February 2013

Guru Roundup

I find watching financial television shows a complete waste of time. Many of the guests have worse track records than monkeys throwing darts and there aren't any consequences for being habitually wrong on T.V. I do find a lot of value in reading the opinions of smart investors that I respect. In this month's letter I will summarize what some of the gurus that I follow are currently thinking about the markets.

Ralph Acampora, CMT- Altaira Wealth Management

Ralph doesn't do many public interviews, but he does have an active twitter feed. He is one of the few people that I respect that believes the United States is in a long term bull market like we saw in the 80s and 90s. He has been saying this for awhile and you may remember that I quoted him in my early December report as saying "...buy now regardless of the commentary coming out of Washington D.C..."

On January 29, Ralph noted that the markets are overbought and are in need of a rest before they move higher. He went on to tweet that "Any pause is deemed a correction within a secular [very long term] bull market- investor remain patient- use the weakness to buy."[1]

Bill Gross- PIMCO

Bill has become very critical of the Central Bank's manipulation of asset prices. He also uses Twitter and on January 9th and 10th he quipped:

> Corporate bond spreads so thin that they must be using a corset-- or the Fed. Don't buy them. Asset prices appreciate in price these days primarily because the Fed and its banks create credit. When that stops, they don't go up.[2]

Bill's January newsletter compares Bernanke's actions to those of John Law, the creator of the Mississippi Bubble that destroyed France's currency in the early 1700s. Gross states:

> The future price tag of printing six trillion dollars' worth of checks comes in the form of inflation and devaluation of currencies either relative to each other, or to commodities in less limited supply such as oil or gold... Investors should be alert to the longterm inflationary thrust of such check writing. While they are not likely to breathe fire in 2013, the inflationary dragons lurk in the "out" years towards which long-term bond yields are

[1] https://twitter.com/Ralph_Acampora
[2] https://twitter.com/PIMCO

> measured. You should avoid them and confine your maturities and bond durations to short/intermediate targets supported by Fed policies... Those purchases may be initially supportive of stock prices but ultimately constraining of true wealth creation and real economic growth. At some future point, risk assets – stocks, corporate and high yield bonds – must recognize the difference.

Gross is clearly warning that the Fed has once again spiked the punch bowl and gotten us all drunk on cheap credit. The party is fun, but the longer it goes on, the worse the eventual hang over will be. PIMCO is primarily a bond investment manager. They have benefitted greatly from the 32 year bond bull market and if anyone had a vested interest in not wanting inflation, it is Gross. I like how he has been very honest about the future consequences of the Central Bank money printing and has recommended investors buy gold and inflation hedges on several occasions over the last few years.

Gross has also added equity funds to his PIMCO line-up over the last few years to help investors try and keep up with the inflation that he sees coming. He continues to point out that we are being "financially repressed" by the world's Central Banks and that the world's debt problem will act as a governor on global growth. If he is correct about future inflation, making real returns in bonds (especially Treasuries) will not be an easy task.

Jeff Gundlach- DoubleLine

The other bond Guru that I like to follow is Jeff Gundlach. He agrees with Gross on many things. Bloomberg Markets Magazine did a fantastic in-depth story on Gundlach titled "Bond Investor Gundlach Buys Stocks, Sees 'Kaboom' Ahead." It can be read in its entirety here. The article states:

> Deeply indebted countries and companies, which Gundlach doesn't name, will default sometime after 2013. Central banks may forestall these defaults by pumping even more money into the economy -- at the risk of higher inflation in coming years. Gundlach, 53, doesn't know when the third phase will get here, but he tells his audience they need to gradually get ready for it. "I don't believe you're going to get some sort of an early warning," Gundlach, who's also chief investment officer at Los Angeles-based DoubleLine, tells his listeners. "You should be moving now." He recommends buying hard assets: Gemstones, art and commercial real estate are high on his list. And DoubleLine has been buying the stocks of Chinese companies, U.S. natural gas producers and gold-mining firms because it considers them to be bargains.[3]

Gundlach, like Gross, wants bonds to do extremely well because that is where he and his firm derive most of their income. He has been around the block long enough to know what the Central Banks

[3] http://www.bloomberg.com/news/2012-11-30/bond-investor-gundlach-buys-stocks-sees-kaboom-ahead.html

are doing is dangerous. He mentioned on his January 8th conference call that he will also be introducing equity funds at DoubleLine.

