

[Markets]

I've been thinking about...

**... gloom, boom and doom
in the new reality**

Dr Marc Faber

Publisher & Editor | The Gloom, Boom and
Doom Report |



portfolio
construction

CONFERENCE

Dr Marc Faber 2009
Presentation for Portfolio Construction Conference
17.00, Wednesday 26 August 2009
Australian Technology Park, Sydney
Australia

COULD EXPANSIONARY MONETARY POLICIES AND LARGE DEFICITS LEAD TO HIGH INFLATION RATES?

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*"Give me control of a nation's money and I care not
who makes the laws"*

- Amschel Rothschild

www.gloomboomdoom.com

TOPICS FOR DISCUSSION

The world is in the midst of the worst economic slump since the Great Depression. Economic policy responses were unprecedented coordinated fiscal and monetary measures. **Will they help or aggravate and prolong the crisis? How long will it take for the world to return to peak economic activity of 2006/2007?**

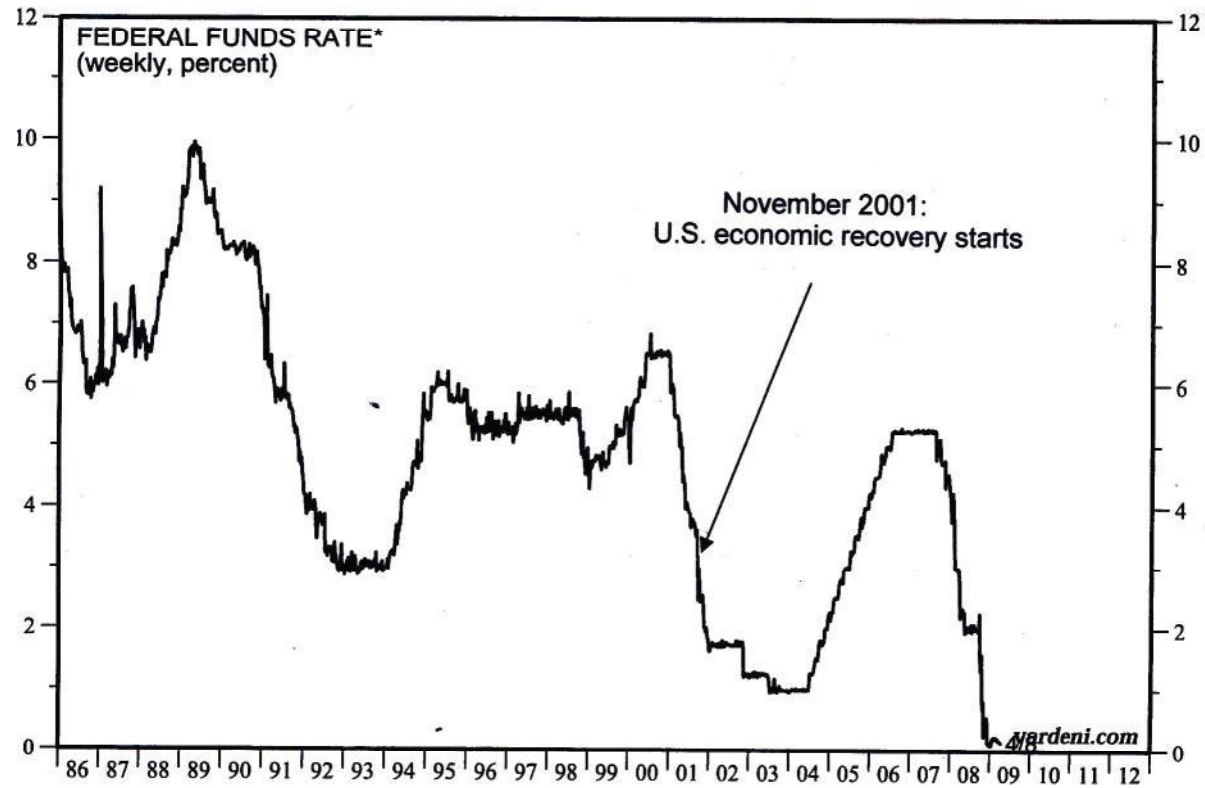
Paul Krugman: “To be honest, a new bubble now would help us out a lot even if we paid for it later. This is a really good time for a bubble.” **But does the world really need another “new bubble”?**

Between 2002 and 2007 all assets including real estate, equities, commodities, bond, and art prices increased in value while the US dollar depreciated.

Assuming there was a “new bubble”, which asset would be the most likely candidate?

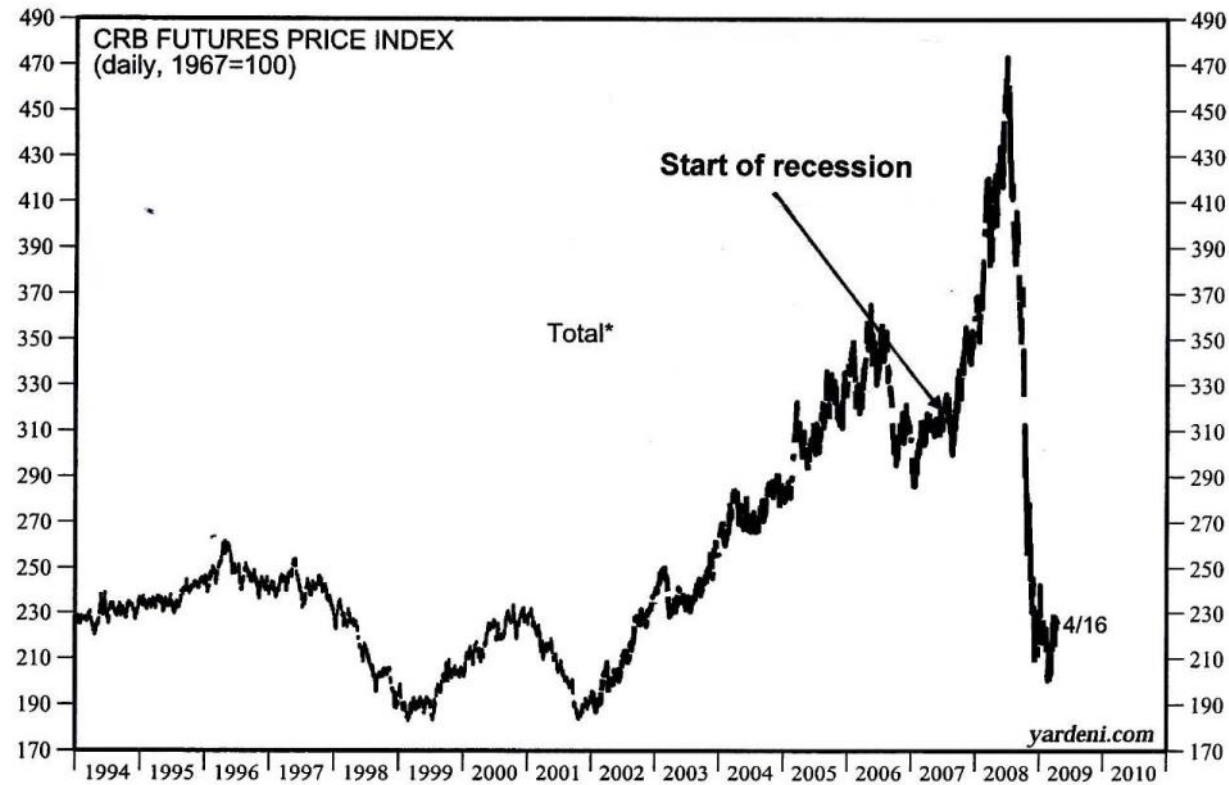
The inflation-deflation debate is intensifying. **Why prolonged deflation is most unlikely!**

HOW ARTIFICIALLY LOW INTEREST RATES CAUSED THE CRISIS!



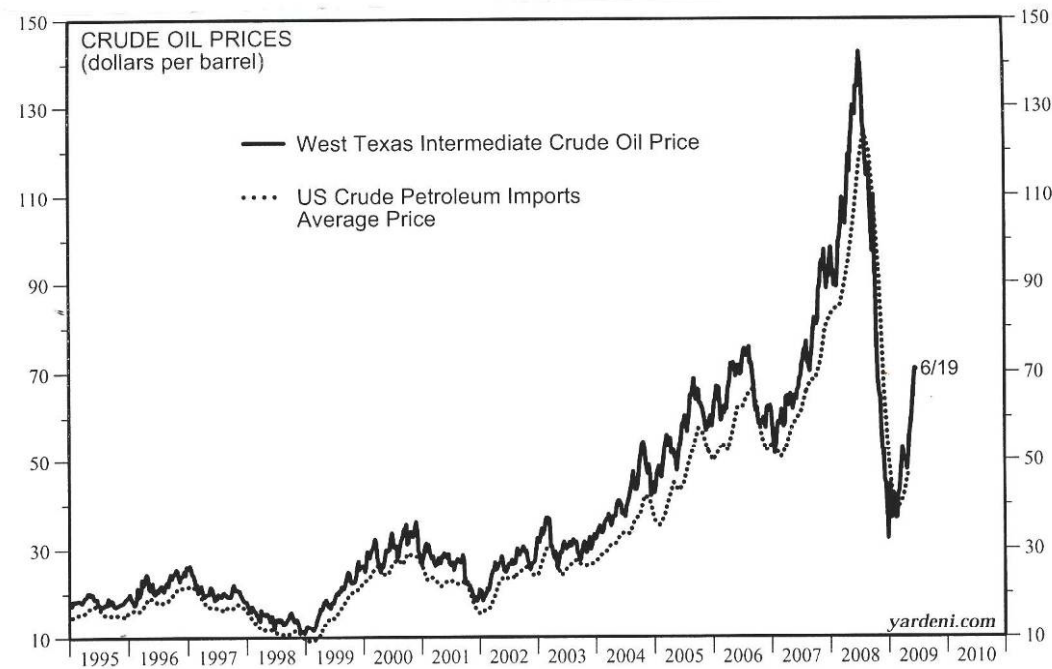
Fed Fund Rate remained at 1% until June 2004

EASY MONEY EXACERBATES VOLATILITY



* Includes cattle, cocoa, coffee, copper, corn, cotton, crude oil, gold, heating oil, hogs, lumber, oats, orange juice, platinum, pork bellies, silver, soybeans, soybean meal, soybean oil, sugar, and wheat.

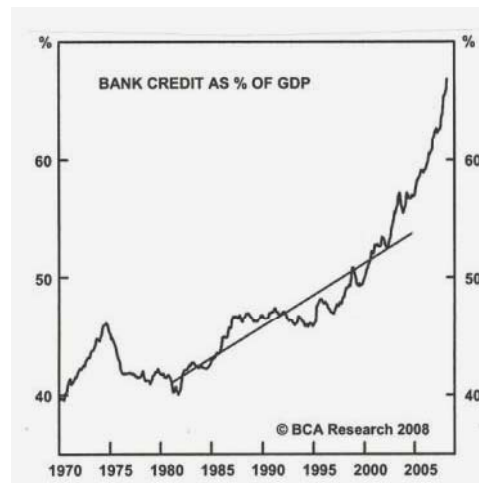
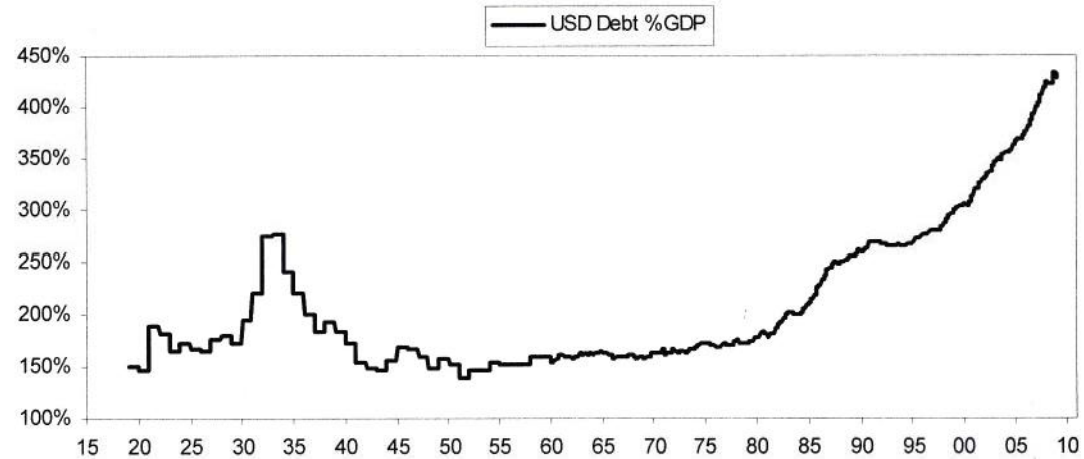
WEST TEXAS INTERMEDIATE CRUDE OIL PRICE



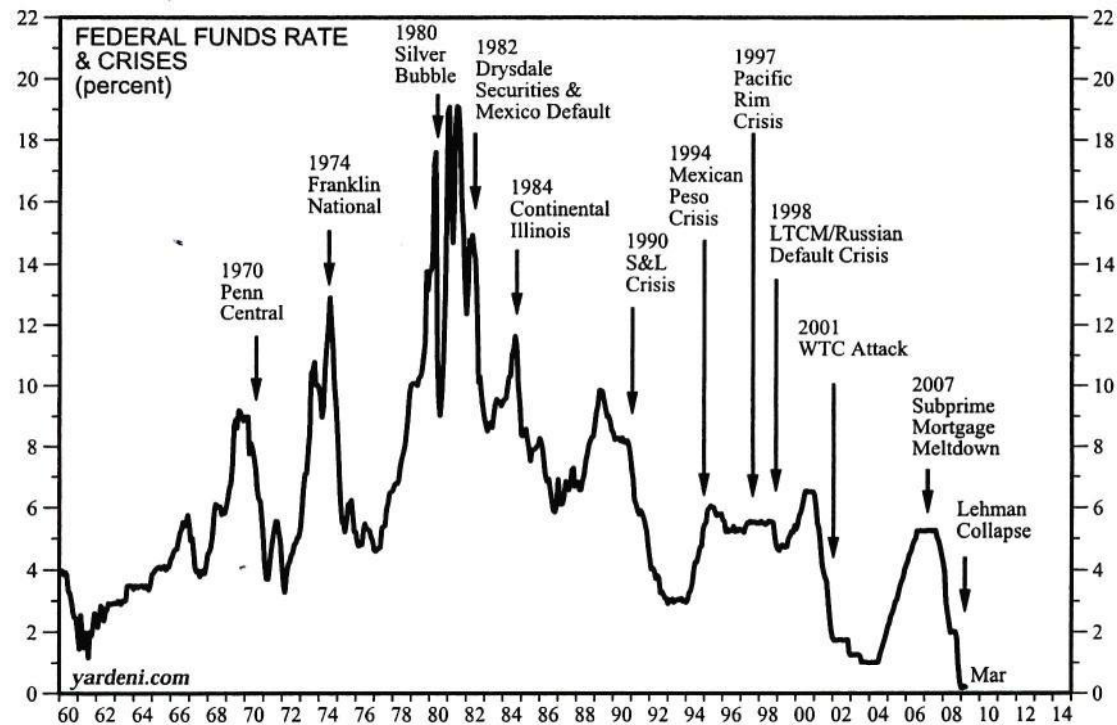
Source: Ed Yardeni, www.yardeni.com

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U.S. DEBT RATIOS HAVE BEEN PUSHED HIGHER BY REFLATION



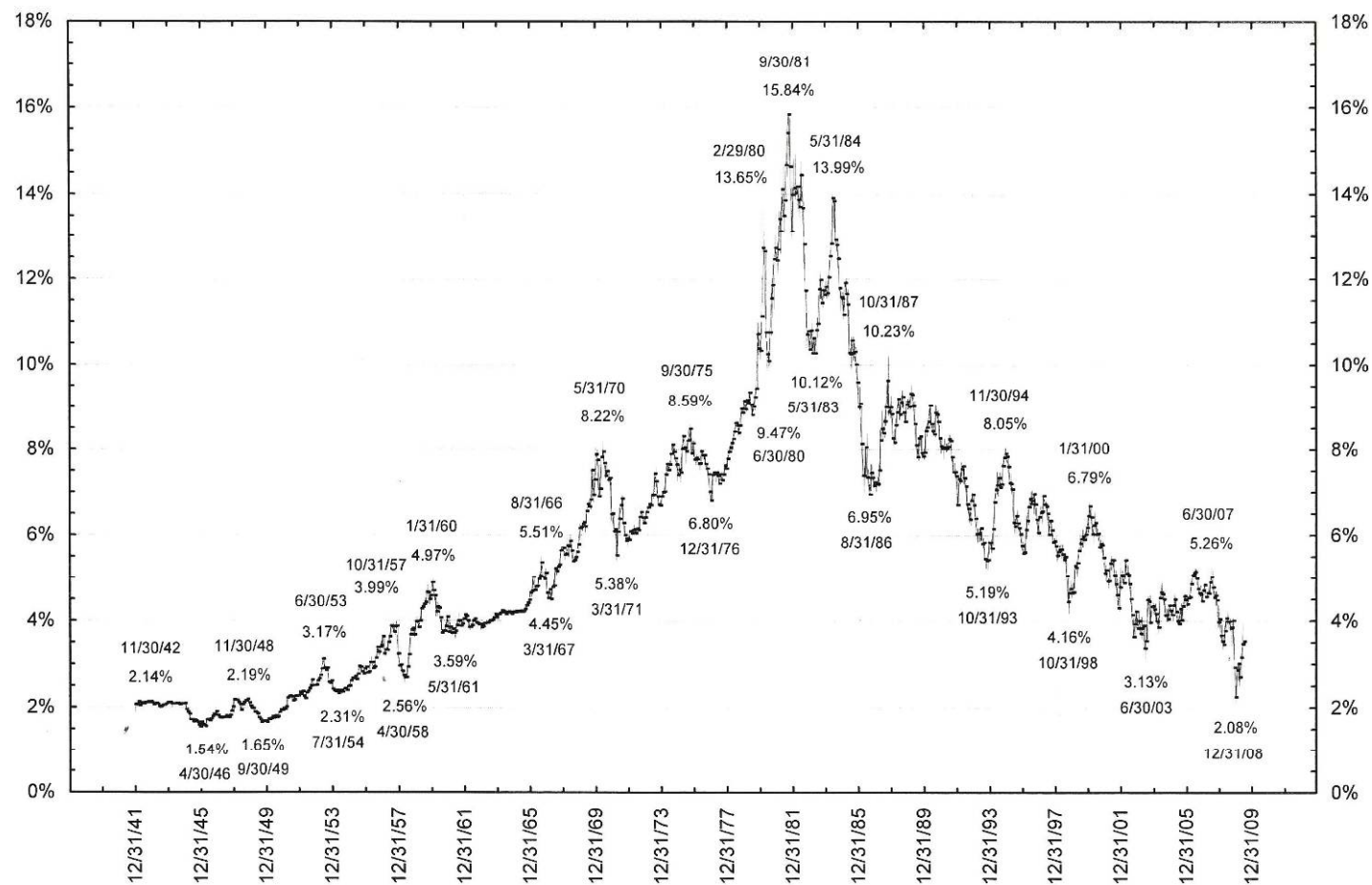
**EACH CRISIS PRODUCED MORE MONETARY
EASING AND HIGHER STOCK PRICES!
BUT WILL IT WORK THIS AND NEXT TIME?**



