



Below is the full 2010 *Bespoke Roundtable* Q&A with Joshua Brown of [The Reformed Broker](http://www.thereformedbroker.com).

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

The market's ability to put the blinders on and rip for 10 months has to have surprised everyone, myself included. I'm least surprised by the resumption of the commodity obsession that was abruptly put on pause in the heat of the credit crisis. It came back without missing a beat.

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

- 1. Someone who went to Wharton can just as easily lose you all of your money as anyone else.*
- 2. Someone who sits on charitable foundations regulatory boards of directors can rob you blind.*
- 3. When rich people panic, really bad decisions are made with taxpayer money.*

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

I've been forced to relearn tactical allocation concepts and market timing strategies that had collected dust in the corner of my mind for a long time.

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?

I've begun to respect breadth as an indicator more than ever before. I remember saying to a colleague in the Fall of 2007, "If I don't own Potash, Apple or CSX Railroad, I may as well not even come to work." The narrowness of the last 1000 points of the rally was a terrific tell in retrospect.

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

Impossible to answer. I manage money for hundreds of people, all with different risk tolerances, objectives and financial wherewithal.

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

I think food-related commodities could be a dominant theme as urbanization, rising middle class incomes and aberrant weather conditions in the developing world could take center stage. A big surprise (that I would not predict) would be a scorching hot economy in the US. That would be a shocker, and I don't know a soul who is predicting it.

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

Rest in Peace. The global macro picture is too important to ignore now.

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

The contrarian call in equities is the consumer discretionary sector making a comeback in the first half of 2010. The contrarian call for the economy is above 3.5% GDP this year. Investor sentiment is non-existent. There are no more investors left, just traders.

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

I'm getting interested in agricultural names again. Domestic natural gas producers are interesting as a result of Exxon's buyout of XTO. I'd still be underweight the US consumer as I don't believe the employment stats at all. I think the massage team is working overtime. I also think Bill Gross' out-of-bonds-into-utilities-stocks theme will be big as the bond bonanza of 2009 unwinds and people search for better yield. I also think Cloud Computing will be a major tech theme.

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

I'm not an economist, but based on the valued opinions of those I follow, this question cannot be answered definitively without more information on the timing of the Fed easing up on the gas pedal. Let's call it "question mark shaped."

11) Will we see a jobs recovery in 2010?

The overall percentage is too monolithic a concept. I could see jobs coming back to areas like energy, exporting, manufacturing and technology. I can't envision a scenario where a meaningful amount of jobs are created in real estate, finance, media or retail.



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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?

Commercial is going to have its nuclear winter in 2010. This is a good thing and long overdue. I sincerely hope we don't raise a bailout fund for landlords and property developers.

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

If Bernanke has the guts, I'd love to see him go to 1% just to show the world that we can. I'd bet we see something in the 1st quarter, even if only 25 basis points.

14) How worried are you about inflation?

Obama's White House needs to stay out of the way, regardless of the employment picture, before we're filling up our tanks at \$4 a gallon again. I think the risk is very real, and to some extent, not really under the Fed's control. The rest of the world is very much learning to steer the ship, in terms of supply and demand, without us.

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

I'll leave this to the monetary experts. I wonder if stabilization at this level is actually preferable to a dollar "comeback."

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

Gold will go up until it stops going up. This is not a Zen smart aleck answer, it's simply a commentary on the fact that the momentum guys (and their chasers) have taken over the futures. No telling when they'll get tired.

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?

A big rise in oil is probably the headwind I'm most concerned about for the under siege consumer. That said, the stock market seems to like higher oil these days, as is typical in a deflationary environment.

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 markets will come back only to the extent that they lever themselves to the growth in emerging markets via exports and presence. The hotness ain't happening in Switzerland or Ohio, it's happening in Brazil and Singapore.

 **Bespoke 2010 Roundtable****19) Which emerging markets are you most/least excited about heading into the next decade?**

I've become rather obsessed with learning about Frontier Markets, a little further off the beaten path than BRIC, but incredibly exciting to think about in terms of potential. It is not easy to get exposure to Egypt, Poland, Peru, Chile, Nigeria or Oman, and the risk is certainly elevated, but man, if these economies attract real outside investment, we could see fireworks in their stock markets. Respect the money flow.

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 is far from business as usual. The new rock stars on The Street are the guys who can run profitably without intensive capital support or franchise-level risk. I'm speaking of investment advisory and some areas of trading. Creation and securitization of products is gone for good, and investment banking has probably seen its salad days for a long time to come other than M&A. A great many who were involved in "financial engineering" may want to get their taxi medallion license.

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

Washington is Wall Street until everything's been paid back and the nation has a new crisis to focus on. Until then, the two are indistinguishable. By the way, the two are fighting in a sack like a mongoose versus a cobra, and I hate to say it, but the Cobra's wearing Turnbull and Asser...and he's winning.

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?

Main Street got hosed in both the bailout AND the recovery. The stimulus and rescue plans were conducted in a vacuum; no one running a small business (outside of the auto dealerships) has seen an ounce of assistance. Hence the underemployment rate in the high teens.



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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, 1275ish

-Long-Term US Treasuries: Yield up slightly

-Corporate Bonds: Yields up, prices down

-High Yield (Junk) Bonds: Yields up, prices down

-Gold: stays above \$1000, more boring than in 2009 in terms of volatility

-Oil: 80-90

-Dollar: I'll go with flat

-Average US Home Prices: It's all local. Rebounds most places, not NY or FL.

-China's stock market: Up big, down big, up big, down big etc.

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

I could be in or out of these names at any time, they are not year-long picks...but here's what I'm looking at:

Duke Energy (DUK), Chesapeake Energy (CHK), AgCo (AGCO), Natus Medical (BABY), Applied Materials (AMAT), Visa (V), Century Aluminum (CENX), Weatherford Int'l (WFT), Rackspace (RAX), JPMorgan (JPM).

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

My advice is to be wary of themes that become so ubiquitous that everyone else is piling in. Just when something becomes widely-accepted conventional wisdom, it usually stops working. Also, listen to your parents, they are almost always right.