Bespoke 2010 Roundtable

RANDOM ROGER

THIS IS A STOCK MARKET BLOG ABOUT PORTFOLIO MANAGEMENT,FOREIGN STOCKS, EXCHANGE TRADED FUNDS AND THE OCCASIONAL MUSING ABOUT MY WILDLAND FIREFIGHTING EXPERIENCES. THE POINT HERE IS TO SHARE PROCESS.

Below is the full *2010 Bespoke Roundtable* Q&A with Roger Nusbaum of Random Roger.

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

The size of the rally off of the March low has been the biggest surprise. After events like 2008, massive rallies are very normal, but the lack of a meaningful correction along the way has been surprising.

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

The details causing the crisis were different but the behavior of the market was not. Human behaviors repeat over and over, misusing leverage as one example. People have very short memories with regards to market turmoil.

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

I've actually been quite comforted that some of the things I care about mattered like the 200-DMA as an indicator for defensive action and the yield warning of trouble for financial stocks. Also that sectors that are typically thought of as defensive did in fact go down less.

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?

Most important to me is the 200-DMA of the S&P 500. SPX above its 200-DMA means demand for equities is healthy, below and demand is unhealthy. It is not so much about forecasting as it is being defensive to some degree when the risk/reward tradeoff appears to be less than ideal.

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

Equalweight equities versus the investor's target, underweight fixed income, and 5% in commodities.

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

The price swings of the domestic equity market should be much less most of the time maybe closer to 2004 after the big year of 2003. I think the dollar will become much less important than it has been in the last few months. It used to be "unimportant" and I think that will be the case again, which could then also mean we pay less attention to gold.

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

I have always had the same belief here. I hope to build a portfolio in such a way that no changes ever need to be made, but that is not practical. When something changes with a holding from the bottom up, then it does need to be changed in the portfolio. If defense is called for from the top down, then some other changes need to be made as well. To me, this has never been different.

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

Contrarian for equities would be a decline that goes back to the old low. Contrarian for the economy would be job growth. Just a note: I don"t think either one will happen.

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

After such a big sector event (implosion of financials), I think sector selection will be a little less important for a while. What I think will be more important will be country selection. To your question, I think the less volatile sectors will make the most sense (telecom, utilities, healthcare and staples).

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

If we revert back to GDP contraction, then I think it would all be viewed as one event and the validity of the positive GDP would be heavily scrutinized. I hate to be cliche, but the square root of sorts makes sense. Some snapback followed by a long period of below average (trend) growth.

11) Will we see a jobs recovery in 2010?

If you read what Mauldin has been saying, then it would seem impossible; we would need to create 250,000 jobs per month for several years to get back down to 5% unemployment. Whatever progress is made will not be viewed as overwhelmingly positive.

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?

More back seat as it seems to no longer be cascading down but not showing real signs of health just yet. No impact on client portfolios.

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

I'm concerned that they will wait until employment shows signs of recovery, which would be too late.

14) How worried are you about inflation?

We have inflation (increase in the money supply). So the question is does it get away from them and lead to higher prices. My thought all along is price inflation will be higher than what we have been used to for the last 10-15 years, but it will not become a problem anywhere close to hyper-inflation. This will mean generally higher rates but not 20%, which would then create a drag, not a deathblow, for the economy.

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

Fundamentally I cannot make any argument for dollar strength, but there can always be a powerful multi-month trend for any asset, including the dollar.

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

The word bubble gets used so much that I don't know when it really is the appropriate word any more. Not everything that goes up a lot is a bubble. We own gold for clients as insurance. Whatever the price today, we believe it would go up tomorrow in the face of some sort of nasty external shock. It also will probably go up if price inflation really does get away from us.

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?

There is precedent for oil dropping early in the calendar although this may have already started. However important it turns out to be, it will be less so than it was on the way to $147.

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 can outperform as well as G-7 start to come back. I think emerging will outperform and the G-7 countries will have below normal growth for an extended period, but growth nonetheless. It may not start for another year or so.

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

Most of the usual suspect countries for me; Brazil, China (selectively done at the sector level). Some that get talked about less like Chile and Vietnam. And some not on the radar or really even investible yet like Kazakhstan, which is incredibly resource rich but has corruption issues galore to overcome before it becomes viable.

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?

It was never dead. Business as usual might be a little aggressive of a comment, but it is closer to usual than it should be.

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

Sorry, no idea.

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?

I believe there is a failure in Washington to realize that they cannot possibly create legislation to adequately cover all the things they think they want to cover. Whatever they do come up with will be quickly met with legal workarounds. Furthermore, Washington seems to be working hard to prevent the 2007 crisis from happening. I don't think it can be corrected. Politicians et al are not Wall Street numbers guys.

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, $1000 with a less volatile path (mostly) to that point than 2009 but I do believe we are in for one more drop that scares the hell out of people.

-Long-Term US Treasuries: 4% for the US 10-Year Treasury.

-Corporate Bonds: Down a little.

-High Yield (Junk) Bonds: Down a little more

-Gold: Down, $1000.

-Oil: Up, $75.

-Dollar: Down, DXY to 74

-Average US Home Prices: Up slightly.

-China's stock market: Shanghai up a little more than the Hang Seng.

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

For the next few years I think country selection will be the most important thing as opposed to sectors. You can either access a country via a country fund or a stock from that country. Some people prefer one over the other. I'll let the reader sort that out for himself and just say that I would want to favor countries on firmer economic footing than the US, which rules out most of Western Europe. From there I would look at countries with surpluses or at the very least do not have runaway debt problems. I would also look at countries where story has to happen, meaning countries with large populations where the population is clearly ascending to what the US perceives as a US middle class life style.

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

Whatever you felt as the market was hitting its lows, you will feel again at some point in the future and then again in another cycle after that. Market events that scare the hell out of people bringing calls that this time is different happen over and over. The details are different but the markets are not. Markets can only do four things no matter what is happening; they either go up a lot, up a little, down a little or down a lot (paraphrased from Ken Fisher). The emotions around these four things are always the same.