Source: Ed Yardeni, www.yardeni.com

www.gloomboomdoom.com

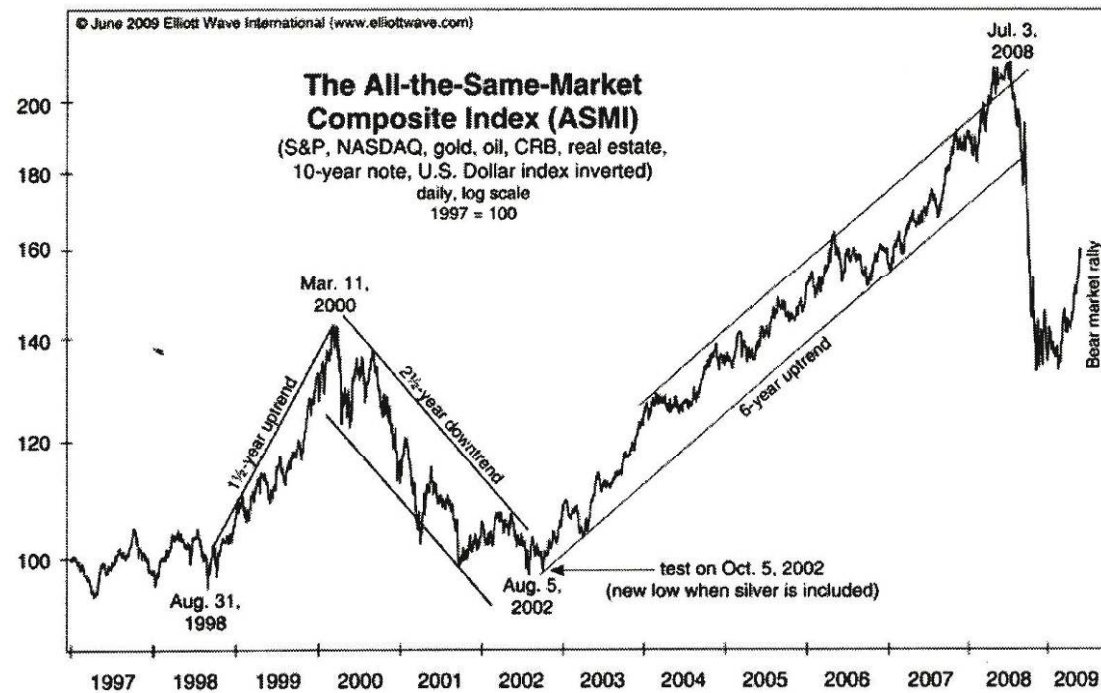
10 YEAR U.S. TREASURY CONSTANT MATURITY (Monthly)



Source: Ron Griess, www.thechartstore.com

www.gloomboomdoom.com

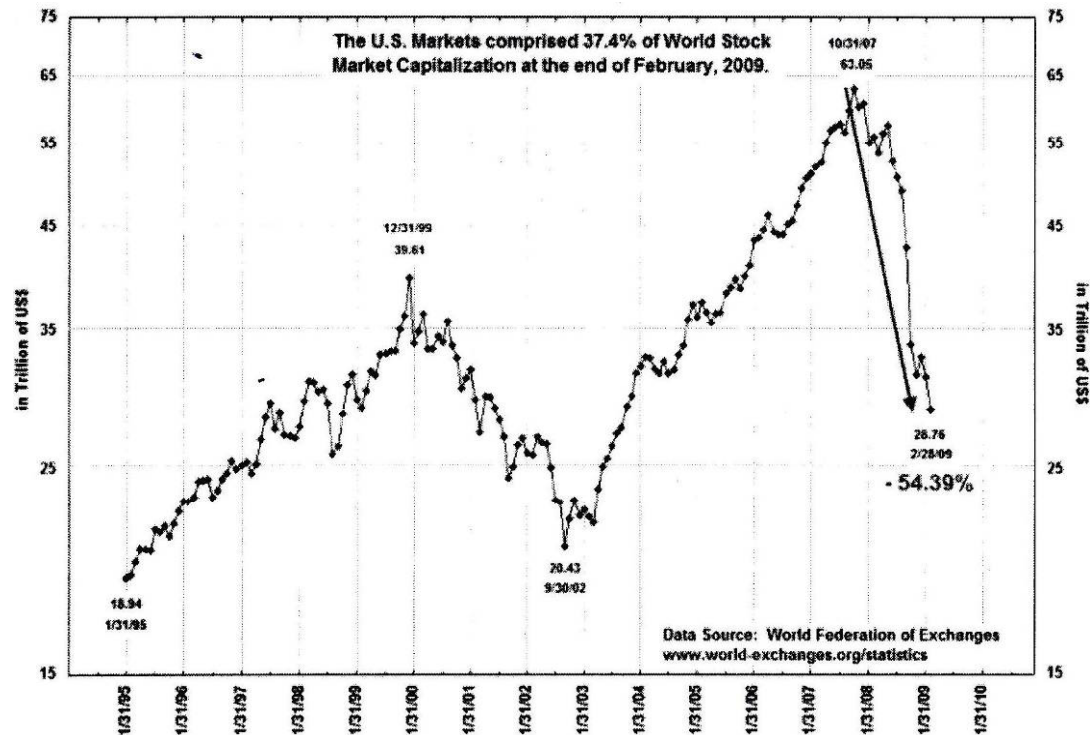
FROM THE ILLUSION OF WEALTH TO TOTAL WEALTH DESTRUCTION, 1997 - 2009



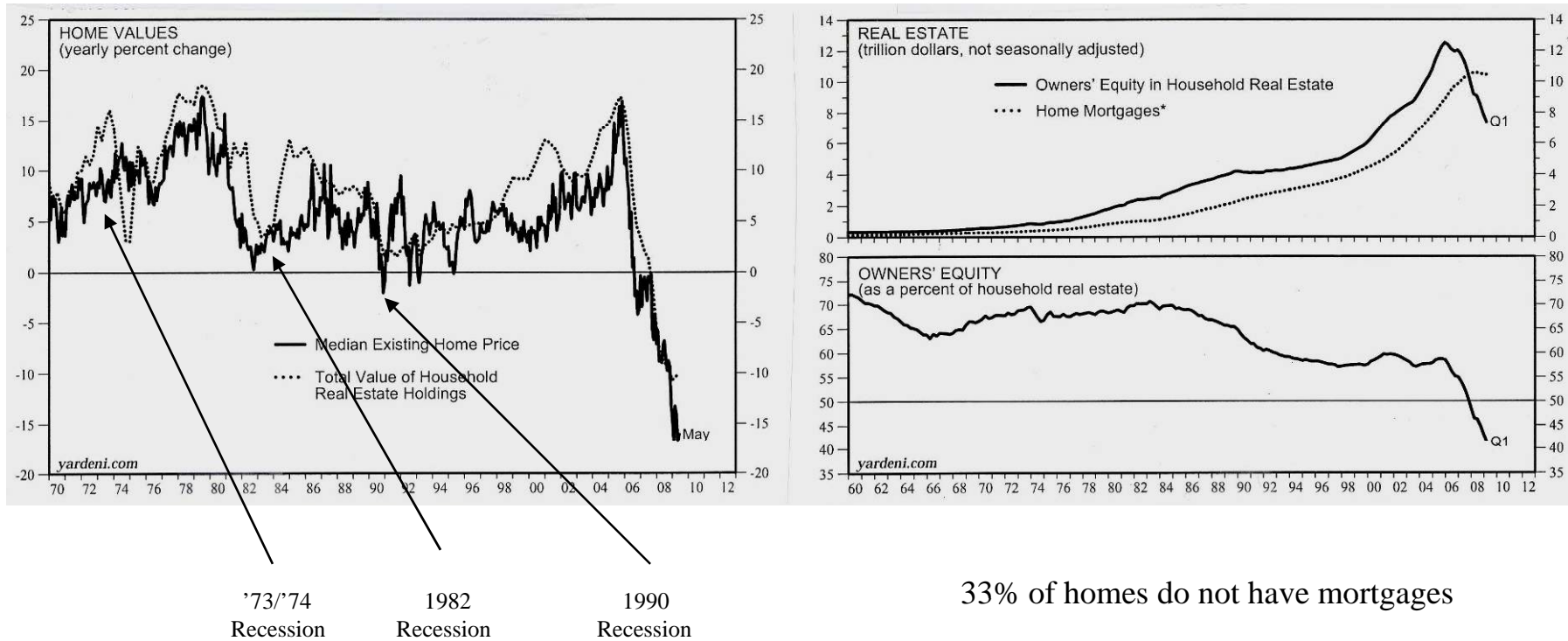
Source: Robert Prechter, www.elliottwave.com

www.gloomboomdoom.com

WORLD STOCK MARKET CAPITALIZATION: FROM \$63 TRILLION TO \$28 TRILLION!



GLOBAL COLLAPSE IN HOME PRICES – NEXT SHOE TO DROP: COMMERCIAL REAL ESTATE

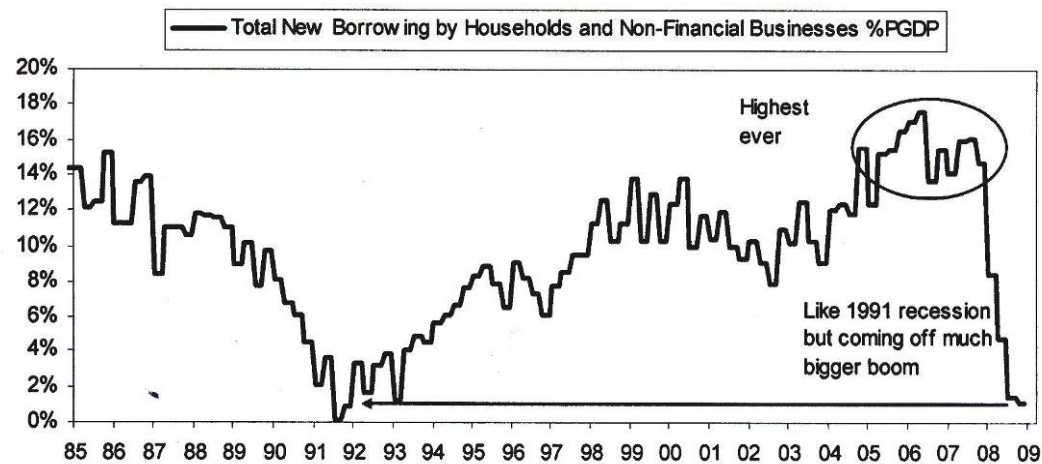


Source: Ed Yardeni, www.yardeni.com

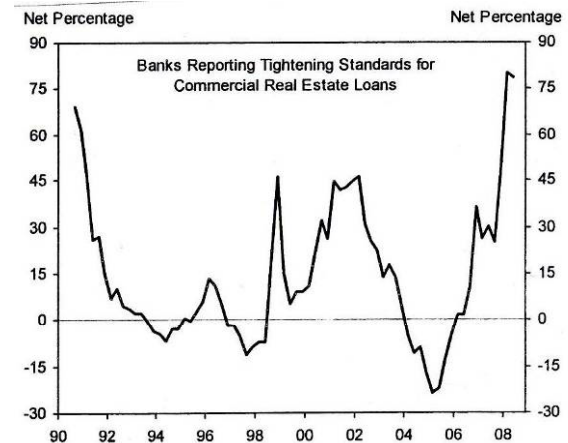
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CREDIT GROWTH COLLAPSES AS LENDING STANDARDS TIGHTEN

Total New Borrowing by Households and Non-Financial Business % PGDP

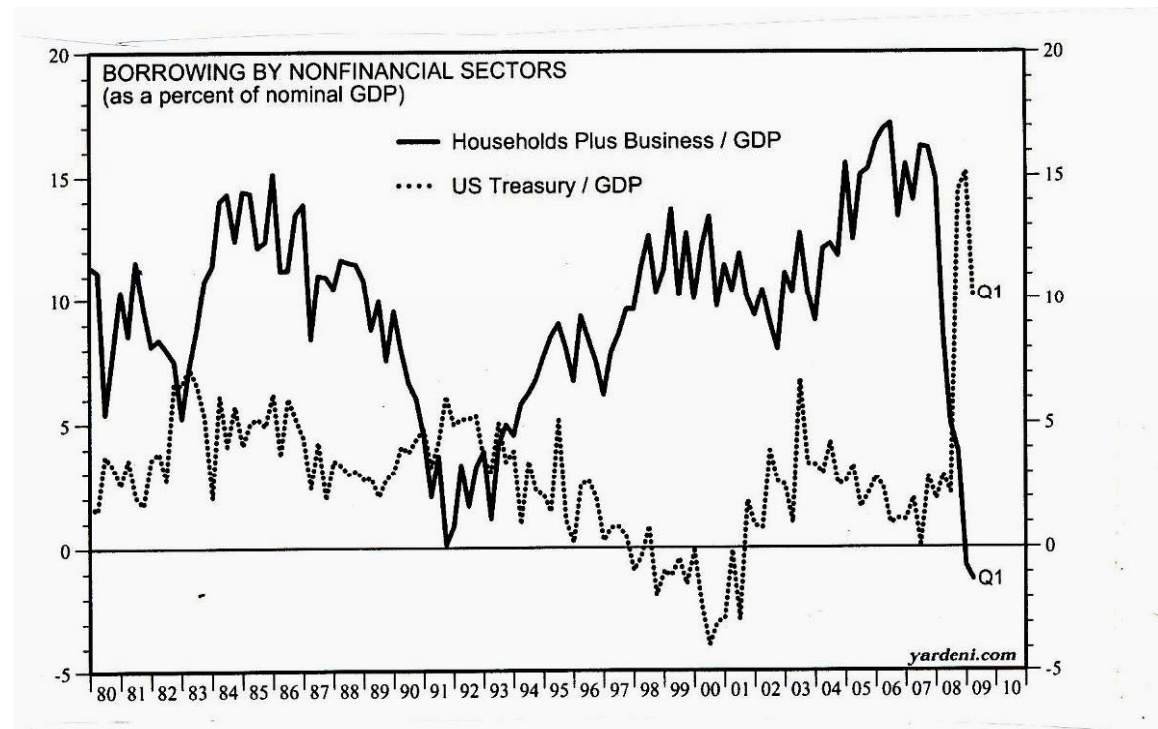


Lending Standards Tighten



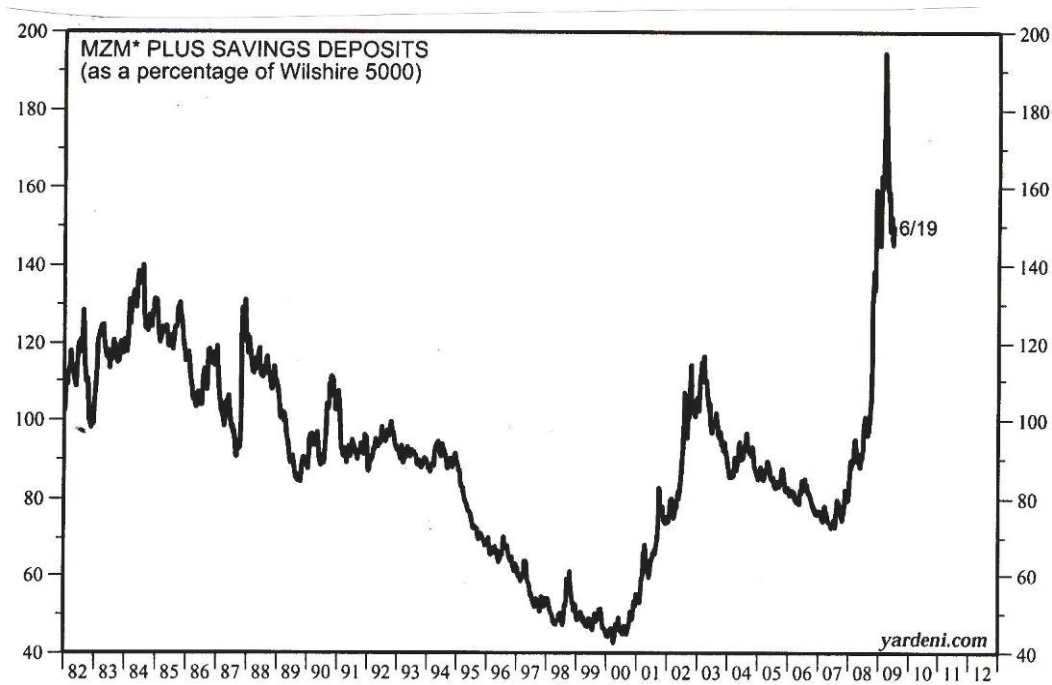
Source: Bridgewater Associates, Goldman Sachs