In December, Gundlach gave a fascinating interview on Bloomberg's *Alpha Stars*. In the interview, he said "The fundamentals are always important but it does get trumped by policy decisions when policy decisions are so radical as has been the case in recent years... There seems to be diminishing returns on the various rounds of quantitative easing. It's almost like a half-life of a radioactive particle. The first quantitative easing brought 50%, the second brought a little more than half of that, the third half again, the fourth less than half again."[4]

He goes on to recommend that investors hold cash so that they can buy risk-assets at lower prices after fundamentals begin to assert themselves again. He then says "The real killer is going to be the next recession. And there will be one... It will be the policies in terms of raising taxes and cutting spending that help to bring on the next recession I think... So the next recession is probably going to be somewhat cleansing, which means that you are going to see things reprised lower."[5]

Gundlach is clearly bearish here. In the Bloomberg Markets Magazine article I lead off with, he said "I'm waiting for something to go kaboom...the markets don't have lots of opportunity now."

Michael Aronstein and Michael Shaoul-Marketfield Asset Mangement

I wrote an entire report titled "A Conversation with Michaels" last June. In my report I noted that Marketfield was very negative on emerging market economies and very bullish on the U.S. and Northern Europe. They continue to hold those views, but have recently been a lot more interested in buying extremely beat up companies in Italy and Ireland. They don't expect things to instantly turn around in these countries, but they think beaten up European shares offer the greatest price appreciation. You don't need great news for these shares to rise, you just need the news to not be as bad as people expect. They point out that "...it is a mistake to equate a national government with that nation's economy. Governments influence economies, but the fortunes of the two can diverge. Good businesses can exist alongside terrible governments."[6]

In addition to these views, the Michaels see a final leg up in the stock bull market before the next good correction. In this leg, they warn of money rushing out of long term "safe haven" assets, like 30 year US treasury bonds and into stocks. They are also critical of Bernanke and state "Housing activity continues to accelerate, business investment is turning up, the Federal government is resisting expenditure cuts and the Federal Reserve Board is continuing with policies that seem appropriate for the summer of 1932."[7] They have even established a "meaningful" short position in long-term treasuries.

[4] http://www.zerohedge.com/news/2012-12-18/jeff-gundlach-fiscal-cliff-circus-and-why-investors-should-hold-cash-through-2013
[5] http://www.zerohedge.com/news/2012-12-18/jeff-gundlach-fiscal-cliff-circus-and-why-investors-should-hold-cash-through-2013
[6] http://www.nylinvestments.com/polos/MSMK02h-011325337.pdf
[7] http://www.nylinvestments.com/polos/MSMK02h-011325337.pdf

Felix Zulauf- Zulauf Asset Management AG
Zulauf is expecting a 20-30% rise in Chinese equities in the first half of this year and expects the weakening of the Yen to be supportive of Japanese exporters.[8] He stated, "As for Japan, I am much more bullish as nobody owns Japanese stocks. The total market cap of the market there is one quarter of what is was 23 years ago. If the currency continues to decline against all the others, there will be a tremendous lift to Japanese equities. The Nikkei has at least another 20% upside in 2013 and could do more and last longer, all in local currency terms."[9]

He recommends hedging the Yen against the dollar when buying Japanese stocks. He expects the Euro to rise along with many risk assets in the first half of this year and then drop precipitously in the second half of this year. Like Gundlach and Gross, Zulauf sees a top in Treasury Bonds and recommends hard assets including gold.[10] On gold, he recently stated:

> We are living in a world of money-printing. Almost 40 countries are pursuing a policy of zero or negative real interest rates to spur more economic growth. We have never seen anything like this in modern history. The people will try to protect themselves against this monetary baloney. It is accelerating the debasement of paper currencies around the world. That is why I have to recommend gold again. Gold's fundamentals are strong; although some technical indicators of sentiment and momentum turned down in the summer of 2011, gold is at the very end of a cyclical correction and the gold price will be up and running again soon. Once gold surpasses $1,800 an ounce, it will run to the low- to mid-$2,000s.[11]

Conclusion
I am going to have to stop this report here. With all of the talk of financial repression, government debt problems, and currency debasement I am getting scared and don't think I am going to sleep very well tonight. There are several other gurus that I follow, but I don't have the space in this letter for their thoughts. Markets are cyclical and I want a permanent boom just as much as anyone else. I also want to see a unicorn and swim to the bottom of the sea and none of those things are going to happen either.

One of the things that the above gurus have in common is that they are neither always bullish nor always bearish. They all are realistic about the world and do their best to take risks when they are compensated for those risks. They also know that you can't know everything and nobody can predict the future. As investors, we must size our investments appropriately and know when to admit that we are wrong. Have a wonderful month.

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[8] http://www.fusionmarketsite.com/?p=2212
[9] http://www.fusionmarketsite.com/?p=2212
[10] http://www.businessinsider.com/felix-zulauf-barrons-2013-roundtable-2013-1
[11] http://felixzulaufblog.blogspot.com/2013/01/felix-zulauf-recommended-seven-trades.html

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