

Bespoke 2010 Roundtable



Below is the full 2010 *Bespoke Roundtable* Q&A with Prieur du Plessis of [Investment Postcards](#).

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

The biggest surprise was not only the combination of the successful bailing out of global banks and the extremely effective stimulatory programs in China, but also how rapidly liquidity and business confidence worldwide were restored.

The least surprising was the US dollar's demise against other major currencies.

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

Banks' financial statements do not necessarily reflect the true financial picture.

Geared hedge funds are responsible for extreme excesses in financial markets.

Failure by central banks to enforce their monetary policy on banks as executors thereof eventually leads to financial and economic disaster.

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

Disaster protection is non-negotiable in any fund.

Gold and mature market bonds have claimed their rightful place in investment portfolios.

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 GDP-weighted ISM Purchasing Managers Index - combining manufacturing and non-manufacturing - is the most significant. It forecasts that year-on-year earnings growth on the S&P 500 Index is likely to turn positive by the end of the first quarter 2010 and that price growth on the S&P 500 will remain positive in coming quarters.

The cyclical or secondary bull phase (in a secular bear market) is intact and is likely to last well into 2010.

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

Gold 10%

Government bonds 6%

Real estate 10%

Equities 50%

Cash 24%

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

Dominant themes:

Investing in an environment of rising inflation.

Re-awakening of the consumer.

Biggest surprises:

Strong rise in US CPI inflation rate.

Bear market in US long-dated bonds

Revival of the US dollar.

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

Follow a Buy and Hold strategy on long-term growth stocks (stocks that will continue to grow earnings despite economic downturns) - the core of your equity portfolio. Watch non-core cyclical stocks closely and take profits when decent returns have been achieved.

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

Contrarian call on equities: Bullish.

Contrarian call on economy: Growing at potential in 2010.

Investor sentiment: Too pessimistic.

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

Overweight:

- *Paper and packaging*
- *Transport*
- *Precious metals*
- *Real estate*
- *Energy*

Underweight:

- *Consumer staples*
- *Utilities*
- *Pharmaceutical*

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

V-shaped.

11) Will we see a jobs recovery in 2010?

Yes. A recovery in employment in the US manufacturing sector is already evident. Layoffs in the non-manufacturing sector are diminishing fast. With the total inventory-to-sales ratio approaching normal levels, inventory shedding will come to a close.

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?

With CPI inflation expected to gain momentum, real estate's qualities as an inflation hedge are likely to come to the fore. The housing market is expected to improve somewhat but delinquencies are likely to cap any major moves. The commercial real estate market will bottom out. The expected improvement in the economy will lead to reduced vacancies from the third quarter next year and therefore improved income distributions. Global commercial real estate is a core investment in a long-term growth fund.



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

The Fed is likely to raise rates in the third quarter 2010. It will probably be too late, because inflation is about to gain momentum in the first quarter.

14) How worried are you about inflation?

Very afraid.

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

Not too worried. The US needed a weaker dollar as a stimulatory measure to support exports. Yes, the dollar is likely to strengthen from the end of the first quarter 2010.

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

Fairly valued, not a bubble, reflecting the lower dollar and inflation concerns.

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?

Oil is likely to follow the upward trend of stocks but is unlikely to race away as the stronger dollar will keep it in check. Sporadic hikes in the oil price are likely to result in pullbacks in stock prices and raise concerns about the health of the economy.

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?

Emerging markets are likely to continue to outperform, but at a slower rate. Further upward momentum in commodity prices is essential to ensure outperformance.



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

Most excited:

- *India*
- *South Korea*
- *Vietnam*
- *China*
- *Brazil*
- *South Africa*

Least excited:

- *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?

Any boom and bust is characterized by extreme overvaluation followed by extreme undervaluation. Following the rebound, the market is currently at fair value given the current underlying economic and financial fundamentals, but continues to be extremely vulnerable to any negative earnings and economic surprises.

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

The development of the war in Afghanistan.

22) N/A



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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, 1150

-Long-Term US Treasuries: Prices down. Target yield 4.1%.

-Corporate Bonds: Prices down. Target yield 5.8%.

-High Yield (Junk) Bonds: Prices down. Target yield 9.2%.

-Gold: Up, \$1,325

-Oil: Up, \$100

-Dollar: Up, 1.35 vs. Euro

-Average US Home Prices: Up

-China's stock market: Up

24) N/A

25) N/A