THE U.S. TREASURY'S ATTEMPT TO STIMULATE CREDIT GROWTH IS LIKELY TO FAIL



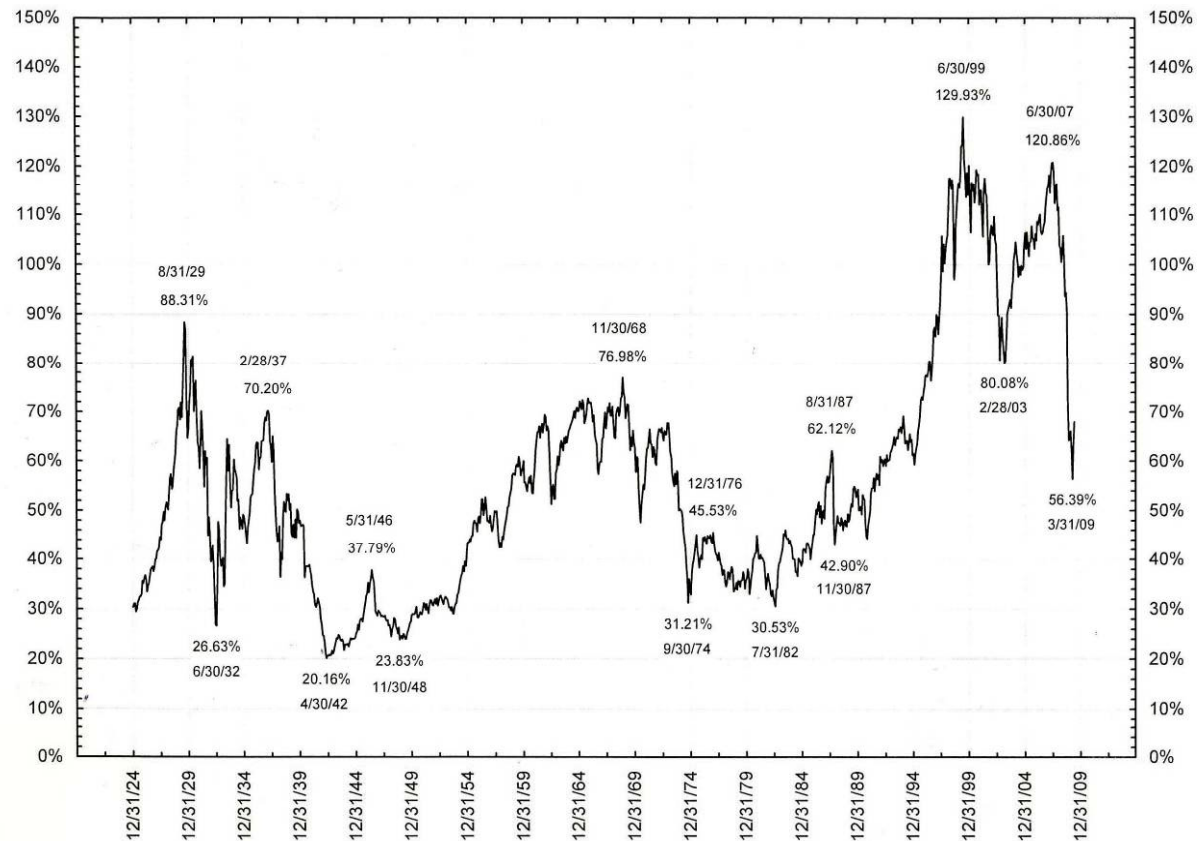
Source: Ed Yardeni; www.yardeni.com

EASY MONEY MAY BOOST ASSET PRICES



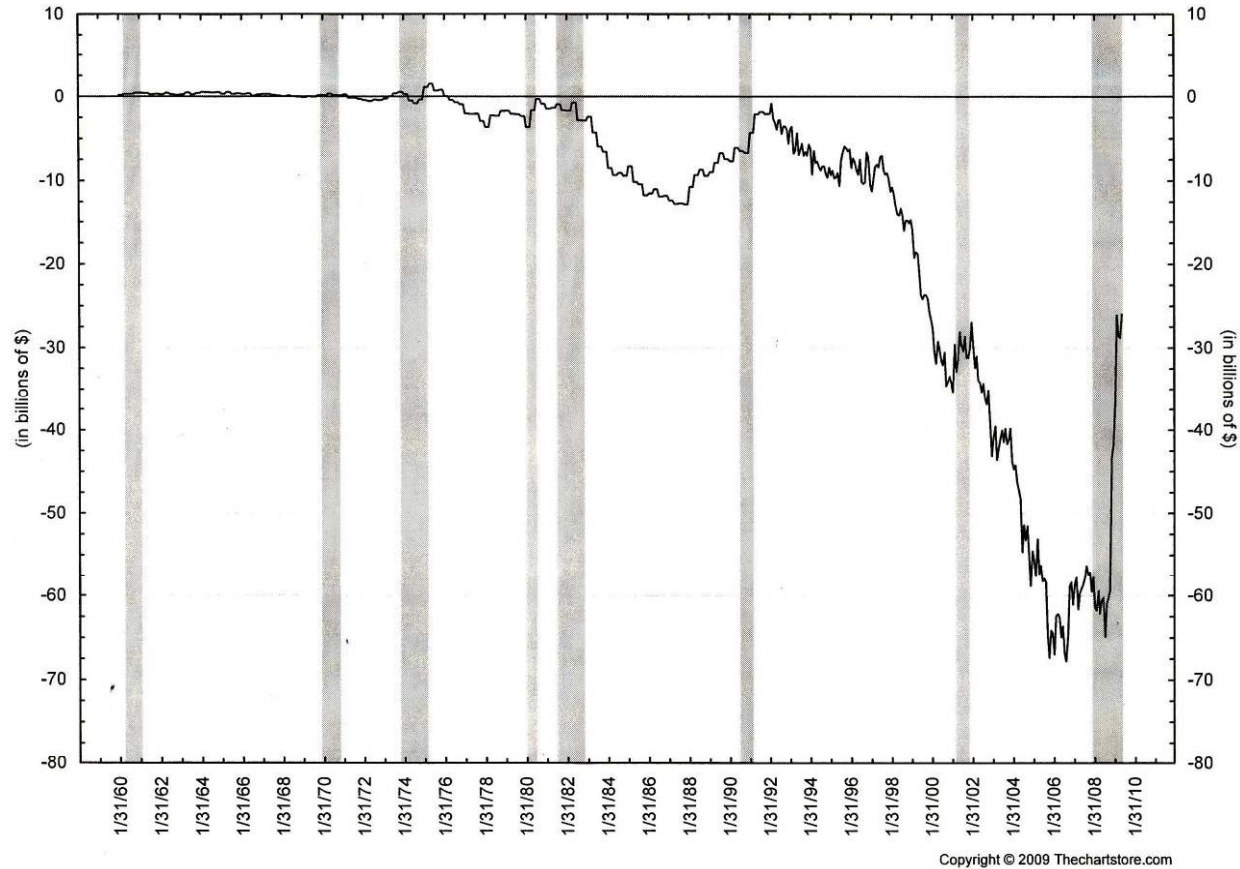
Source: Ed Yardeni; www.yardeni.com

TOTAL MARKET CAPITALIZATION (NYSE) AS A PERCENTAGE OF NOMINAL GDP, 1924-2009



Source: Ron Griess, www.thechartstore.com

TRADE BALANCE (TOTAL), 1960-2009

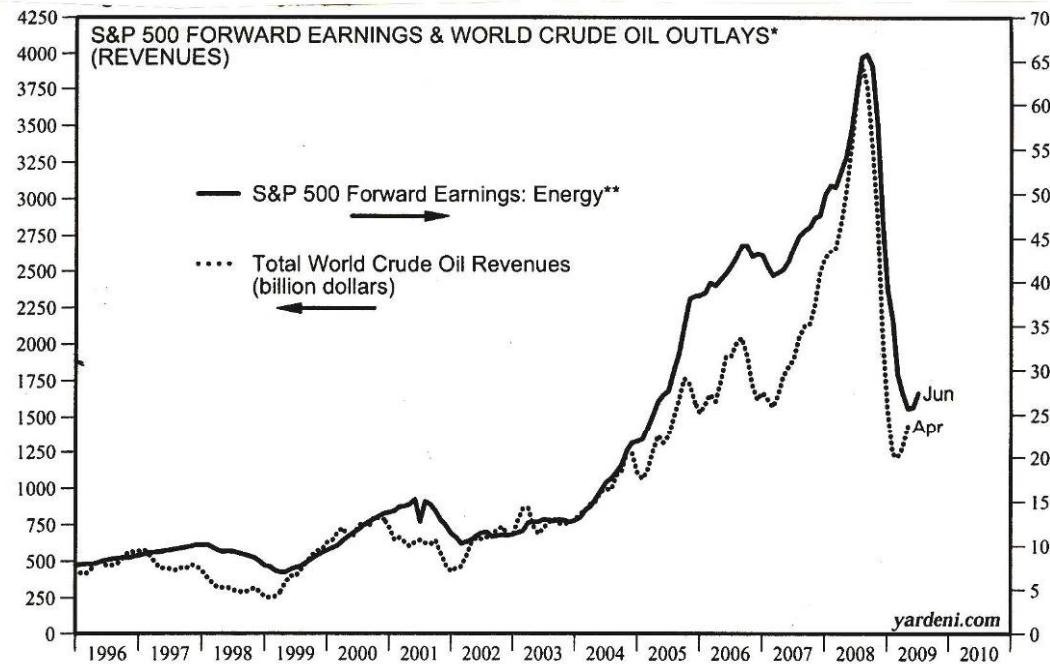


Source: Ron Griess, www.thechartstore.com

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U.S. OVERCONSUMPTION STIMULATED THE CHINESE ECONOMY, LIFTED COMMODITY PRICES, AND ENRICHED RESOURCE PRODUCERS

World Crude Oil Outlays, 1996-2009



* Total world daily crude oil demand multiplied by 365 days and by the US average import crude oil price.

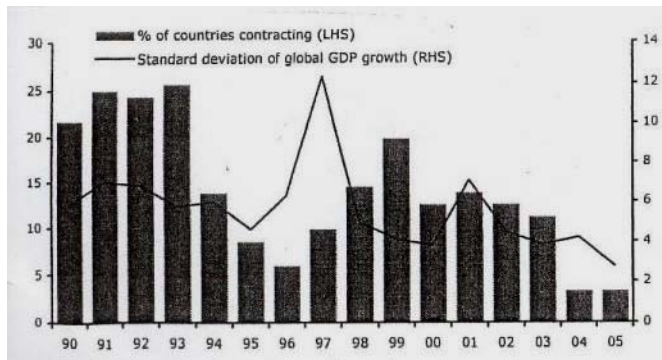
** 12-month forward consensus expected operating earnings per share. Time-weighted average of current and next year's consensus earnings estimates.

Source: Ed Yardeni; www.yardeni.com

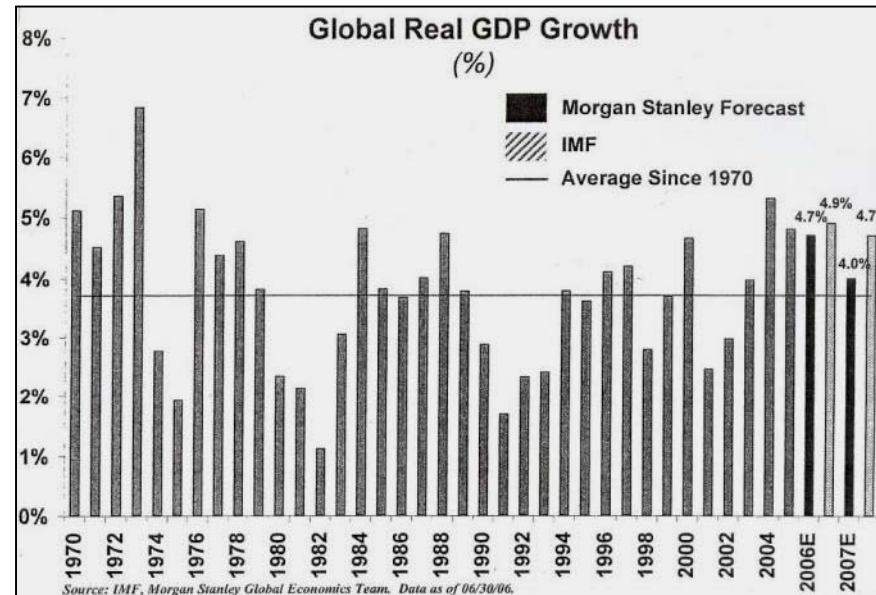
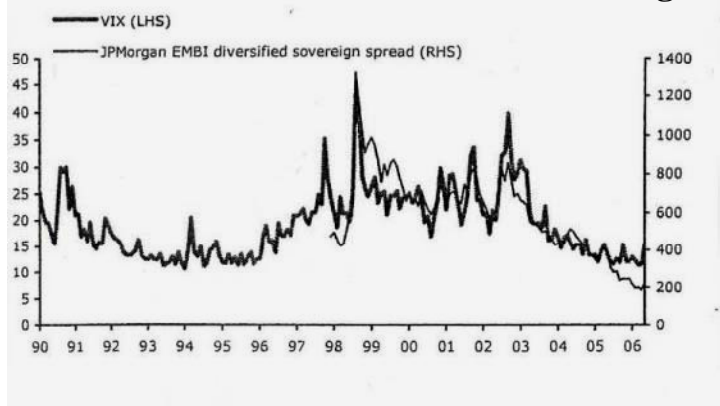
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FIRST SYNCHRONIZED GLOBAL BOOM AND BUST IN 200 YEARS OF CAPITALISM BUT...

Global economy has become more synchronized



Risk Premiums remained low for too long!



Source: Morgan Stanley

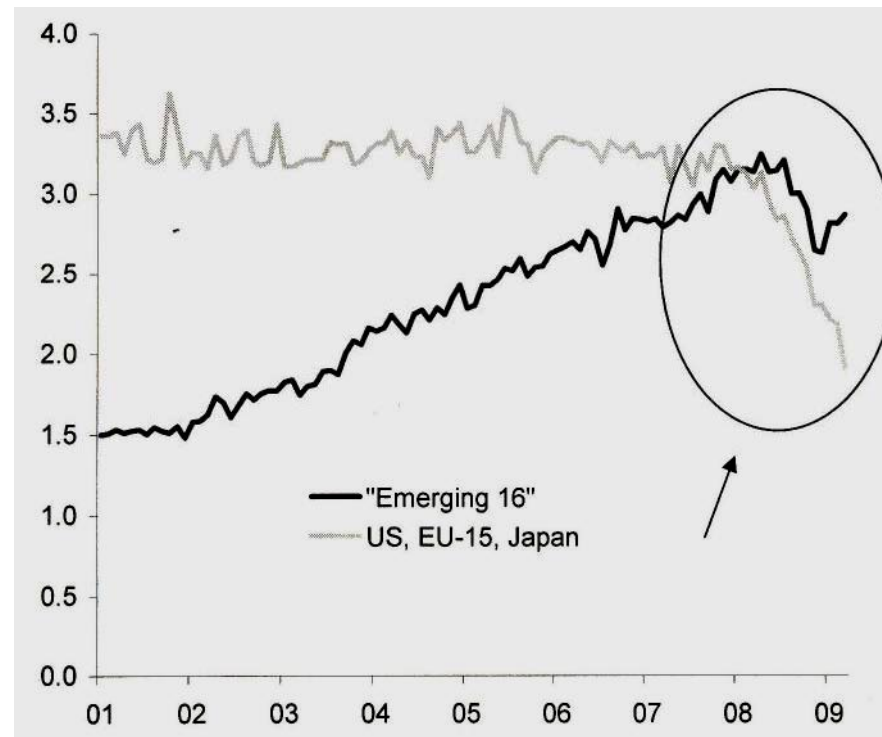
In 2006/2007: only one country in recession – money-printing Zimbabwe!

Source: ABN Amro

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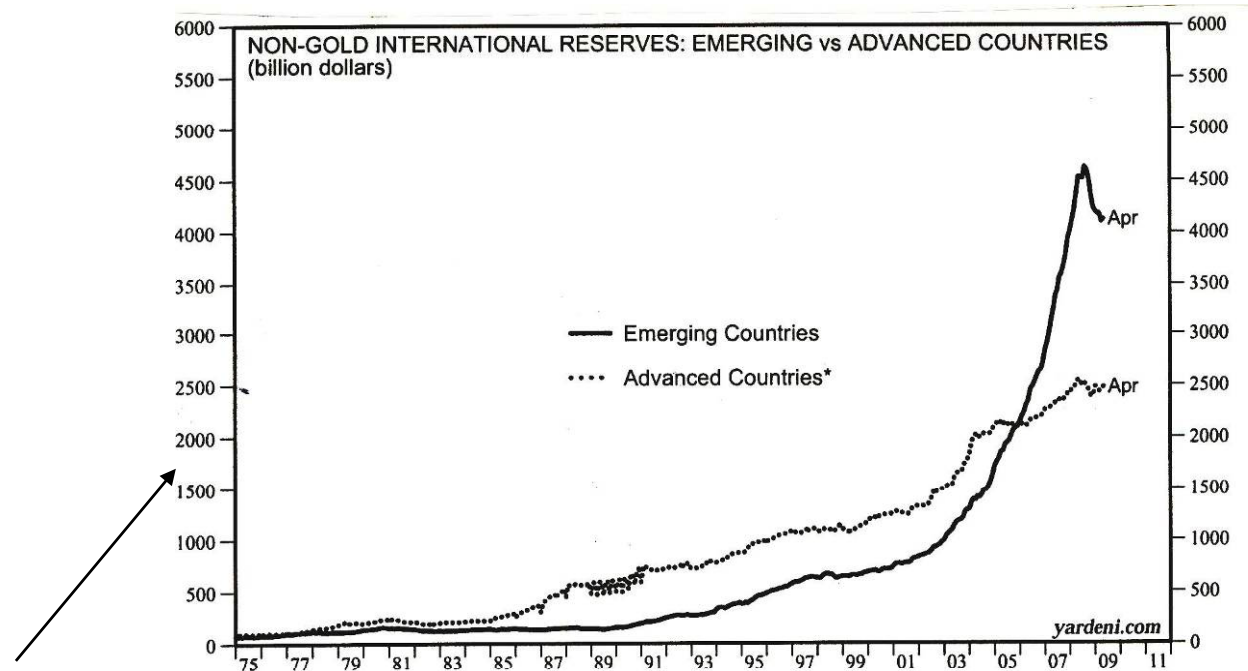
... A NEW WORLD HAS EMERGED

Monthly Motor Vehicles Sold (million units)



Source: Jonathan Anderson, UBS

GROWTH IN U.S. TRADE AND CURRENT ACCOUNT DEFICIT LED TO INCREASING INTERNATIONAL RESERVES AND A WEAK U.S. DOLLAR

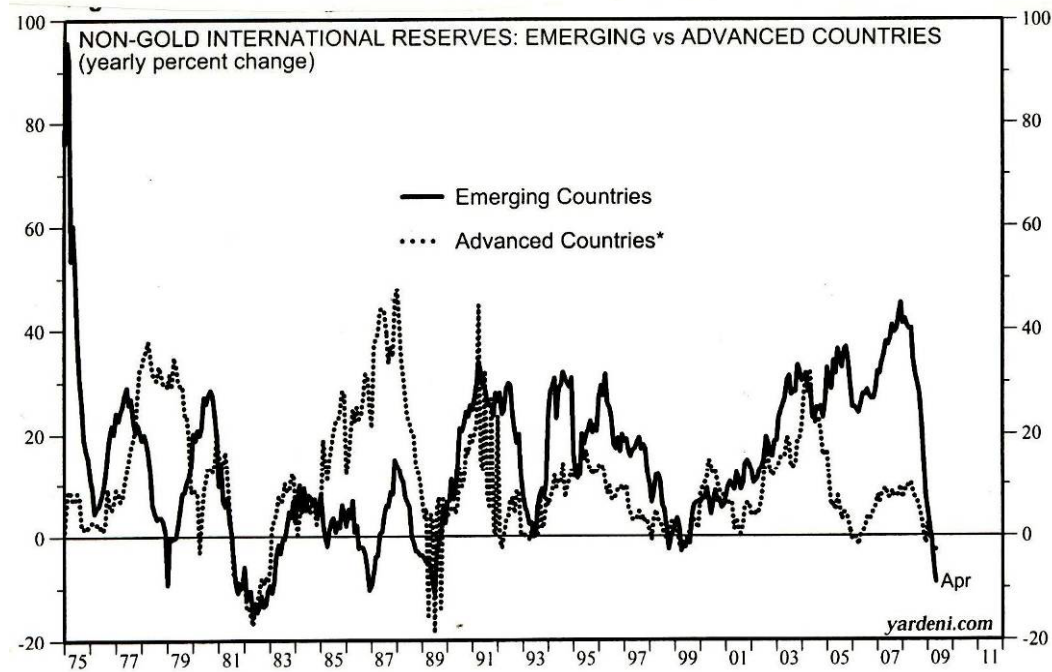


Strong inverse correlation between the growth rate in International Reserves and the U.S. dollar!

