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Warning, bear market 2010: 11 'sells.' Only 6 'buys'

New Normal: Bankrupt nation. Deflation. Zeros. Junk. No jobs. Depression

By Paul B. Farrell, MarketWatch

ARROYO GRANDE, Calif. (MarketWatch) -- Yes, it's going to get worse, a whole lot worse ... Bill Gross warns this is the "New Normal. Forget 10% returns. Think 5%". ... Economist Larry Kotlikoff, author of *The Coming Generational Storm*, warns: "Let's get real. The U.S. is bankrupt. Neither spending nor taxing will help the country pay its bills" ... Economist Peter Morici warns: "Unemployment is stuck near 10%. Deflation coming. Stock market threatens collapse. The Federal Reserve and Barack Obama are out of bullets. Near zero federal funds rates, central bank purchases, a \$1.6 trillion deficit have failed to revive the economy." ... Simon Johnson, co-author of *13 Bankers*, warns: "We came close to another Great Depression, next time we may not be so lucky." Why? Because Wall Street's already well into the next bubble/bust cycle -- the "doom cycle."

Warning: More bad news ahead. Welcome to a bleak second half 2010, worse for 2011.

It's early morning: In comes economist Gary Shilling's new Insight newsletter, just before I head for the kitchen to make my wife's breakfast. Gary's "Mid-Course Checkup" doesn't raise my spirits. Sure, he's got bragging rights. His January forecasts are still on the money. But don't you just hate guys like him? Brilliant. Honest. Great track record. I guess that's why he's been a long-time Forbes columnist. Investors listen when he talks.

After cooking her breakfast I'm flipping through the L.A. Times' entertainment section, avoiding the business and financial pages. Didn't want to spoil my breakfast too. Suddenly, big headline stops me: "Buy, Sell, Hope." Hope? What's that? Good news about markets? You buy, you sell, you hope? Is "hope" America's last market strategy?

No, "Buy Sell Hope" was a grabber headline. A story about moviemakers buying film rights of bestsellers hoping to sell lots of movie tickets to millions who bought the book. Doesn't always work. A metaphor: Economic theories often fail. The focus: Julie Roberts's new film "Eat Pray Love," based on Elizabeth Gilbert's 8 million copy bestseller, a book filled with New Age advice rivaling the best of Eckhart Tolle and Deepak Chopra.

But that gave me a bright idea: Let's blend the two. See if we can brighten some of Shilling's gloomier forecasts and recommendations for 2010-2011 with some of Gilbert's upbeat advice ... imagining "Pretty Woman" Julia, the Eat-Pray-Love lead, doing a voice-over for Gilbert. So here we go: First, Shilling's 6 "buys," then the 11 "sells," 17 strategies for 2010. He admits some mixed results, but he's "sticking with them for the second half" and on into the coming dark days of 2011. I'm sticking with Julia:

1. Buy Treasury Bonds: Stay with this big winner. Stockholders hate them, but this is a safe haven in the coming deflation storm on into 2011. Long maturities. Zero-coupons. Lower commissions. That's "Insight." Now imagine Eat-Pray-Love's Julia's voiceover: "There's no trouble in this world so serious that it can't be cured with a hot bath, a glass of whiskey and the Book of Common Prayer." Okay, guys would prefer an NFL game with his buddies and a Bud. Winners all around.
2. Buy Income-Producing Securities: Still viable. Stock market's gone nowhere for 12 years, says Shilling. Pick selective income-producers: utilities, drugs, telecoms, hi-grade munis, preferreds, etc. Buy direct or ETFs. Then Julia reminds us: "God never slams a door in your face without opening a box of Girl Scout cookies."
3. Buy Consumer Staples and Foods: Less volatility than S&P 500. Hey, you gotta eat, brush teeth, wash your clothes. Good bet in good and bad times. Julia agrees: "In a world of disorder and disaster and fraud, sometimes ... the meal is the only currency that is real."

4. Buy Small Luxuries: Stay aboard. Yes, discounts, house brands, frugality's in. But still, we all want the best of the little things, "cheap chic," say Gary and Fred. Not Julia's Girl-Scout cookies, treat yourself with favorite chocolates, wine, cigars.

5. Buy The Dollar: Should continue to rise. Bet on futures, puts, ETFs on the dollar index. Julia is patriotic and spiritual: "Faith is belief in what you cannot see or prove or touch. Faith is walking face-first and full-speed into the dark."

6. Buy Eurodollar Futures: Unbelievable winner, and more to go. And if you're traveling, Julia tempts with this mouth-waterer: "Please go to this pizzeria. Order the margherita pizza with double mozzarella. If you do not eat this pizza when you are in Naples, please lie to me and tell me that you did." Yes, it's all in your head.

Okay folks, that's it, only six Insight "buys." Here's what our Eat-Pray-Love guru might add when you buy-sell-hope: "You have every right to cherry-pick when it comes to moving your spirit and finding peace in God. You take whatever works from wherever you can find it, and you keep moving toward the light." Yes, even with these 11 "sells."

