

Bespoke 2010 Roundtable



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CHEAT SHEET**
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Below is the full *2010 Bespoke Roundtable* Q&A with Damien and Derek Hoffman of [Wall St. Cheat Sheet](http://WallSt.CheatSheet).

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

Most: That everything has popped: bonds, gold, and stocks.

Least: Everything is moving based on cheap money from the Fed.

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

*Risk management, Risk management, Risk management. If you have any money in speculative products such as financial investments, you **MUST** have a stop loss point that allows you to call timeout and reevaluate the situation. Trends and emotions can always go much farther than we expect, so we need to have a simple line in the sand which acts as complete protection against the unexpected. Since most of us are not psychic, the unexpected is always around the corner.*

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

Although markets rallied strongly this year and our picks at Wall St. Cheat Sheet did incredibly well, we had a large portion of our assets in cash equivalents. Personally, I never lost a night of sleep as the markets went into crazy mode. I took 20% of my portfolio and aggressively traded the technicals as the rally started. I am very satisfied with the result.

The key is not playing head games such as, "If I had twice as much in the market, I would have made X," or, "If I was fully invested I would have made Y." Who cares? If you have protected your capital in extraordinary times and can make some nice profits, you are a big winner. Rather than having your capital wrapped up in funds or blue chips which are still underwater since 2007, you are sitting pretty for when the economy truly starts another secular bull market.

 **Bespoke 2010 Roundtable****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?**

As one of my mentors Brian Shannon says, "Only price pays." So long as prices break through important previous areas of value and finds accelerating volume around the new perceived value, I am interested. When demand tapers off, I get cautious and aggressive with my stop losses.

Right now Ben Bernanke, The Wizard of Oz himself, has said, "Rates will remain low for an extended period of time." Thus, cheap capital will continue to chase financial products. As long as Ben prints money, assets will increase in price (notice I did not say value). Right now, this is my core indicator. When the Fed stops pushing more paper, it will be time for prices to become dependent on real economic activity. We're not there yet.

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

I don't believe in the "new" year. In fact, our issue of the month in last month's newsletter was "Beware the 'New' Year." These are simply illusory demarcations. They exist in our heads - not in reality. On January 2, every variable affecting the economy will still be there. Santa and the Tooth Fairy can't usher them away for us.

So, starting the new year we are in the same positions as we ended the old year: we have open positions in precious metals (Gold since \$100), health tech (Intuitive Surgical since \$152), a rising low-cost provider in retail electronics (Systemex since \$13.20), and we are trying to get back into Google to ride the release of Wave.

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

So long as the Fed prints, Gold and other precious metals will do well. My magic eight-ball is broken right now, so that's about all I can tell at the moment.

The biggest surprise will be, well, a surprise! That's why they are so fun (at least for the media).

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

In one sense, 2008 proved that Buy & Hold is BS. In another sense, if you are under 50 and started buying ETFs and indexes in equal tranches each month since Feb/March 2009, you should be in good shape in another decade or so. A friend of mine started stuffing all her extra money into the market in Feb/March. She's in great shape right now. Oh yeah...she works in the boating industry and knows absolutely nothing about investing except she called me and said, "If I buy now, it should work out well at some point in the next 20 years, right?" I think it will. The key is the "at some point" part.



Bespoke 2010 Roundtable

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

The new hot thing is to be contrarian about everything - or even a contrarian of contrarians. Especially in the blogosphere. The problem is sometimes contrarianism works (shorting at the end of a bull market), and sometimes it does not (shorting since March). Case in point: Nouriel Roubini - who is the biggest fraud of the decade next to Jim Cramer - has been negative on oil and stocks since March. If you read his 2005 paper co-authored by Brad Setzer, you will see how contrarianism can make you broke if you are a trader, but famous if you are an academic with an understanding for how PR works. In short, if you followed a contrarian like Roubini in any year EXCEPT the end of 2007 through the market crash, you'd have been in deep [fill in the blank].

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

Be overweight in spending time with family and friends. Be underweight in watching too much TV.

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

For \$50 your neighborhood psychic can tell you.

11) Will we see a jobs recovery in 2010?

If you move to India, China, Canada, Singapore, or similar countries, you should see a nice recovery in jobs. If you are waiting for the overpriced labor pool in the US to get called on by shrewd capitalists, you should probably go back to the Xbox and lobby your Congressperson for extended benefits. The black swan is if the Albert Einstein of our generation invents a new exotic scam - I mean security - and we have another bizarre economic event.

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?

I just refinanced my mortgage. I encourage people to make that investment decision. Also, if you can afford it, I strongly encourage a high-deductible HSA health insurance policy. With those two moves alone, my family is saving a ton in 2010.

As for investing in real estate, that's not my core competency. But it seems those with deep pockets will look like geniuses in 40 years when they tell their grandchildren about all the property in their trust fund. Look at the people who bought in Brooklyn, Harlem, and Battery Park City (near Ground Zero) when the sky was falling in each respective area. They are the envy of the real estate world.