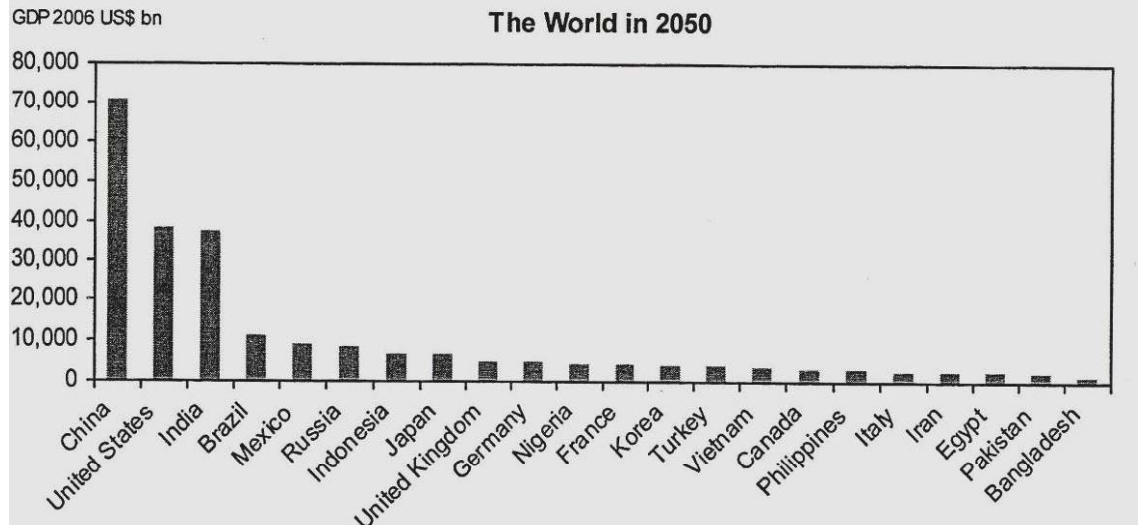
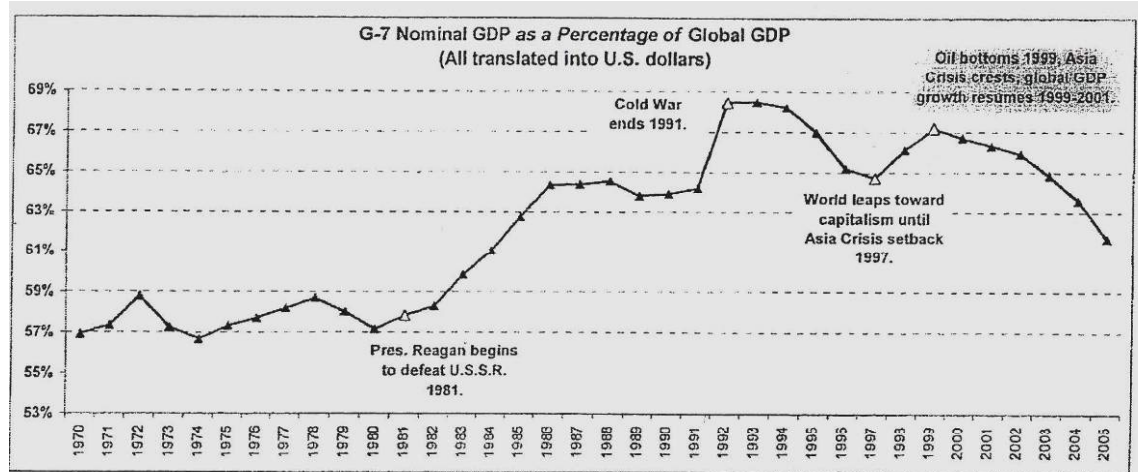
Source: Ed Yardeni, www.yardeni.com

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SLOW-DOWN IN GROWTH OF INTERNATIONAL RESERVES TIGHTEN GLOBAL LIQUIDITY



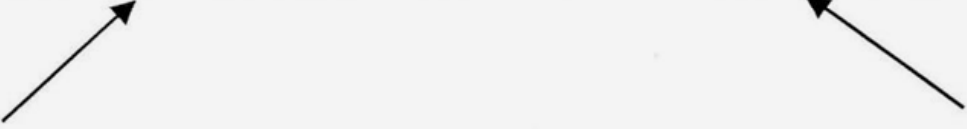
FROM NOW ON FASTER GROWTH IN EMERGING ECONOMIES



Source: Barry Bannister, Stifel Nicolaus & Co; Goldman Sachs

PER CAPITA GDP (IN 1960 U.S. DOLLARS)

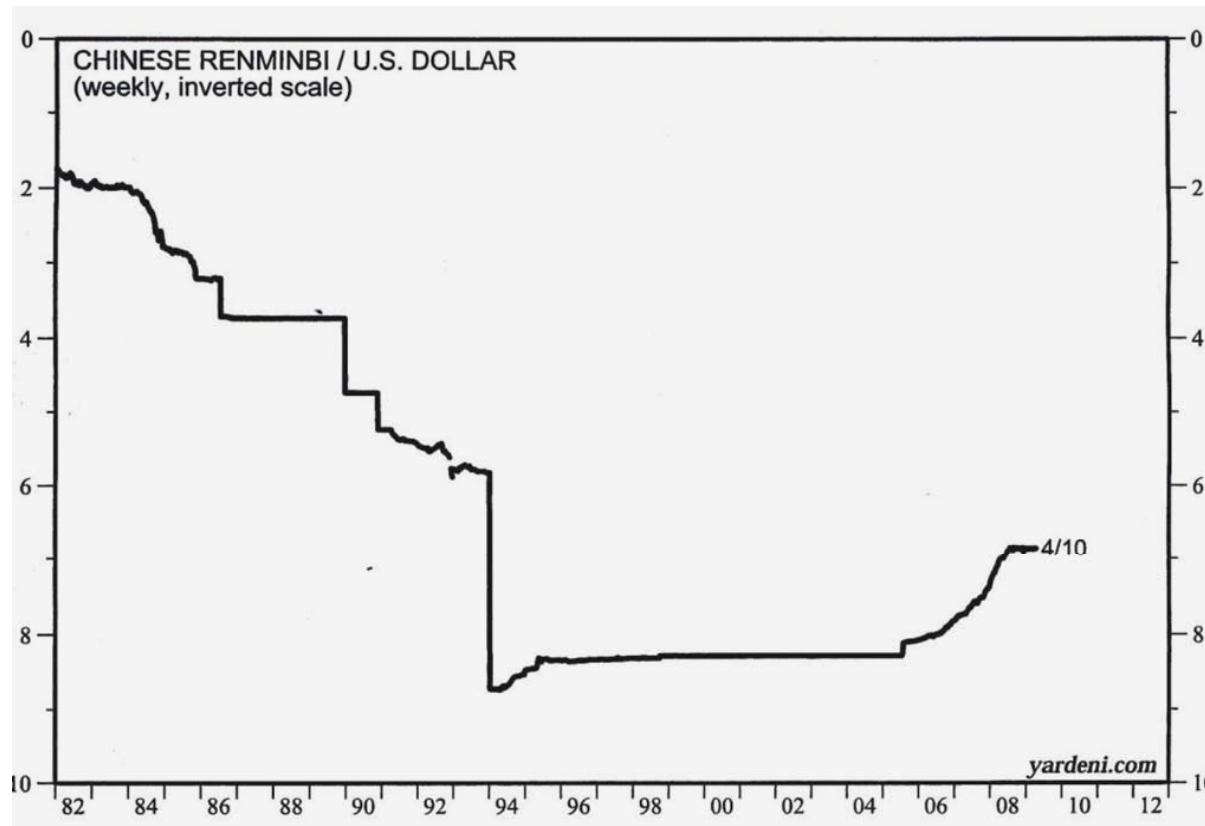
	Most Developed Countries	Developed Countries	Less Developed Countries	World
1750	230	182	188	188
1800	242	198	188	190
1860	575	324	174	218
1913	1350	662	192	560
1950	2420	1050	200	590
1995	5230	3320	480	1100



UP 21 TIMES
UP 2.5 TIMES

**Rising wealth inequality between the MDCs and the LDCs
over the last 250 years has reversed for good!**

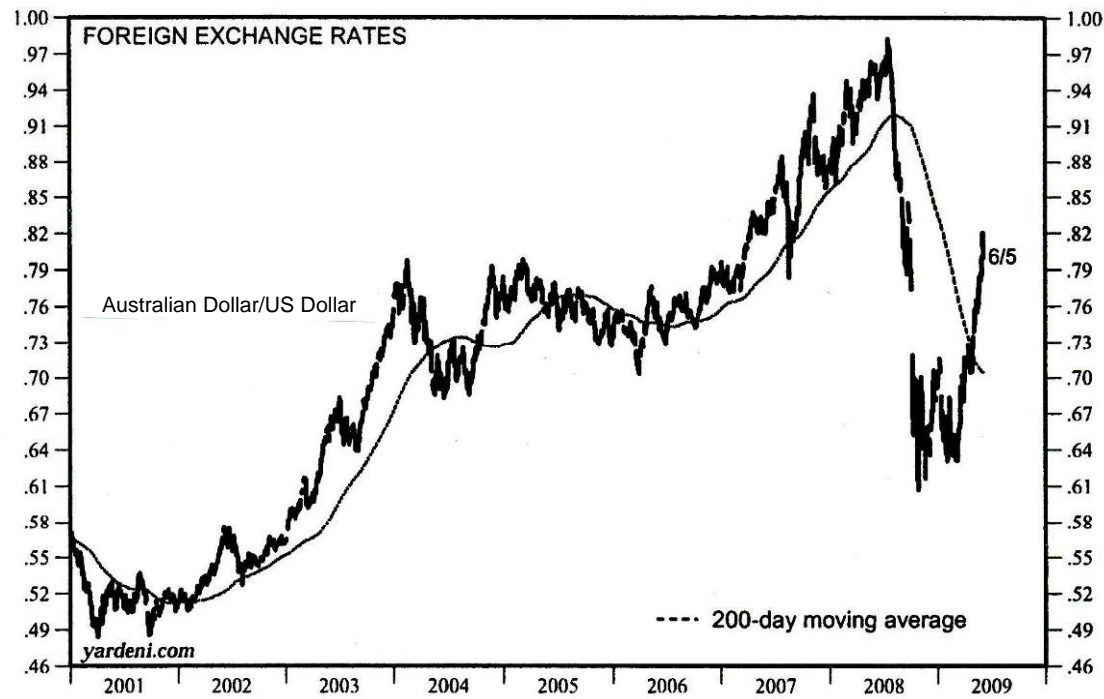
CHINESE YUAN, 1982-2009



Source: Ed Yardeni; www.yardeni.com

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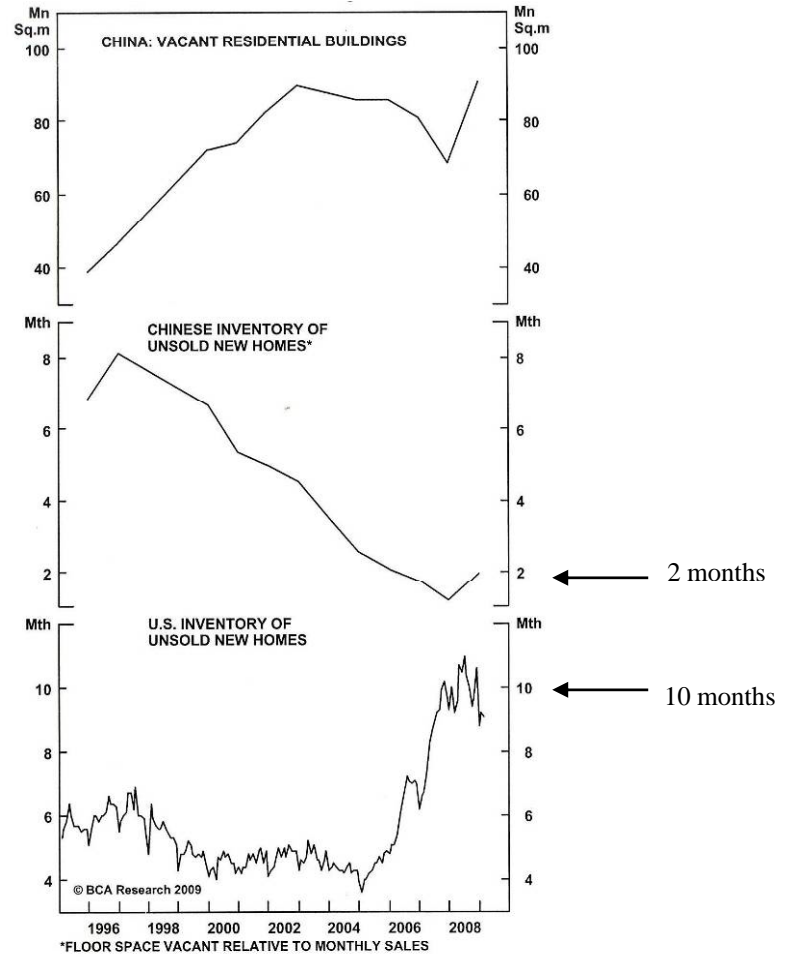
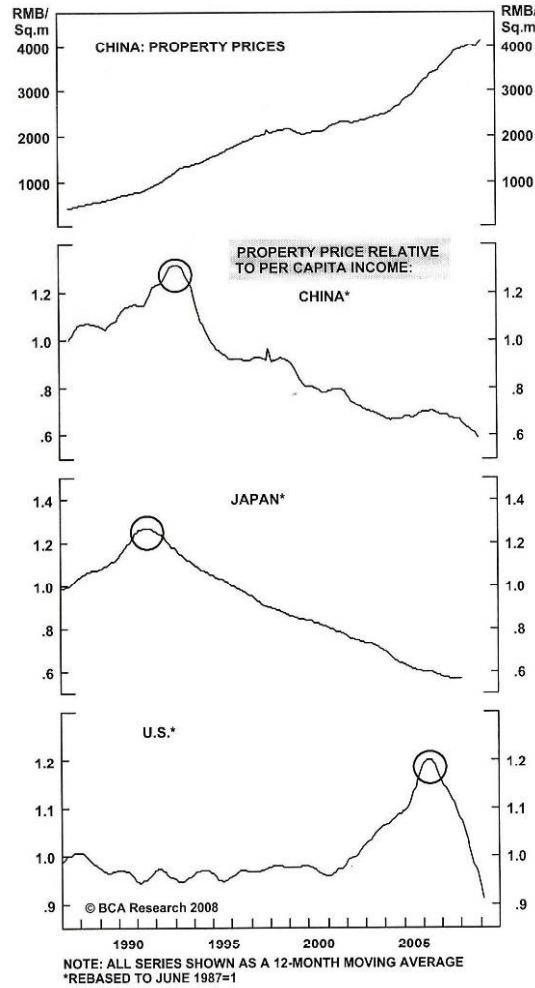
AUSTRALIAN DOLLAR, 2001-2009



Source: Ed Yardeni; www.yardeni.com

www.gloomboomdoom.com

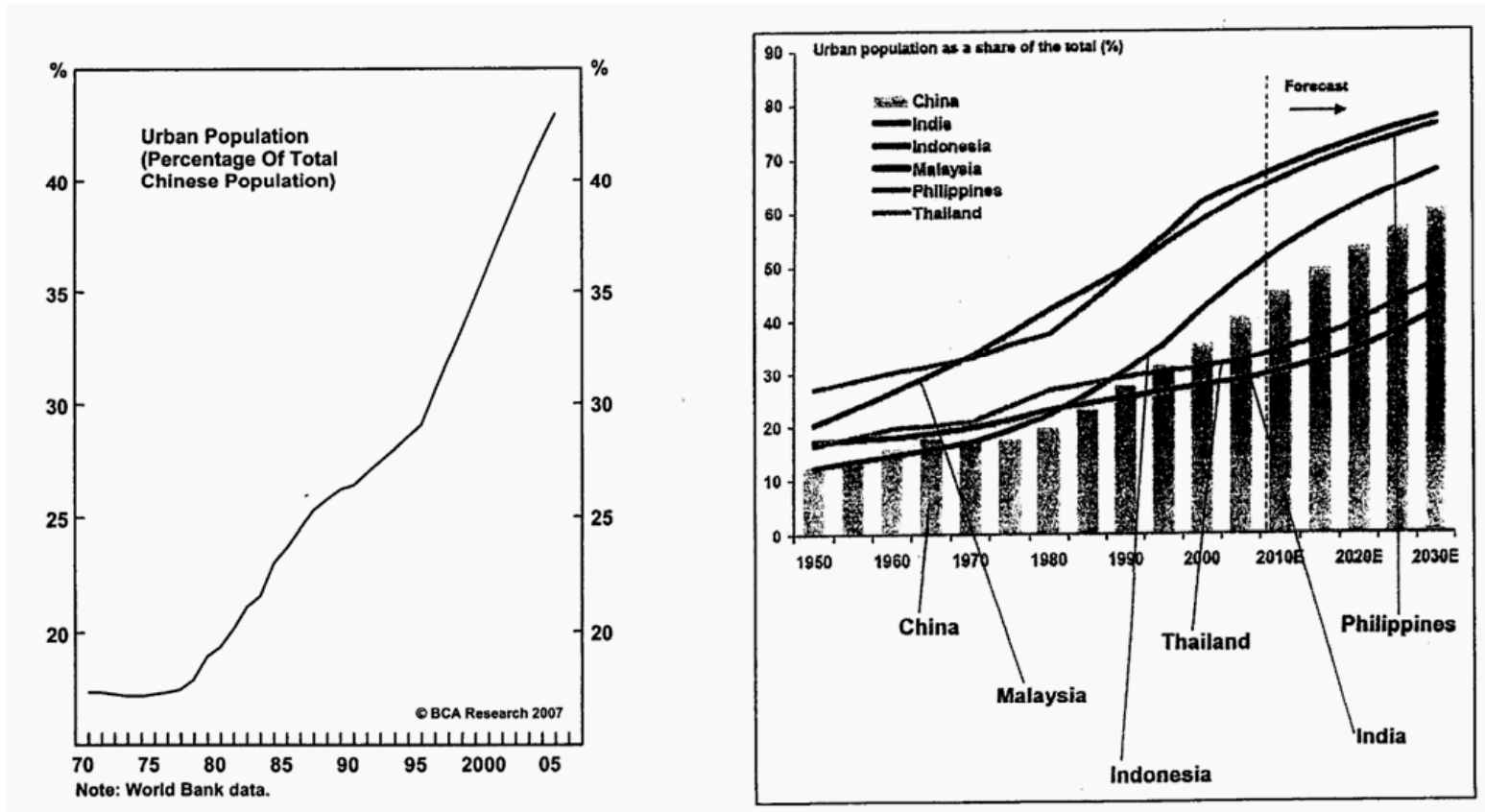
NO PROPERTY BUBBLE IN CHINA!