7. Sell U.S. Stocks in General: Declines likely to continue. In May, Insight warned the recovery was "Four Cylinders, One Firing." Only inventory was firing. Missing? Jobs. Consumers. Housing. Slow growth. All in "secular bear that started in 2000 and has years to run." Yes, years. Can you still be happy? Yes, says Julia's guru: "People universally tend to think that happiness is a stroke of luck, something that will maybe descend upon you like fine weather if you're fortunate enough. But that's not how happiness works. Happiness is the consequence of personal effort. You fight for it, strive for it, insist upon it." Harder in a recession, but you just do it.

8. Sell Homebuilder & Selected Related Stocks: More weakness ahead. And it will get worse. Millions mortgage-holders under water, can't sell, can't refi. Families in stress. Solution: Eat-Pray-Love and listen: "Real, sane, mature love--the kind that pays the mortgage year after year and picks up the kids after school--is not based on infatuation but on affection and respect."

9. Sell Selected Big-Ticket Consumer Discretionary Equities: Still vulnerable: Autos, appliances, hospitality. Rebates gone. Postponing purchases. Save, get frugal, flow with reality. Julia: "Every day a person is presented with not two or even three but dozens of choices ... our modern world has become a neurosis-generating machine of the highest order." Stop, make time to eat, to pray, to love.

10. Sell Banks and Other Financial Institutions: Remain vulnerable. Including Fannie, Freddie, regionals, small banks. More regulations. By 2014 bank portfolios have \$800 billion mortgages coming due, two-thirds underwater. Huge impact on capital. Sell. What would Julia say: Eat in moderation, love, pray a lot.

11. Sell Consumer Lenders' Stocks: More declines in credit cards, etc. Americans save more, cut their borrow'n'spend binge. Reduce stress says Julia: "The only thing the mind hears all day is clanging bells and noise and argument, and all it wants is quietude. The only place the mind will ever find peace is inside the silence of the heart. That's where you need to go." You too.

12. Sell Low & Old Tech Capital Equipment Producers: Falling trend. Mega excess capacity. Capital spending dropping says Insight. Julia worries that you're holding onto the past: "You must find another reason to work, other than the desire for success or recognition." Your passion "must come from another place."

13. If You Plan to Sell Your House, Second Home or Investment Houses Any Time Soon, Do So Yesterday: Too much inventory, and fear. Warning: Down another 20%. Julia says you will survive because "somewhere within us all, there does exist a supreme self who is eternally at peace." That's your true home.

14. Sell Junk Bonds: Rally's overdone, warns Gary. Slow growth recovery, deflation fears, "lethal for many junk bonds." The "New Normal" cuts returns in half. We chase junk. Bigger risks. Julia: "That's your problem. You're wishing too much, baby. You gotta stop wearing your wishbone where your backbone oughta be." Accept the New Normal. Stop chasing deals like a teenager in heat.

15. Sell Commercial Real Estate: Got ahead of itself. Hotel occupancies down. Office vacancies up. Refinancing trouble looms. Maybe short REITs and ETFs. Julia knows our "world is so corrupted, misspoken, unstable, exaggerated and unfair, one should trust only what one can experience with one's own senses." Are you trusting Wall Street? Or your own life experiences?

16. Sell Most Commodities: Soft economy, soft commodities. Insight warns of "unattractive investments in coming years of weak demand, excessive capacity and soft prices." China's a big importer, aggressively tying up global supplies. Risky bets. So imagine you're lost and listen to your Eat-Pray-Love guru: "When you're lost in those woods, it sometimes takes you a while to realize that you are lost. For the longest time, you can convince yourself that you've

just wandered a few feet off the path ... Then night falls again ... you still have no idea where you are ... you have bewildered yourself so far off the path that you don't even know from which direction the sun rises anymore." Are commodities taking you off your path?

17. Sell Developing Country Stocks, Bonds: They depend on exports, are vulnerable to global weakness. China overheating. Risks in India, Brazil, Vietnam, etc. Wall Street pushes overseas investing, they love the commissions. Warning, go slow cautions Julia: "Time, when pursued like a bandit, will behave like one; always remaining one country or one room ahead of you, changing its name and hair color to elude you, slipping out the back door of the motel just as you're banging through the lobby with your newest search warrant, leaving only a burning cigarette in the ashtray to taunt you." The only real winner investing overseas is your Wall Street broker collecting all commissions you pay.

What a combo: Warnings from Gary Shilling's "Buy-Sell-Hope" Insights newsletter. Plus Girl Scout Cookie advice from our Eat-Pray-Love guru, with "Pretty Woman" Julia Roberts' voice-over. Let's top it off with one more of her jewels: "The Bhagavad Gita, that ancient Indian Yogic text, says that it is better to live your own destiny imperfectly than to live an imitation of somebody else's life with perfection. So now I have started living my own life. Imperfect and clumsy as it may look, it is resembling me now, thoroughly." Get it? The market, the economy, the whole world may crash ... but will you crash with it? Or will you still be the "best you?" Will you fulfill your destiny?

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