

Bespoke 2010 Roundtable

InfectiousGreed
FINANCE & THE MONEY CULTURE
BY PAUL KEDROSKY

Below is the full *2010 Bespoke Roundtable* Q&A with Paul Kedrosky of [Paul Kedrosky's Infectious Greed](#).

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

Most surprised:

- *The length of time the inventory rebound rally lasted post-March 6th. While I said on Yahoo! Finance that we would bounce on a synchronized global inventory rebuild, and it could be as much as 20%, we've obviously gone well beyond.*
- *How tone deaf banks were in trying to pay employees typical bonuses. Nitwits.*
- *How quickly U.S. consumers began spending again. Maybe it's true that U.S. consumers can't stay downbeat more than 18 months.*

Least surprised:

- *The rank politicization of economics.*
- *The rise of the gold bug.*
- *The trouble among munis and cities.*
- *The dollar's decline.*

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

- *Don't watch television. I'm kidding. Mostly.*
- *You can know that an epochal bubble exists, and you can know how to profit from its looming decline, but time the trade wrong and you might as well have stayed home that decade.*
- *Credit rating agencies are a pro-cyclical disaster.*



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

- *If cash was king before, now it's moved up to godliness.*
- *Liquidity uber alles, and if I can't have liquidity I want to be paid asymmetrically for illiquidity.*
- *Rules work until they don't. People picked bottoms, called bearish inflections, and generally misapplied history all the way down. The bottom happened when it happened, not when a sample set of seven vaguely similar prior events said it would.*

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?

- *Bank credit. Rate of decline slowing.*
- *Asset flows. The pace into fixed income has slowed and shows signs of turning, as has dollar bearishness.*
- *Consumer savings. Fairly stable at moderately higher levels. Any abrupt change in either direction would be cause for concern.*

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

Impossible question to answer without knowing someone's existing assets, risk tolerance, etc. Broadly, I would say you should own less fixed income than you think, more dividend-payers than you think, and less gold and oil than you think. Beyond that, tough to say anything specific.

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

- *The dollar rules/sucks: I expect the dollar to continue to be at the forefront of all kinds of sovereign and market nervousness in 2010.*
- *Commercial real estate collapse: It's coming, but extend and pretend can go on longer than you think.*
- *China bubble: It's real, but markets can stay irrational longer than you can stay (skeptically) solvent.*
- *Emerging markets. 'Nuff said.*

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

The same as it has always been: It's the main reason that the mutual fund business stays in business.

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

The contrarian call continues to be that equities go to higher levels. The bear side is still crowded, especially at the retail end.

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

Overweight: Wireless, ag products, commercial real estate (highly spec)

Underweight: Regional banks

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

Double-dip, but likely not until 2011. I actually think we're in an "L," but one that has been masked by synchronized global stimulus.

11) Will we see a jobs recovery in 2010?

We will almost certainly see a jobs recovery by middle of year, but we won't budge much off current lows.

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?

We have a second wave of exotic mortgage defaults coming - pick a payment, etc. - while strategy defaulting is all the rage. At the same time CRE can only play extend and pretend a little longer. It's a complete mess. In other words, it's hard to imagine how real estate equities go higher from here. Really.

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

Third quarter, or so, of this year. Judging by Fed history, it will be too late, but just for fun, let's posit that they over-react and do it too soon.

14) How worried are you about inflation?

Near-term: Zero. Medium-term: Moderate. Longer-term: Knee-knocking.



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

Not super-worried. We could even see some shorts get pounded in 2010. We should be so lucky as to see the dollar lower in 2010, but given troubles in euroland, the zen collapse of Japan, and the likelihood of a China bubble bursting, what currency do people propose buying?

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

Fair-valued. I hate that I like gold here, but I also think it went from being a momentum vehicle to a trading vehicle, and I expect that to continue in 2010.

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?

No, I don't think so. I think it churns in place a little longer before making a major run in 2010/2011.

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?

Developed countries will make a moderate comeback, and developing markets will see some fireworks, likely led by China.

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

Most: Central Africa (but it gets worse before it gets better)

Least: India (but this is a truly relative thing, because I like India)

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?

Everything oscillates its way to new levels. Wall Street has changed, it just hasn't noticed yet. It will, but it will take some misplaced euphoria first.

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

Biggest? Rates late in the year, followed by any second stimulus package if it happens. Finally, heaven forbid, if a Fed audit leads to more politicization of the Fed and Bernanke resignation, then all bets are off.



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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?

Endless disconnects all around. I hardly know where to start, but let's start with the most serious one: Wall Street and Main Street think each other are stupid and crooks and are to be barely tolerated. Then again, both Wall Street and Main Street agree that politicians are pernicious nitwits, so that is slightly reassuring.

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: *Up slightly*
- Long-Term US Treasuries: *Down, perhaps significantly*
- Corporate Bonds: *Up*
- High Yield (Junk) Bonds: *Down*
- Gold: *Flat*
- Oil: *Flat*
- Dollar: *Up*
- Average US Home Prices: *Up*
- China's stock market: *Down*

24) N/A

25) N/A