Source: The Bank Credit Analyst

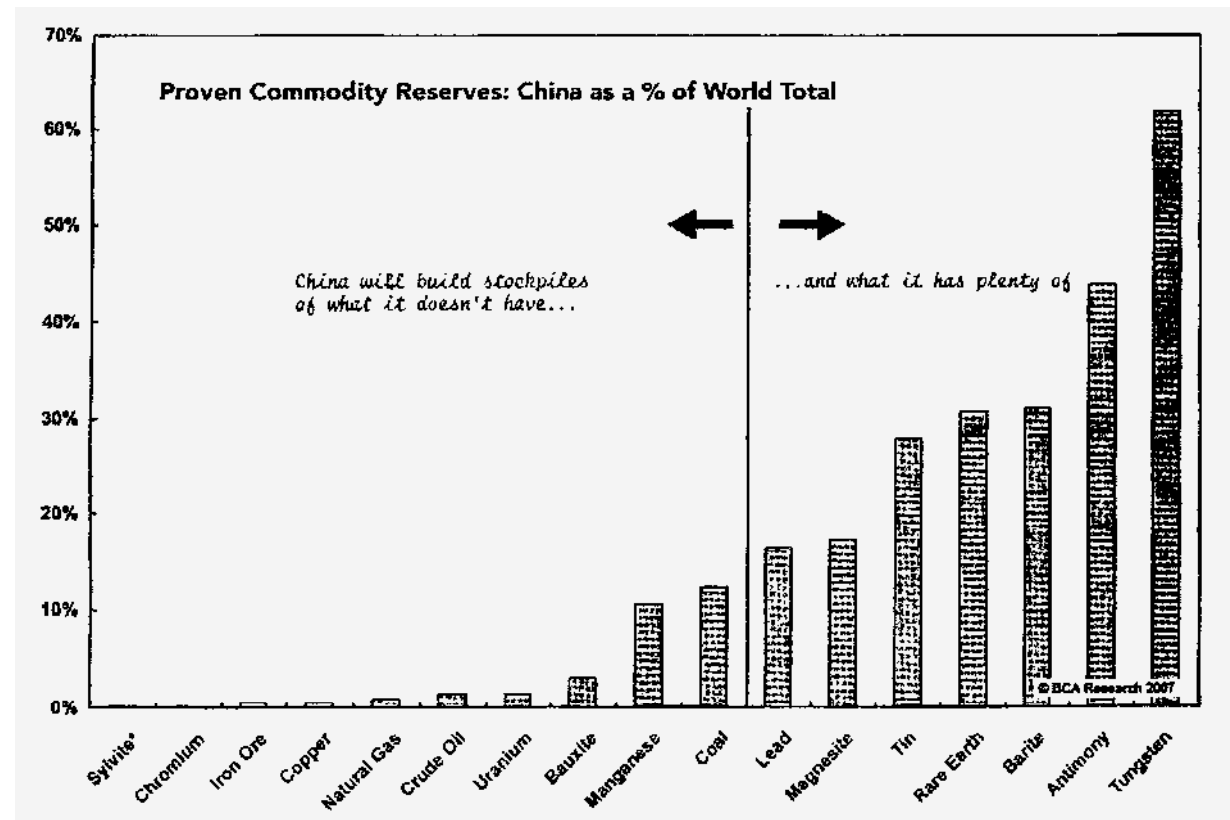
www.gloomboomdoom.com

URBANIZATION IN ASIA



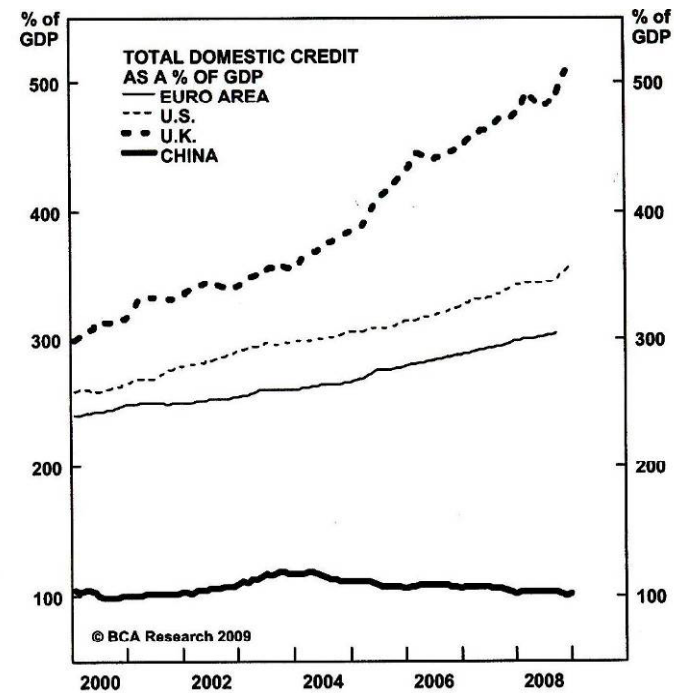
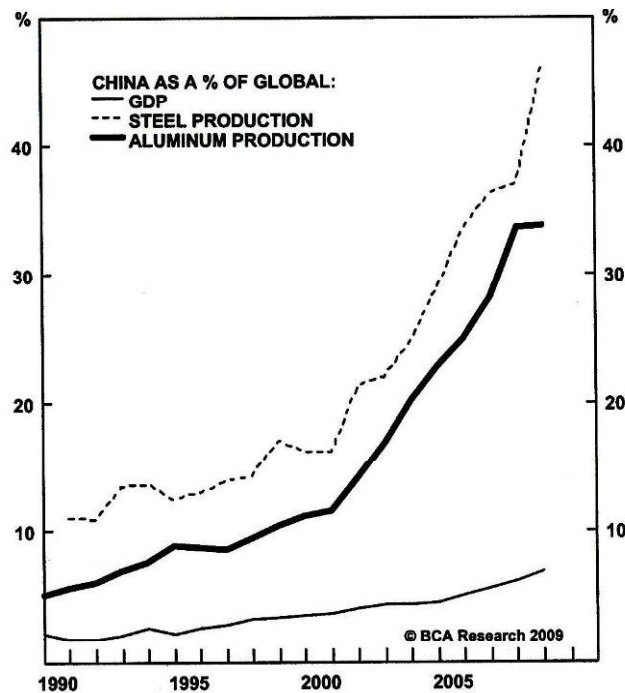
Source: The Bank Credit Analyst, UNDP

FOR WHICH COMMODITIES WILL DEMAND NOT COLLAPSE?



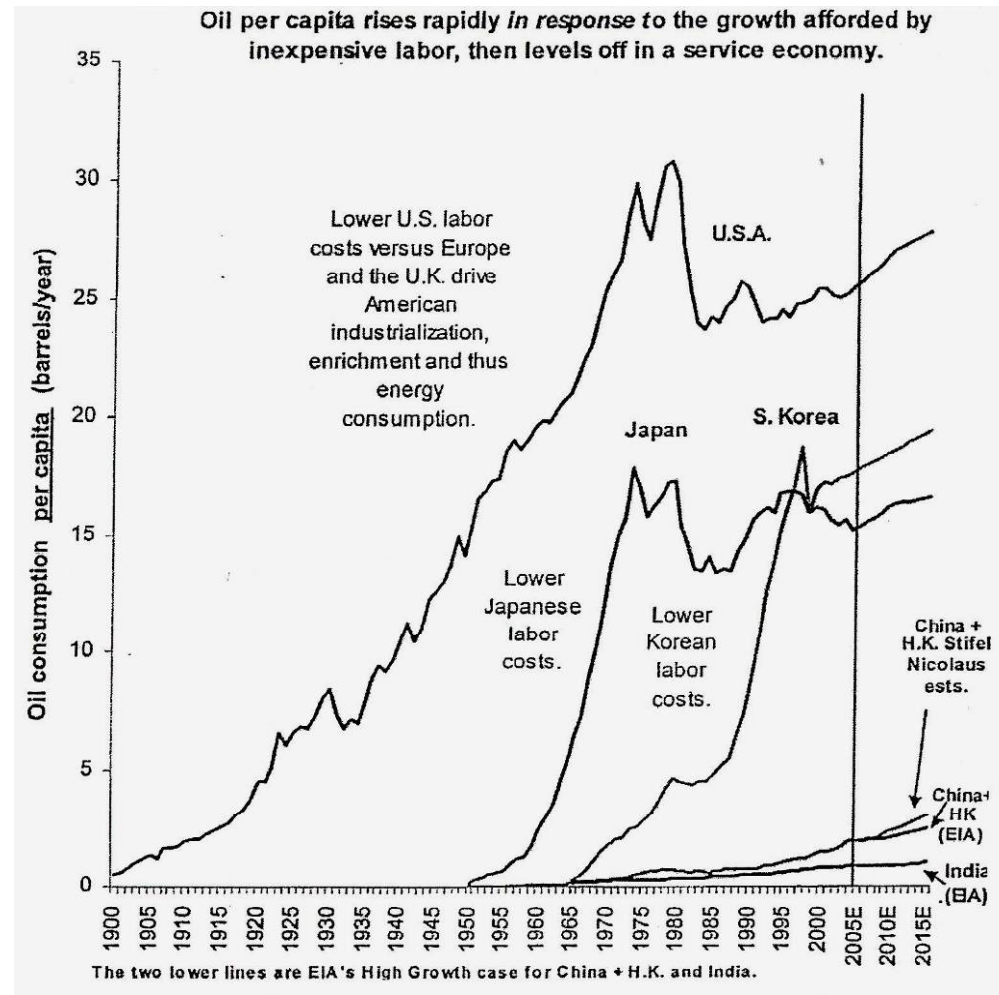
Source: The Bank Credit Analyst

A MASSIVE INCREASE IN RESOURCE-INTENSIVE INDUSTRIES WHILE THE ECONOMY IS UNDER LEVERAGED

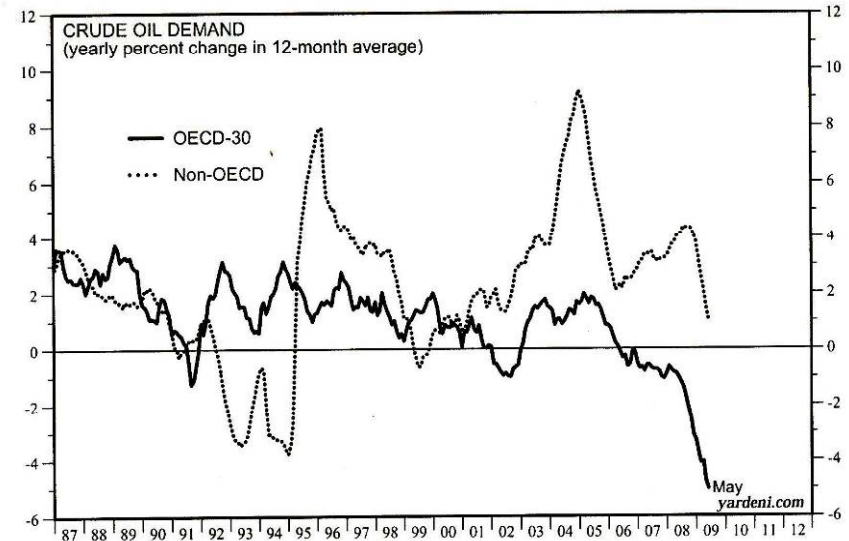
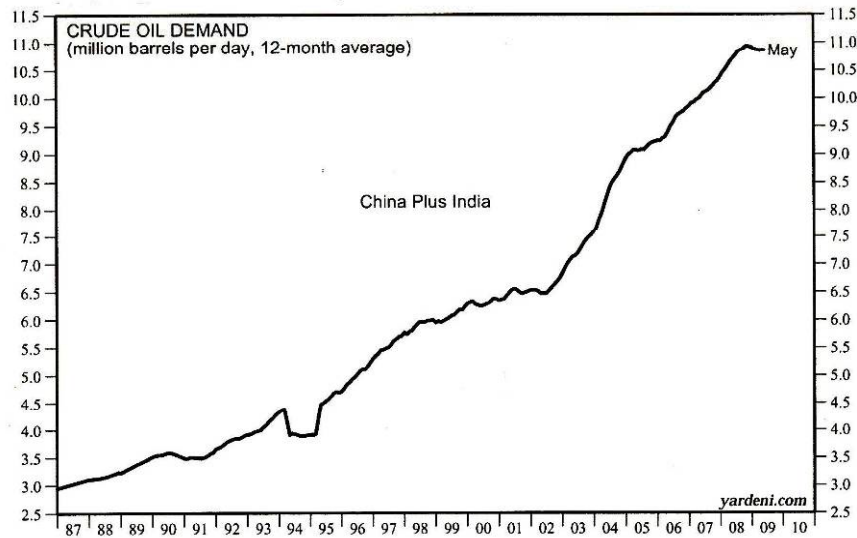


Source: The Bank Credit Analyst

OIL CONSUMPTION DURING PHASES OF INDUSTRIALISATION



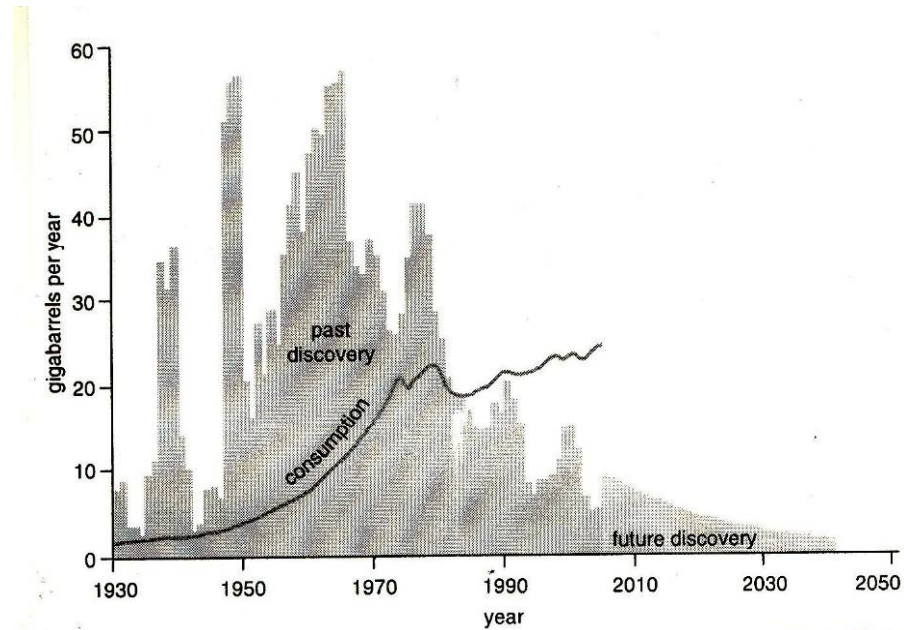
CRUDE OIL DEMAND IN CHINA AND INDIA AND ANNUAL CHANGE, 1987-2009



Source: Ed Yardeni; www.yardeni.com

PAST AND FUTURE OIL DISCOVERIES

(in billions of barrels per year)