Bespoke 2010 Roundtable

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

When the Private Reserve, I mean Federal Reserve, deems it best for their portfolio.

14) How worried are you about inflation?

Not worried enough to stockpile guns, food, and gold. But enough to be heavily trading precious metals.

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

Fiat money is like religion: you need blind faith to make it work. At the moment, the greenback has lost followers. So much so, that many people are shopping for a new religion. The greenback has decreased over 95% in value since it was first disconnected from gold, and I can't imagine much changing if those who understand the system continue to print for their benefit.

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

I have no idea. But it definitely seems like we are living through a new moment in world history where the post WWII US Superpower status is fading. In that sense, I think gold should hold up well as other countries and economies jockey for their place at the head supper table. Gold will also benefit from the Bespoke stat that the US is spending \$1.90 for every \$1.00 it earns.

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?

Again, I don't know if it will in 2010. But it surely will once economic production picks up. We are a ways off from alternative energy contributing in a meaningful way. That means oil is the default feedstock of choice. Once we can harness the power of the sun, oil is headed toward \$0. Until then, supply, demand, and propaganda will keep it in play.



Bespoke 2010 Roundtable

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?

I think the US will now follow all other mature empires like Italy, Spain, and England. Our people have lost a lot of their ambition, and we spend countless hours hating new waves of immigrants who come here with the determination and work ethic of our ancestors. That special spirit is alive in emerging markets. But I don't feel it so much at home.

Think about Mexican workers. They come in droves to build our houses and strip malls. But due to our horrible immigration system and xenophobia, we incentivize these hard workers to live like permanent independent contractors. Most of them leave their families in Mexico and send their earnings over the border. They also come and go to the US depending on the economy. That's no way to build a new generation of prosperous Americans. The irony is we need these people to contribute to our broken Social Security and Medicare system when the pyramid scheme inverts with the boomers. It's beyond my comprehension what we want as a country. We say we want to keep the great American spirit alive, but we don't act like it.

Also, I have an intern who is in grad school at UNC-Chapel Hill. He is from China. He is incredibly hard working and impresses me week after week. He reminds me of my grandfather. Then, I had an intern from suburbia USA who went to a top 20 school. During his first - yes, first - assignment he quit because it was too boring. Really? In this economy? At 21-years old? I think that anecdote speaks volumes.

That's not to say there aren't any hard workers in the US. Clearly there are. I just think things have changed when we speak about the spirit of the nation.

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

I love Singapore. I was there 2 years ago. It's a capitalist utopia. Can't go wrong with that one over the long-term. Other than that, I think India and China will have been great opportunities if I live long enough to school my grandchildren in the investment game.

 **Bespoke 2010 Roundtable**

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?

I am actually writing a rebuttal to Michael Lewis's excellent essay "The End." Although I highly respect Lewis and his thoughts, I think he is dead wrong about Wall Street changing forever. That's like saying we've abolished greed. No way. It's human nature. It may ebb and flow, but there will always be a crop of people mesmerized by the lure of fame and riches.

More importantly, there will always be very bright people devising new legal scams to procure capital from others. And so long as those people build business models and have cash to recruit, you will continue to see Wall Street fill up with students of Physics, English, Mathematics, Engineering, Psychology, and every other major not related to finance and a college freshman's plan.

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

Probably letting the lobbyists set the stage for the next big scam. We'll know in about 5 years when the historians sift through the thousands of bills which never get any media attention or scrutiny.

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?

Culture. I have been fortunate to spend quality time with friends and family of very different socio-economic status. Each tier lives in a very different social reality. The incentives are very different.

Although now is a popular time to bash the government, the one silver lining of our governors is they work for us - that's why we call them "representatives." No matter how much lobbying money a company spends, if the voters band together and raise the heat, the voters get what they want. Look at Big Tobacco.

*On the other hand, the Constitution provides no system of grievances in the private sphere. If you lost your job because AIG had a mortgage chop-shop and the global economy was terrorized, tough sh*t. Yeah, you can stop buying AIG's products, but the same people will simply create a new entity, rebrand, and start their scam again. I think some greed can be good as motivation, but to put full faith and credit in greed is insane. Greed needs tempering with more socially valuable behavior.*

Correcting the disconnect between Main Street and Wall Street is probably as simple as correcting the disconnect between Saturn and Mars. Many philosophers and activists have dreamed of answers, but the number and interconnection of variables are simply too mind-boggling. Once our great-grandchildren pay off our national debt, maybe they can take up the cause.



Bespoke 2010 Roundtable

23) N/A

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

As of December 11, we are holding GLD, ISRG, and SYX. We have traded GOOG and are looking to reenter on the Google Wave PR.

25) Do you have any other advice that you would like to share with readers heading into next year? (Use this space to comment on anything else we haven't covered)

Live life and have a great 2010!