narayanan Oration, Australian National Universi
April 27 2004, **http://ecocomm.anu.edu.au/nieb/KRNarayananOration2004.htm**

**** India and China: New Tigers of Asia, July 2004;
***** "Economic Performance, Power Potential and Global Governance", **www.icrier.org**