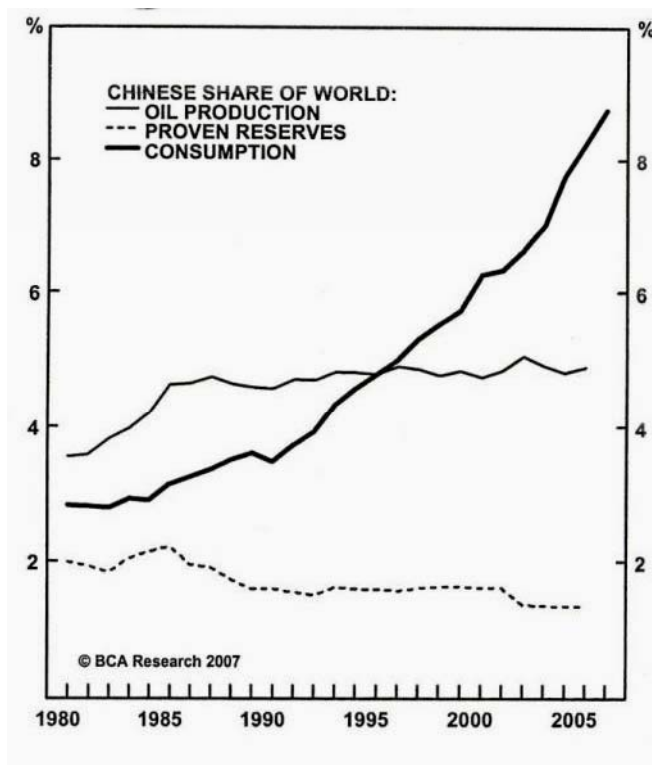


Source: American Scientist

THE GEOPOLITICS OF OIL

Map of Iran

Chinese Share of World Oil Demand and Production

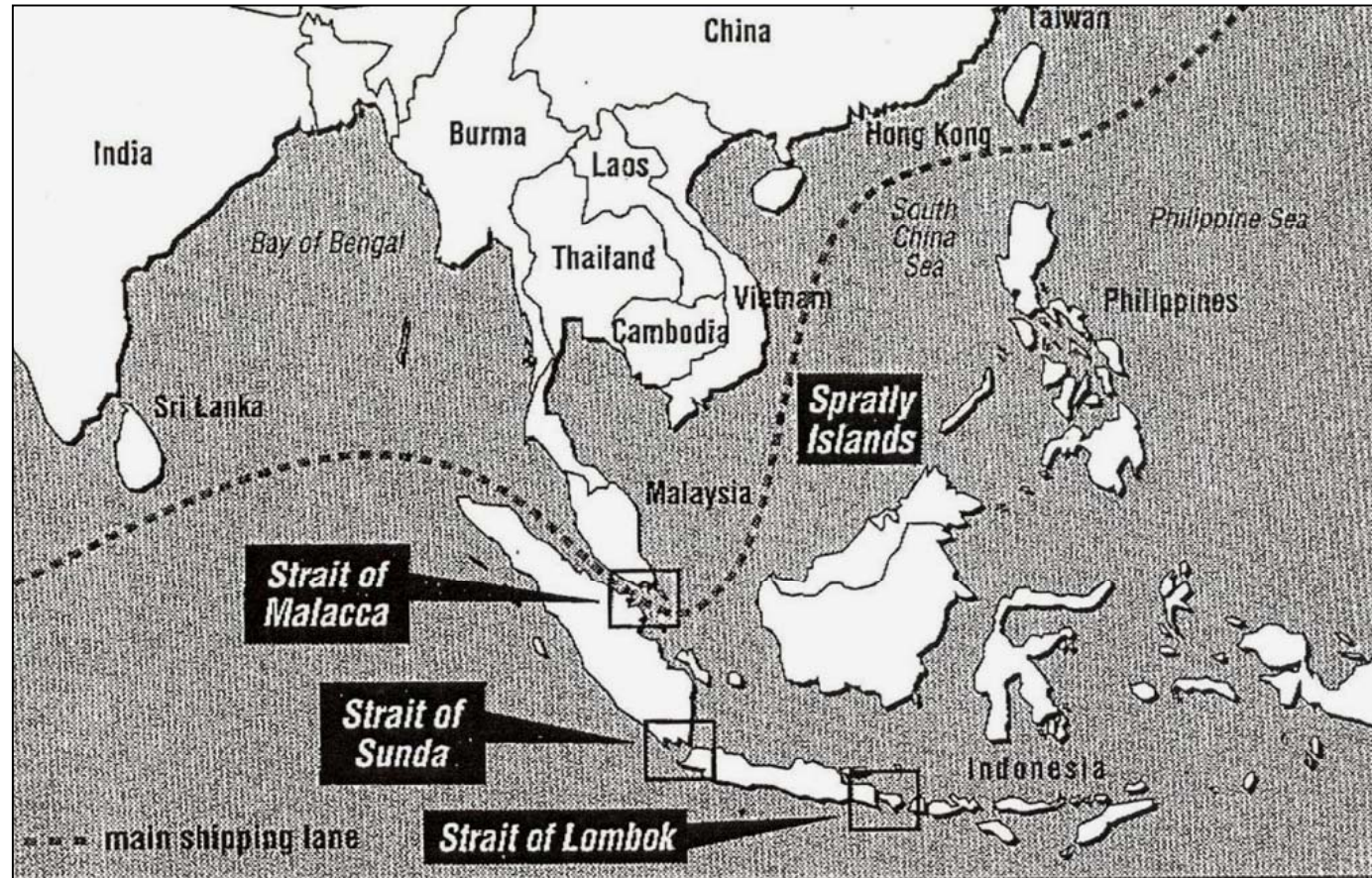


Source: The Bank Credit Analyst



Source: Perry-Castaneda Library Map Collection

THE GEOPOLITICS OF OIL IN ASIA: THE CONTROL OF SEA LANES



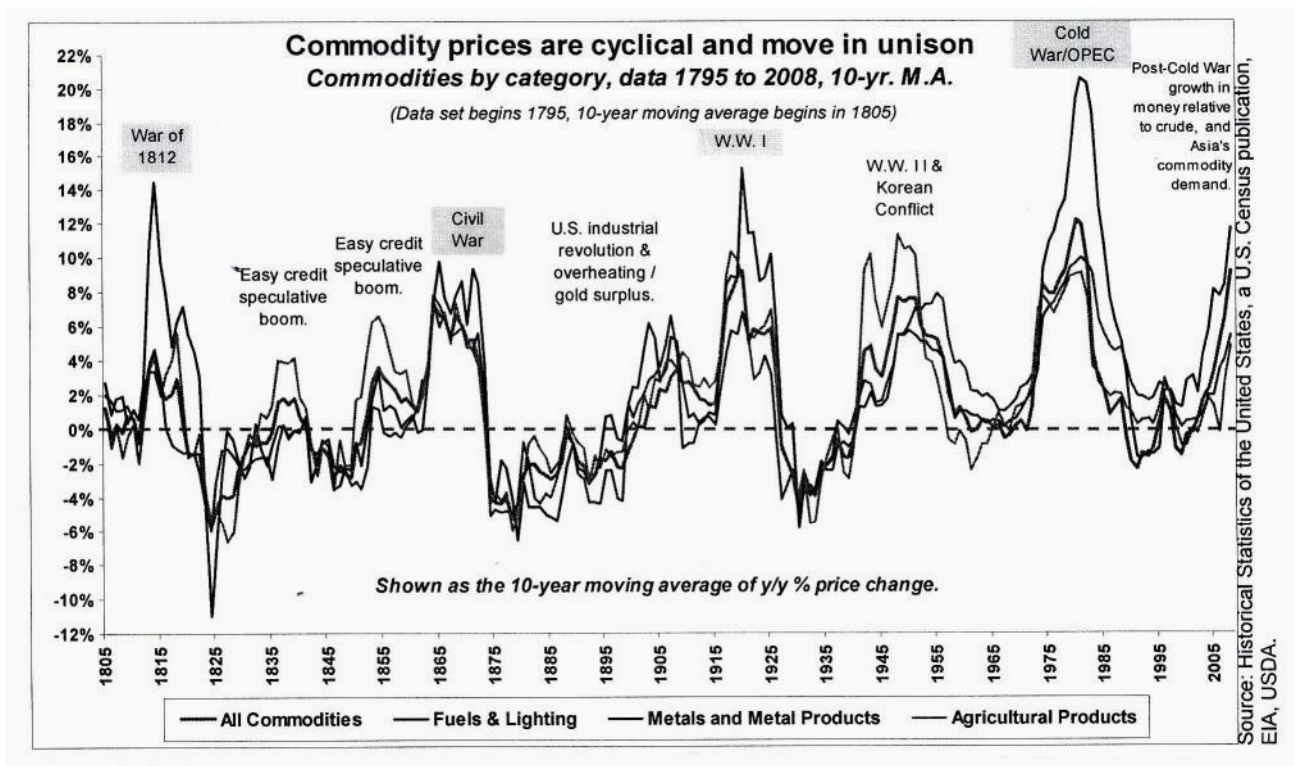
THE SCO INCLUDES CHINA, RUSSIA, KAZAKHSTAN, KYRGYZSTAN, TAJIKISTAN AND UZBEKISTAN



Source: 1999 MAGELLAN GeographixSM, (805) 685-3100: www.maps.com

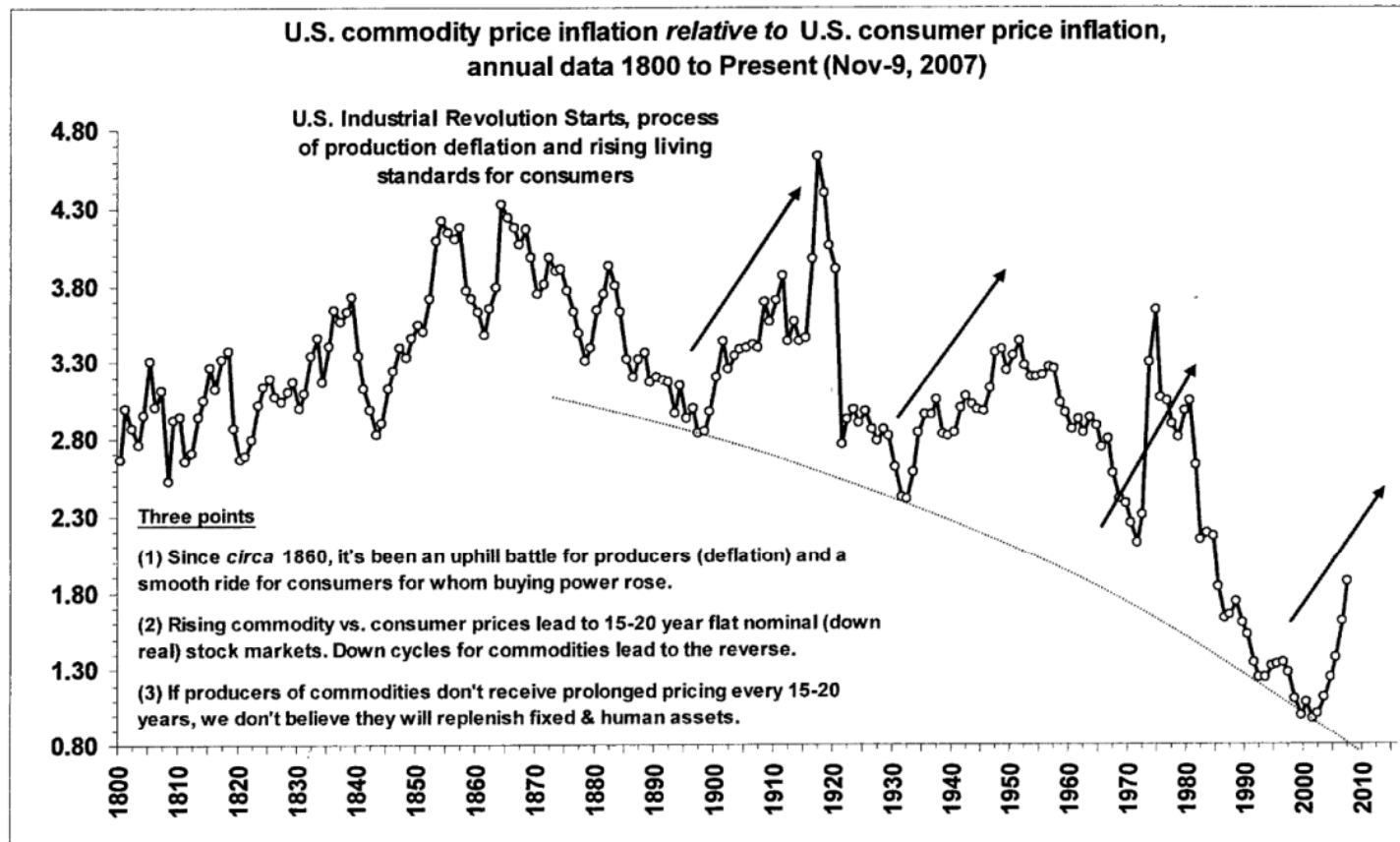
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RISING COMMODITY PRICES LEAD TO INTERNATIONAL TENSIONS – WARS LEAD TO SOARING PRICES



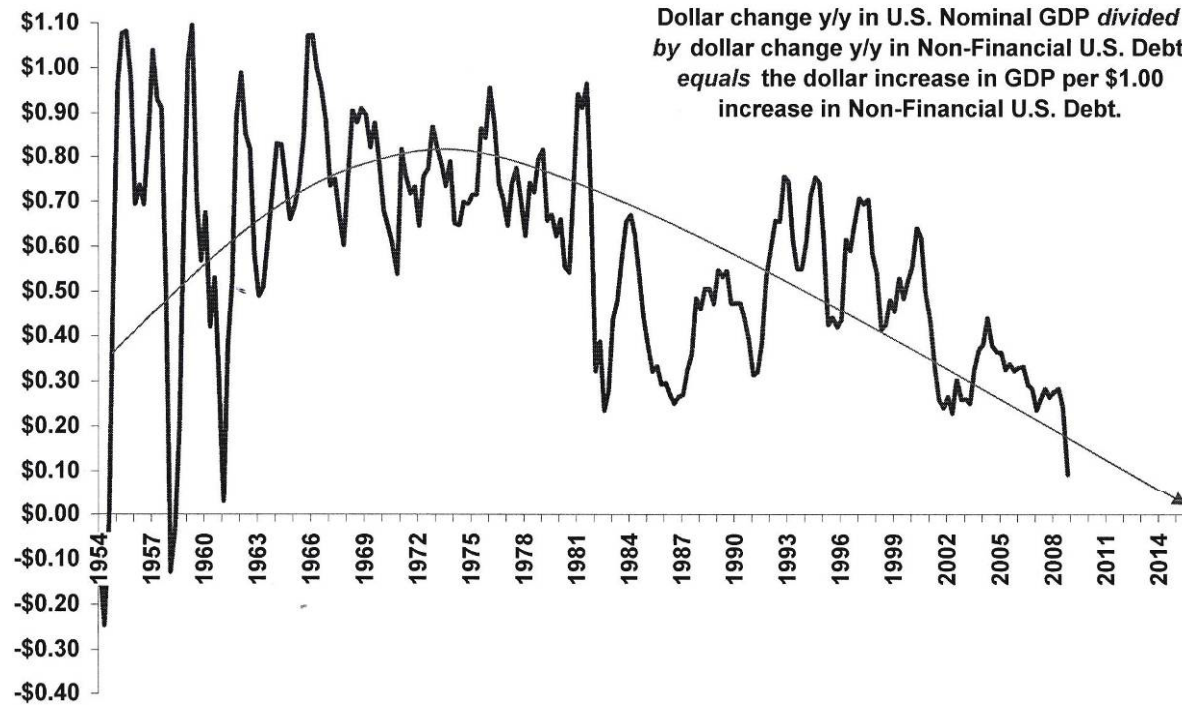
Source: US Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1970, Legg Mason Format

COMMODITY PRICES IN REAL TERMS, 1800 - 2009



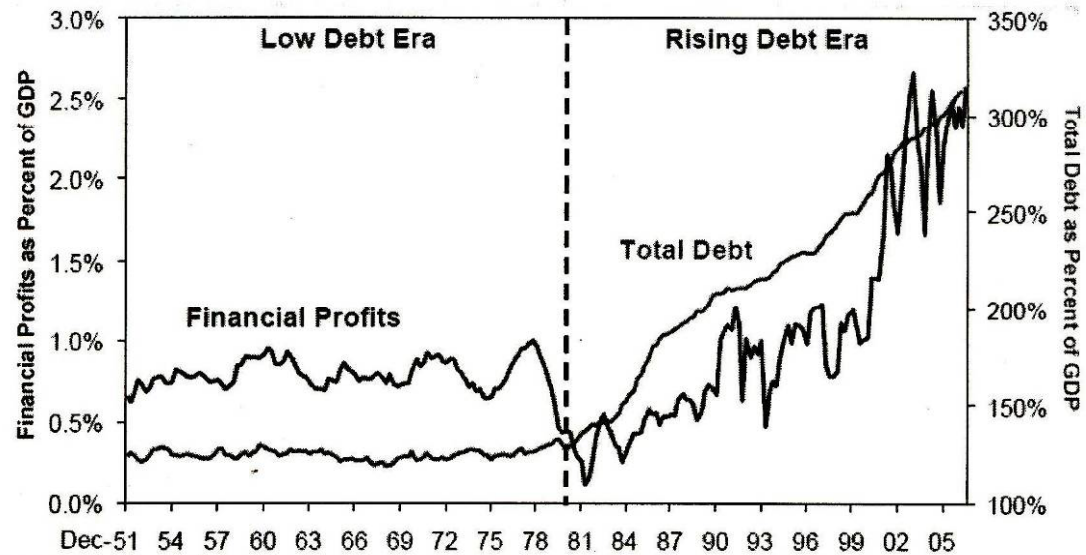
ZERO HOUR! 1954-2009

Zero-Hour 2015? Diminishing U.S. GDP Returns from Each \$1 of New Non-financial U.S. Debt, 1Q 1954 to 4Q 2008 (Not smoothed)



2000-2007: **Nominal GDP Growth:** + \$4.2. trillion
 Total Credit Market Debt: +\$21.4 trillion

