

FINANCIAL ARMAGEDDON

Insights on debt, derivatives, government guarantees, the retirement system, and the coming economic unraveling

Below is the full *2010 Bespoke Roundtable* Q&A with Michael Panzner of [Financial Armageddon](#).

1) What has surprised you the most and least about financial markets in 2009?

Least: The fact that equity investors don't really have a solid grasp of macroeconomics or geopolitics.

Most: The willingness of policymakers and investors to repeat the same mistakes that helped bring about the worst financial crisis this century.

2) What do you believe are the most important lessons to be learned from the 08/09 financial crisis?

1) The mistakes of the past have a habit of repeating themselves.

2) Bad policies beget bad outcomes.

3) While there may be free money, there's no such thing as a free lunch.

3) How has the 08/09 bear market impacted your view on asset allocation and investing as a whole?

Much of what the experts have told us about investing is either patently false or is only relevant for short periods or under certain conditions, many of which aren't knowable in advance.

4) What are the various indicators that you follow closely telling you right now about where the stock market is headed? Which indicator is the most significant in what it is forecasting?

The stock market is overvalued, overextended, and vastly overrated as a leading indicator.

5) Starting with 100% cash, how would you allocate it to various asset classes to start the new year?

As follows: 60% Treasury bills, 25% bearish stock market ETFs, and 15% gold.

6) What do you believe will be the dominant investing themes of 2010? What will be the biggest surprises of 2010?

Dominant themes: The growing relevance of social, political, and geopolitical risks. Fallout from the next leg down in the economy.

Biggest surprise: The beginning of the end of monetary union in Europe (and the euro).

7) What is your current view on Buy & Hold as an investment strategy?

Buy & hold is dead and buried.

8) What do you believe is the contrarian call on equities right now? The economy? Is investor sentiment currently misplaced?

Equities: new lows (below the March lows) in 2010.

Economy: double-dip recession (or worse) and an ongoing rise in unemployment throughout 2010 and beyond.

9) Which sectors should investors be overweight/underweight heading into 2010?

Assuming they are invested in equities at all (which I don't advocate), defensive sectors such as food, tobacco, alcohol (not premium brands), and (relatively) non-discretionary consumer products.

10) What is in store for the US economy in 2010 (V-shaped, double dip, U-shaped)?

Double-dip, with at least three quarters of negative real growth. Early signs of a disturbing uptick in inflation (more towards the latter half of the year).

11) Will we see a jobs recovery in 2010?

No. More likely, we will see monthly nonfarm payroll losses move back toward the levels we saw in the spring of 2009.

12) The real estate market has seemingly taken a back seat in terms of media coverage at the moment. What's in store for real estate in 2010, and how will it impact your investment decisions?

Wipeout in CRE; slow but steady deterioration in residential real estate.

13) When will the Fed begin to raise rates, and will this be too early, late, or just about right?

What the Fed does will be irrelevant. Market and other forces will dictate what happens to rates during 2010.

14) How worried are you about inflation?

Over the next six months, not much; longer-term, there is a real and growing risk of hyperinflation.

15) How worried are you about the decline of the dollar, and do you see the greenback making a comeback in 2010?

Yes, I see the dollar staging the sort of technical correction share prices did from March through December of this year. But as with the stock market rally - and, to a lesser extent, the recent rebound in the economy - it will be the equivalent of a dead cat bounce.

16) What are your current thoughts on gold - bubble, just the beginning, or just about fair valued?

Short term, it can best be described as bubble-esque and due for a major correction; long term, the prospect of rampant inflation, as well as increasing social, political, and geopolitical instability, suggest the sky is the limit as far as the price of gold is concerned.

17) Oil has largely been forgotten given the current focus on gold and the dollar. Will the price of oil have a major impact on stocks and the economy in 2010?

Predicting where oil is headed is a tough call, but my best guess is that we will see a sizeable correction in the first half of 2010 as oil tracks the stock market and the economy lower. Afterwards, I see the potential for a major rally, spurred by growing turmoil (and possibly war) in the Mideast (and elsewhere), which will boost inflation, hurt growth, and weigh on share prices.

18) We've just gone through a decade where emerging markets largely outperformed the G-7 countries. Do you foresee this trend continuing in the coming years, or will developed countries begin to make a comeback?

In 2010 and 2011, I expect emerging markets to be hit harder than their developed counterparts; in the long-term, however, prospects for many emerging markets are much brighter.

19) Which emerging markets are you most/least excited about heading into the next decade?

Most: China and Brazil. Least: Russia.

20) At the peak of the crisis, the prevailing theory was that Wall Street was dead as we knew it. After the rebound we've seen, many people think it's now back to business as usual. What are your thoughts on this?

Wall Street might think the nightmare is over; in my view, it's only just begun.



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21) What will be the biggest impact Washington has on Wall Street in 2010?

Out of fear of not being re-elected - and, perhaps, far worse - Washington will be forced to acknowledge the anti-Wall Street backlash and defy its financial sector paymasters. There will be growing populist pressure to scapegoat, tax, restrict, and punish the moneyed interests.

22) What do you think are currently the biggest disconnects between Wall Street and Main Street? Wall Street and Washington? Washington and Main Street? How can we correct this?

Wall Street and Main Street: The notion that we are seeing a genuine recovery.

Wall Street and Washington: The notion that Washington's support for the financial economy is relatively open-ended.

Washington and Main Street: The notion that Wall Street's and Main Street's interests are aligned.

23) Will the following be up or down (positive or negative) in 2010? Where noted, what are your 2010 year-end target prices?

-S&P 500: Down, 775

-Long-Term US Treasuries: Price down/yield up, 6.00%

-Corporate Bonds: Price down/yield (and spread) up

-High Yield (Junk) Bonds: Price down/yield (and spread) up

-Gold: Down, \$800

-Oil: Down, \$65

-Dollar: Up, DXY 90

-Average US Home Prices: Down

-China's stock market: Down

24) Please provide readers with any stock ideas that you really like right now and for 2010 and beyond (and why).

None.



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25) Do you have any other advice that you would like to share with readers heading into next year?

If the past two years have taught you nothing else, make sure you take a long, hard look at each and every one of your assumptions, and acknowledge the fact that low risk is not the same as no risk.