A FINANCIAL SECTOR EARNINGS BUBBLE



**From 1990-2007, financial sector earnings up 5 times.
Non-financial sector earnings up 100%**

Source: Michael Berry

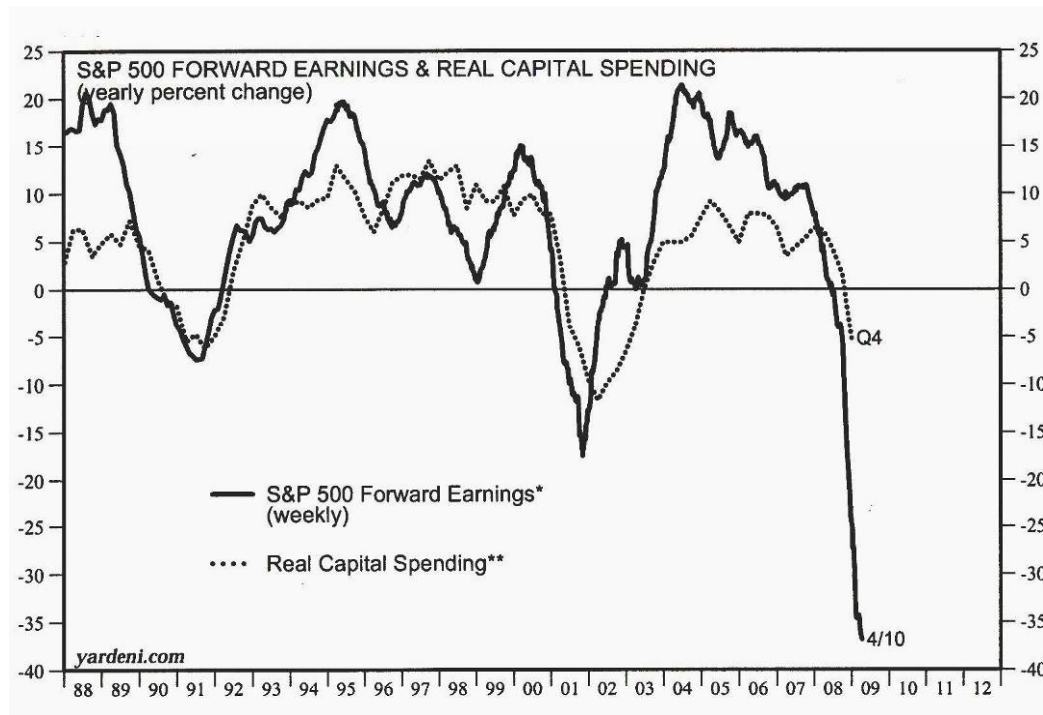
www.gloomboomdoom.com

DECLINING PERSONAL SAVING RATE TURBOCHARGED THE ECONOMY AND CORPORATE PROFITS



Source: Bureau of Economic Analysis, Merrill Lynch

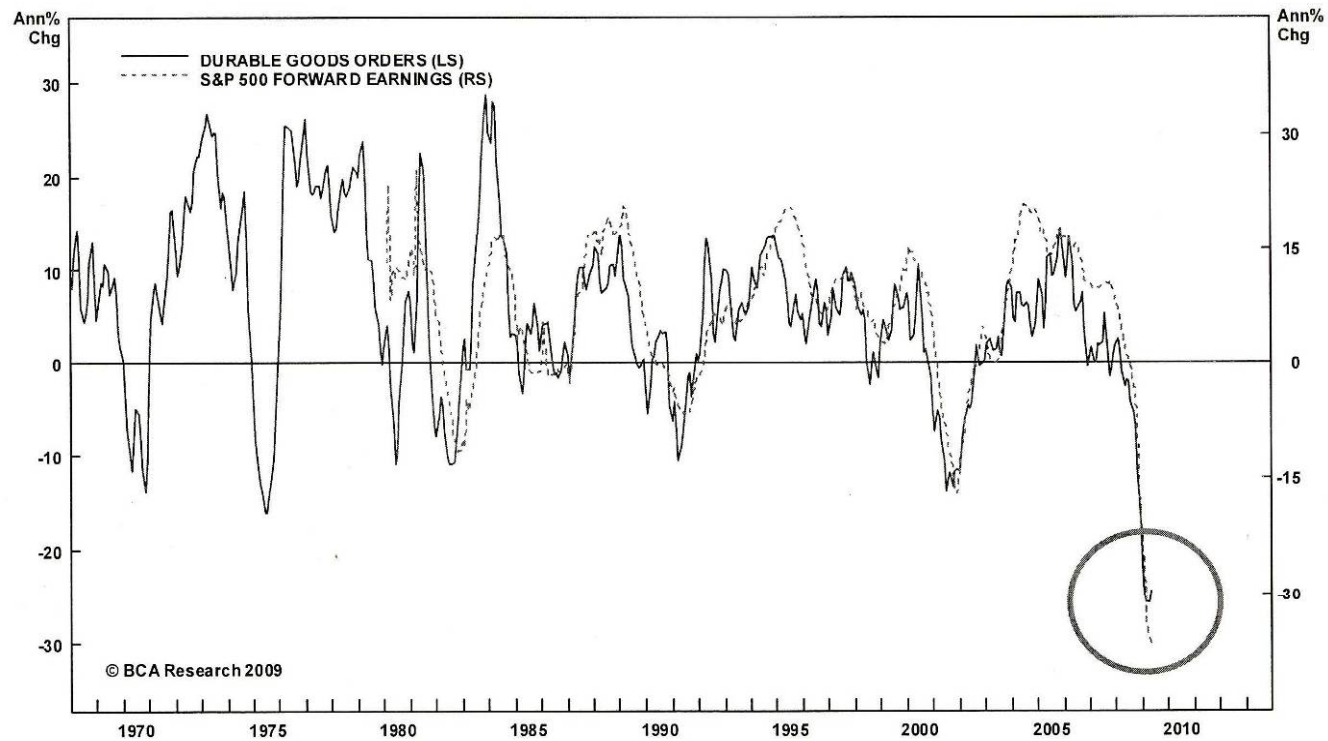
THE COMING COLLAPSE IN CAPITAL SPENDING



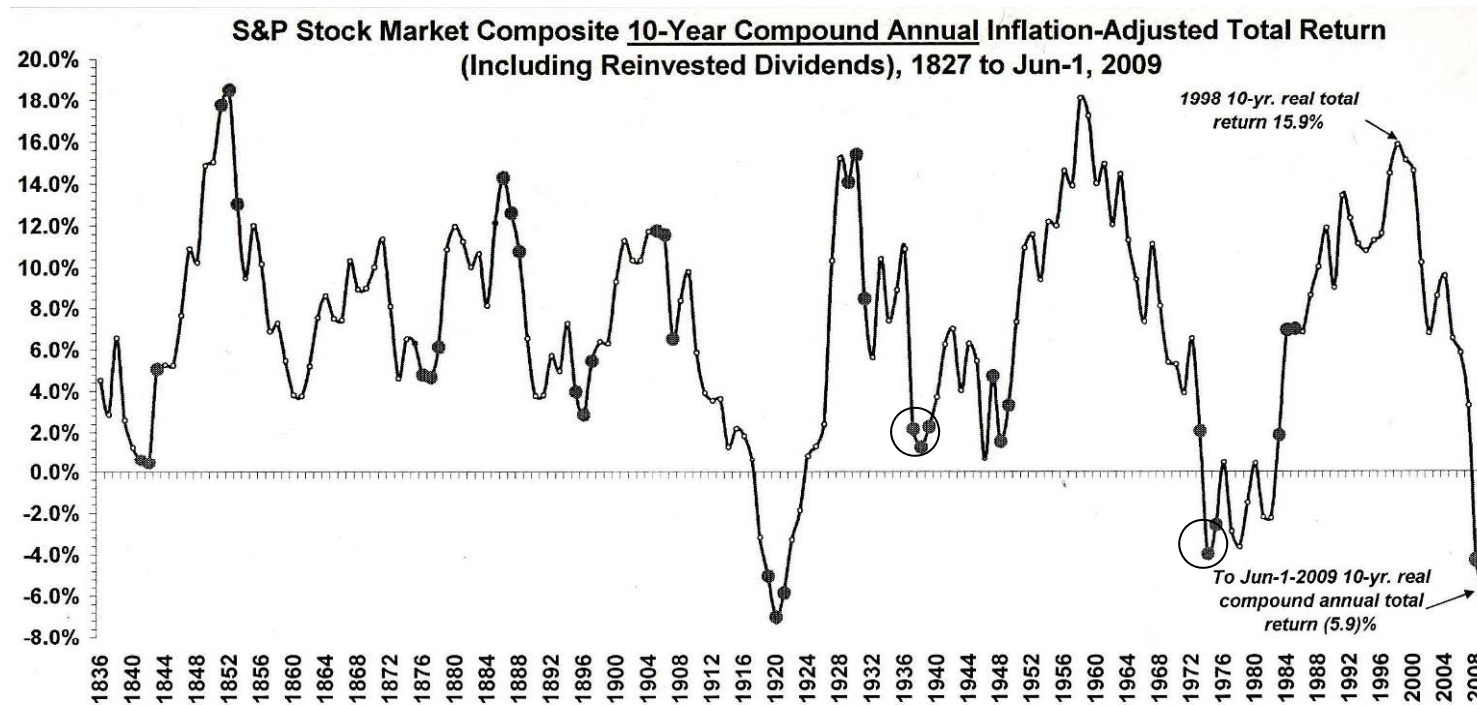
Source: Ed Yardeni; www.yardeni.com

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DURABLE GOODS ORDERS AND S&P 500 EARNINGS, 1968-2009



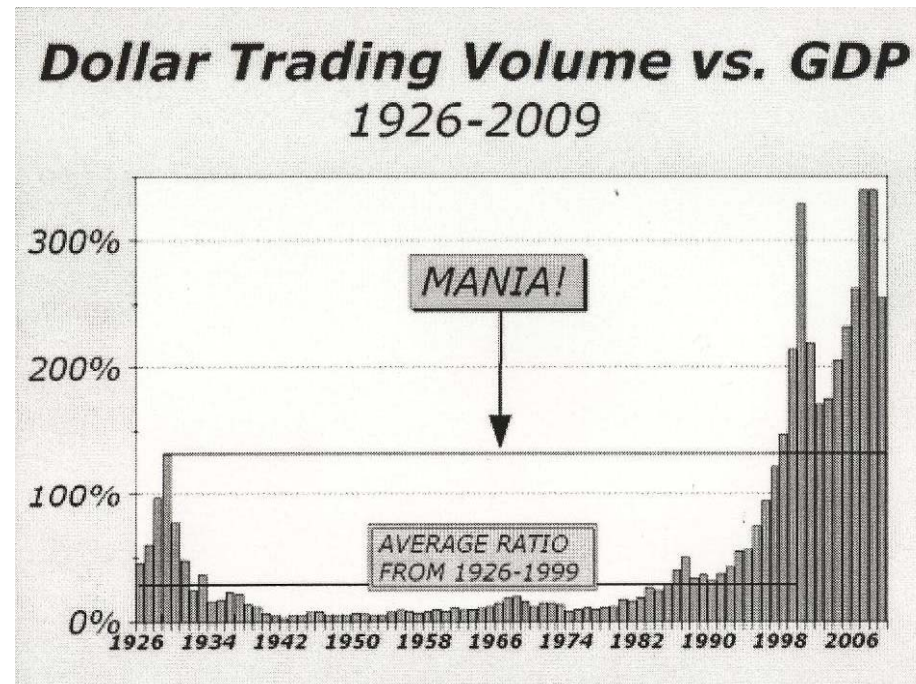
U.S. STOCK MARKET 10-YEAR COMPOUND ANNUAL TOTAL RETURN 1827-2009



Source: Barry Bannister, Stifel Nicolaus

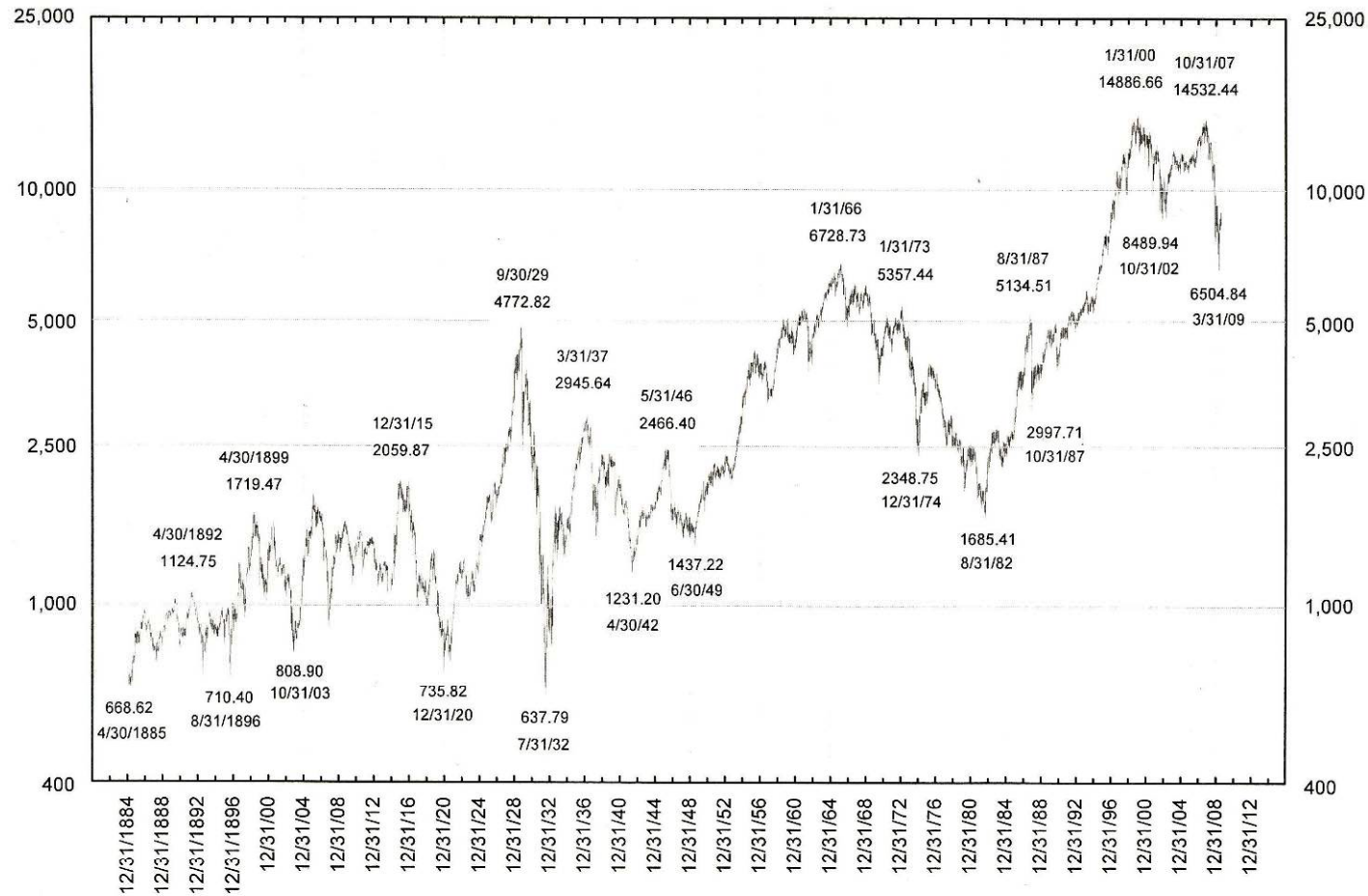
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STILL TOO MUCH SPECULATION!



DOW JONES INDUSTRIAL AVERAGE, 1885-2009

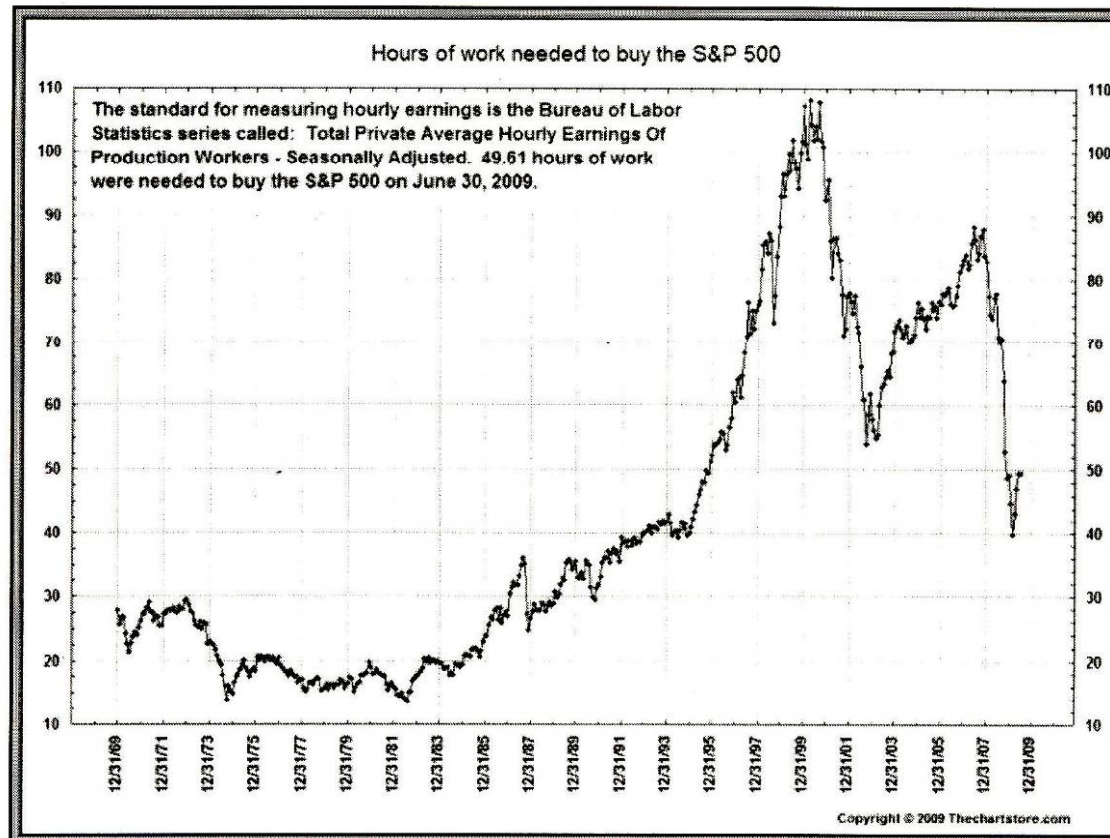
(Monthly – Adjusted for inflation by the CPI – All items)



Source: Ron Griess; www.thechartstore.com

www.gloomboomdoom.com

HOURS OF WORK NEEDED TO BUY THE S&P 500 1969-2009



MOVEMENT OF MEXICAN STOCKS IN PESO AND USD, 1979-1988

Table 1 **High/Low of Mexican Stock Exchange Index (pesos), 1979-1988**

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
High	1,651	1,432	1,179	796	2,452	4,366	11,197	47,101	343,545	178,456 (Feb)
Low	1,066	1,107	862	496	837	2,885	3,710	12,802	60,281	139,620

Table 2 **High/Low of Mexican Stock Exchange Index (US\$), 1979-1988**

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
High	70	62	63	29	15	24	25	51	220	77 (Feb)
Low	48	48	34	5	5	16	16	25	47	62

Table 3 **Mexican Fund Net Asset Value (US\$), 1979-1988**

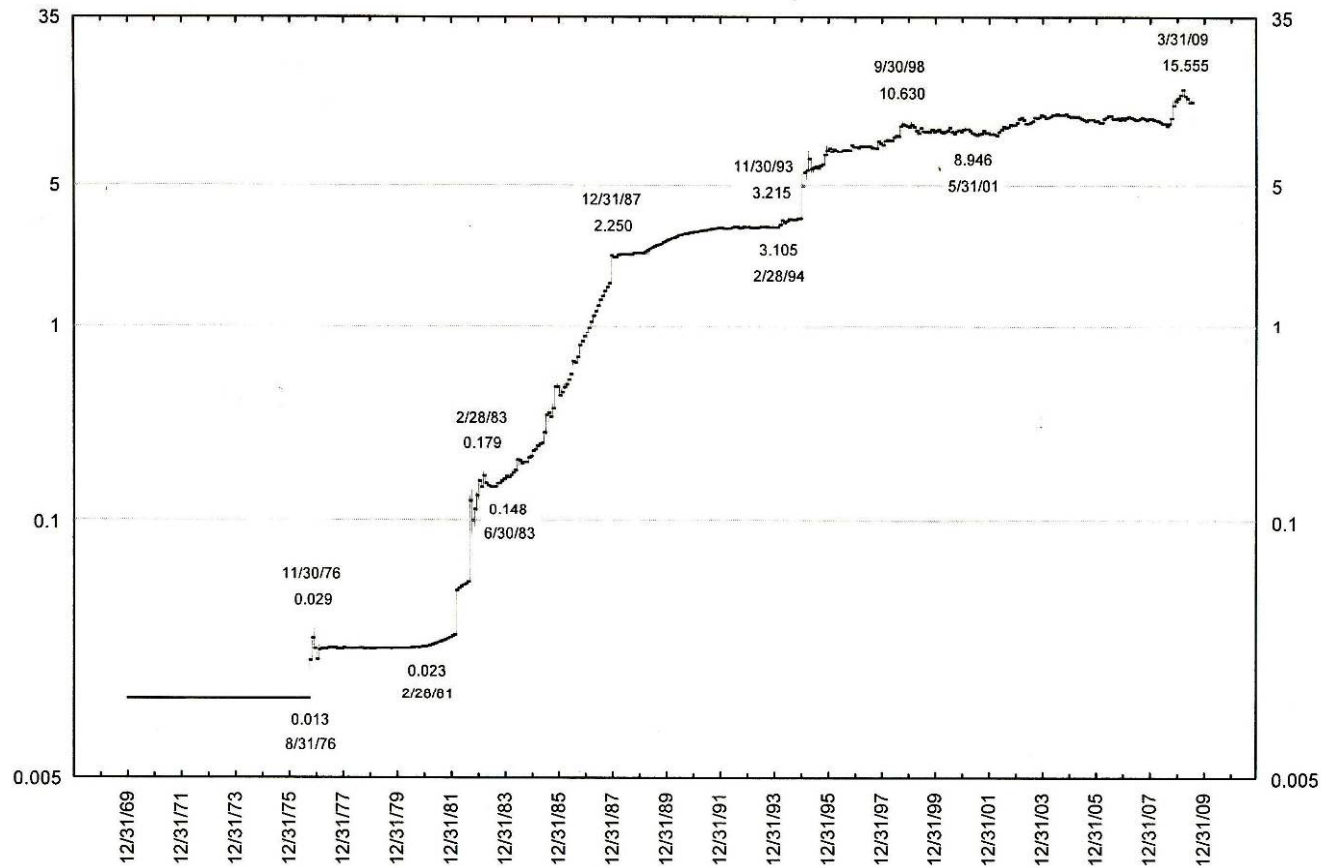
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Net Asset Value	N.A.	10.00	3.30	1.72	2.88	2.95	3.53	9.84	15.70	7.10*

* As at March 4, 1988

Sources: Acciones Y Valores De Mexico, SA; Marc Faber, *The Great Money Illusion* (Hong Kong, 1988)

MEXICAN PESO, 1969-2009

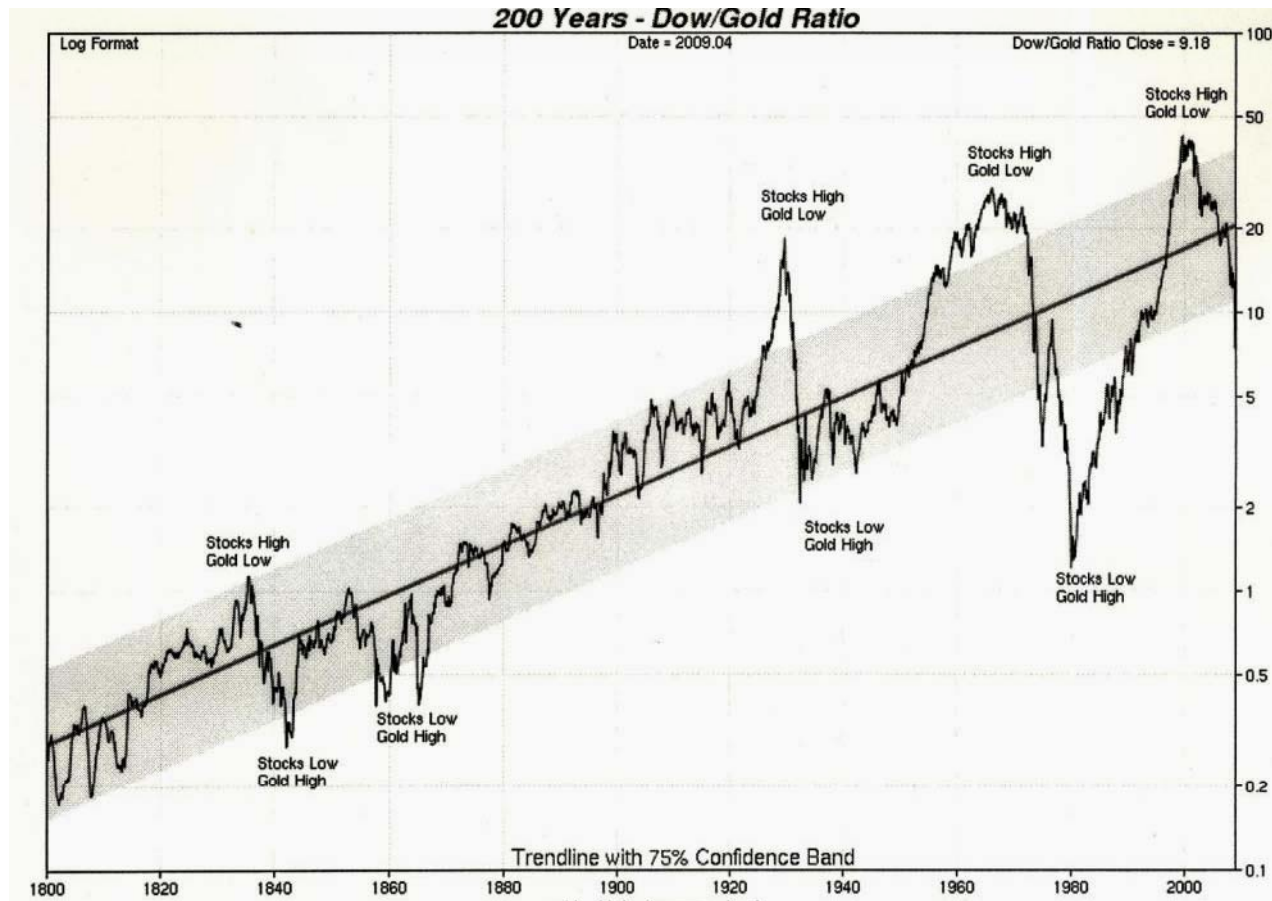
(Monthly Spot – Pesos per USD)



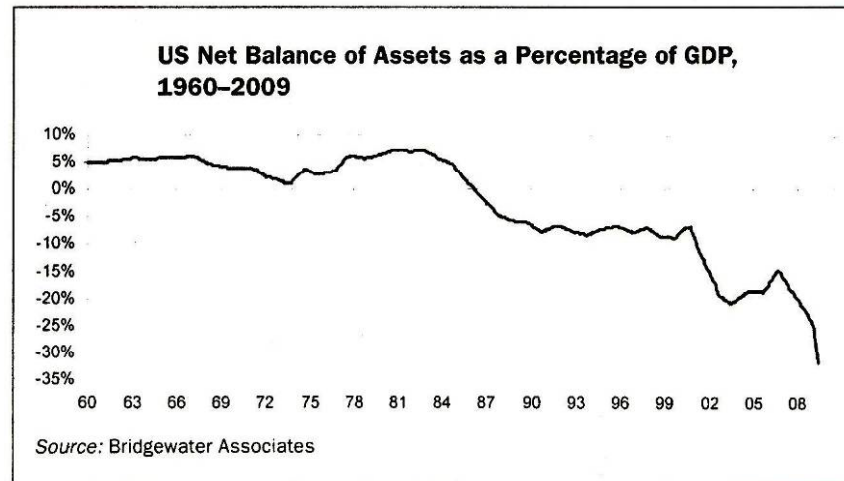
Source: Ron Griess, www.thechartstore.com

www.gloomboomdoom.com

DOW TO GOLD RATIO, 1800-2009



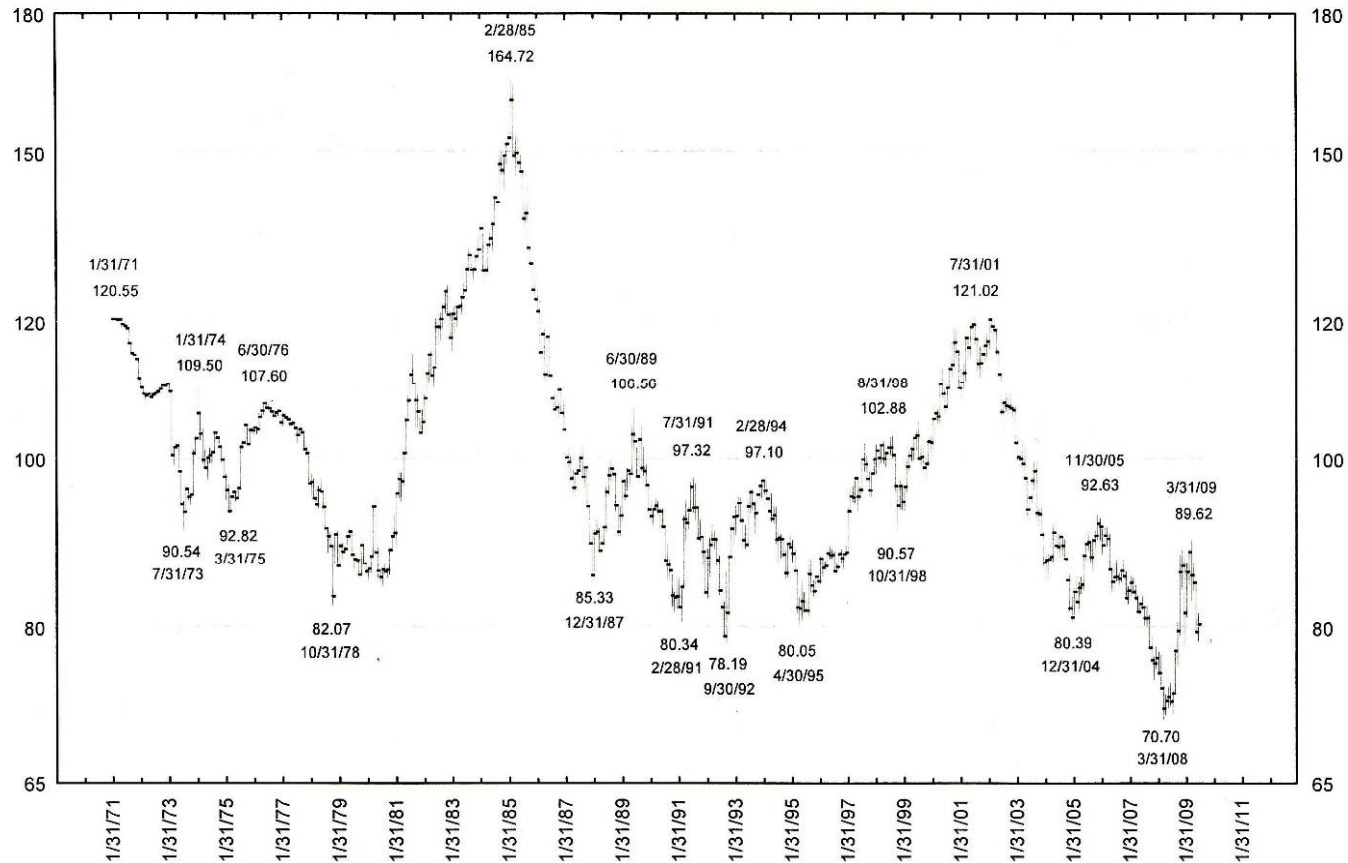
WORSENING EXTERNAL POSITION OF THE U.S.: U.S. NET BALANCE OF ASSETS AS A PERCENTAGE OF GDP, 1960-2009



Source: Bridgewater Associates

www.gloomboomdoom.com

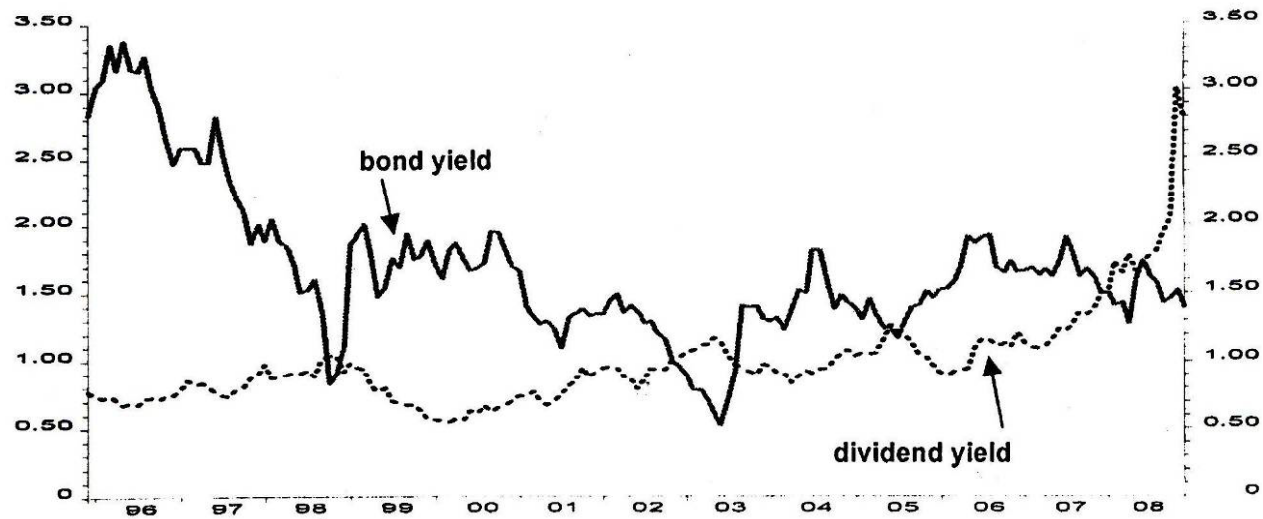
U.S. DOLLAR INDEX (DX), 1970-2009 (Monthly)



Source: Ron Griess, www.thechartstore.com

www.gloomboomdoom.com

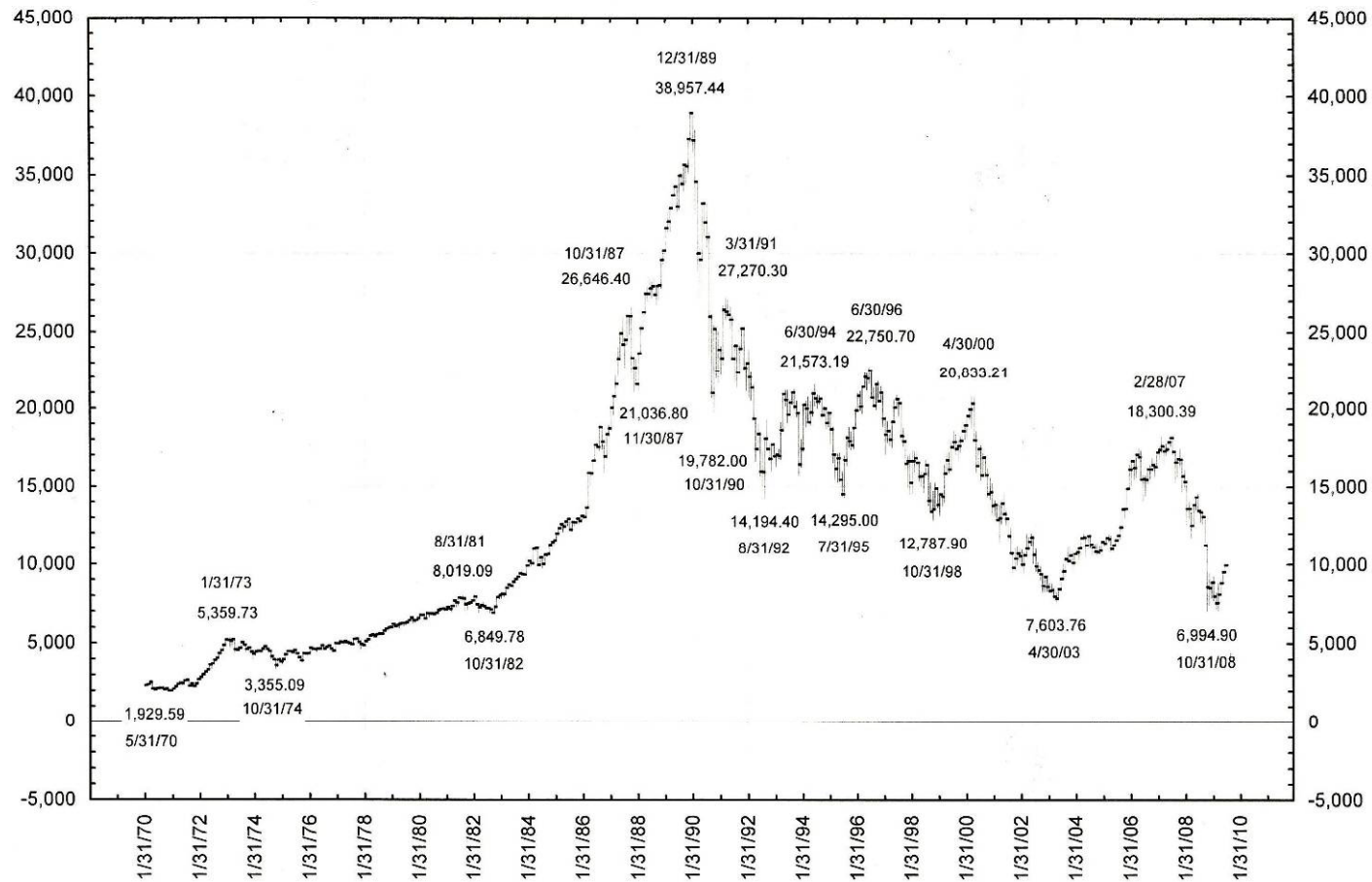
JAPAN: BOND YIELD AND DIVIDEND YIELD 1996-2008



Source: Albert Edwards, Société Générale

NIKKEI 225, 1970-2009

(Monthly)



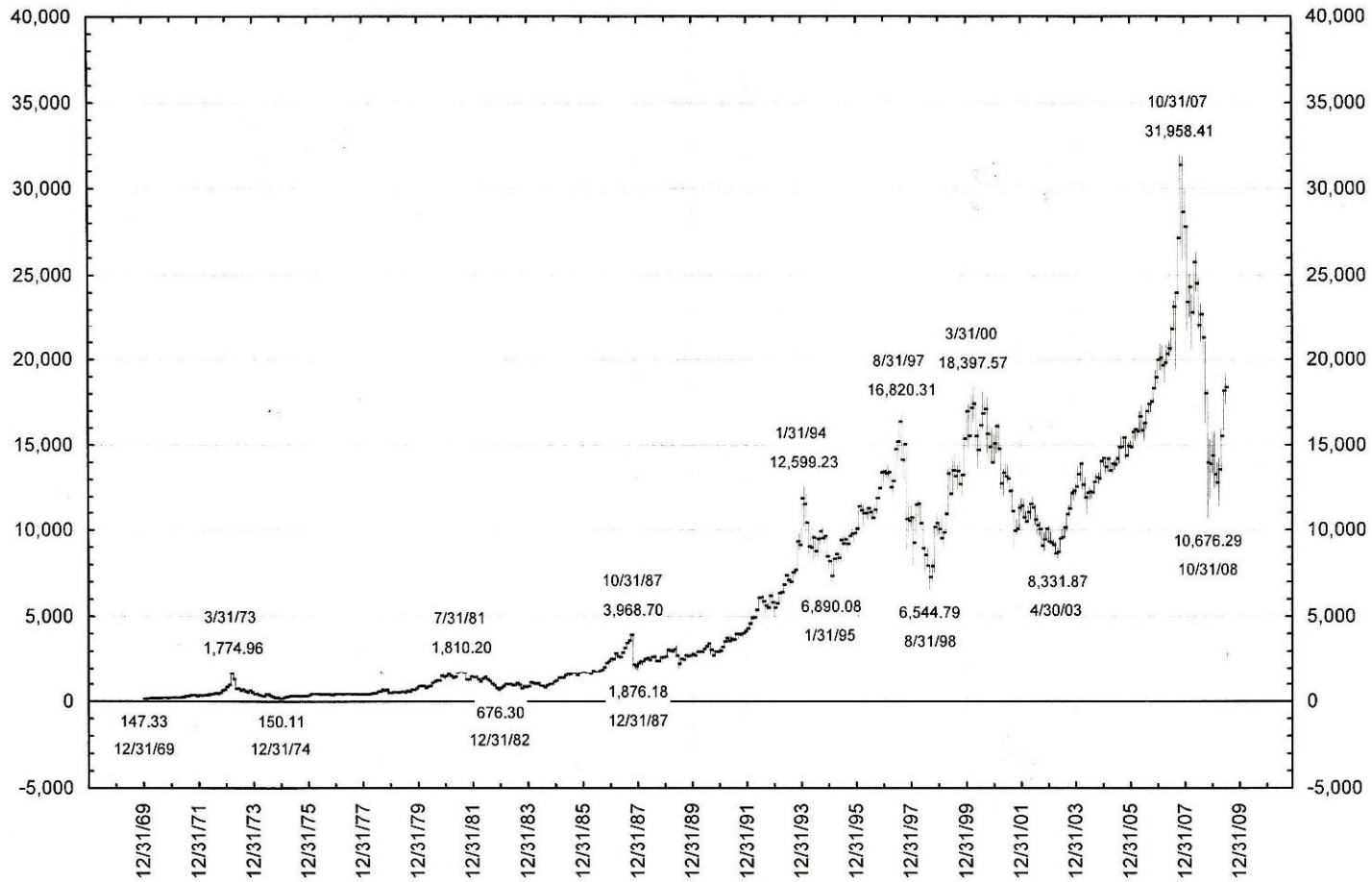
Source: Ron Griess, www.thechartstore.com

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HANG SANG INDEX

1969-2009

(Monthly)



Source: Ron Griess, www.thechartstore.com

www.gloomboomdoom.com

INVESTMENT THEMES

Real Estate in Emerging Economies:	Avoid real estate in financial sectors
Equities in Asia:	Major lows were established in October/November 2008
Healthcare in Asia:	Pharmaceutical, hospital management companies will benefit from an ageing population
Local Brands:	Will displace some international brands
Commodities:	Volatile, but uptrend intact. Corrections of 50% are common.
Tourism:	Hotels, casinos, airports, beach resorts. Potential problem is oversupply
Financial Services:	Banks, insurance companies, brokers, REITs in emerging economies
Infrastructure:	Bottlenecks everywhere. Potential problem could be cancellations

Investment Themes cont'd.

Plantations & Farmland: Indonesia, Malaysia, Latin America, Ukraine

Japan: Very depressed, banks look interesting

New Regions: Cambodia, Laos, Myanmar, Mongolia

Gold and Silver: Long

U.S. Treasury Bonds: Short

Corporate Bonds: Long

Multinational Corporations: Highest quality companies will gain market share during next economic recovery

CONCLUSIONS

The current synchronized global economic boom and the universal asset bubble, which lasted between 2002 and 2007, has led to a colossal bust.

The wealth destruction arising from falling asset prices is unprecedented post Second World War.

Expansionary monetary policies, which caused the current credit crisis, are the wrong medicine to solve the current problems. But, what options does the Fed have with a total credit market debt to GDP of 375%?

Central bankers have become hostage to inflated asset markets! Will tight money - whenever necessary - be implemented again?

A short-lived “crack-up” boom, driven by expansionary fiscal and monetary policies, is a possibility. How sustainable will it be?

The current crisis has failed to clean up the system, and policy responses are the same as those applied post 2001.

The final crisis has yet to come! The economic, social and geopolitical clock will then be permanently reset.

There is no means of avoiding a final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.

Ludwig von Mises



III portfolio
construction

CONFERENCE