

Marc Faber: My bets for 2007

The short of the century is to short US bonds. On the short side, add US subprime lenders and the S&P 500. On the contrary, buy gold, cotton and sugar in the commodity market and some stocks in Thailand. In the currency market, the euro is fair-valued and the yen will rebound when asset prices come down, obliterating the carry trade scheme.

By Vincenzo Sciarretta

"I think you should have some long positions and some short positions in 2007 because I do not see any great bargains and so you have to work on relative values", he says. We got in touch with Marc Faber while he was spending a few days in St. Moritz, the chic and elegant resort town in the Engadine valley, Switzerland. The man was relaxed and ready to start a new year. Faber seems to mistrust especially US assets, both equities and bonds, while favouring Asia and Europe if one wants to stay in stocks. Commodities are still good, but you need to be selective. His favourites include gold, cotton and sugar. Selling short US subprime lenders is a good idea.



Dr. Marc Faber

Dr. Marc Faber, the cultivated Hong Kong guru, has become the Cassandra of our time. Fortunately he is a positive Cassandra since he not only predicts disasters but is also able to find great opportunities. Dr. Faber publishes a widely read monthly investment newsletter, "the Gloom Boom and Doom" report, universally known in the financial community, which highlights unusual investment opportunities. He is also associated with a variety of funds and a member of the Board of Directors of numerous companies. www.gloomboomdoom.com.

Dr. Faber, what's the most compelling trade around?

"My hunch is that the short of the century is to short US 30-year government obligations and keep the position for the long-term."

Strong words. Would you elaborate a little bit on this?

"Well, here you have a central bank that has a history of printing money. Printing money leads to inflation. It may be asset inflation, or it may be wage inflation, or commodity inflation, but it does lead to some kind of inflation. And inflation is not good for bonds. Further, printing money causes a weakening currency. Thus why should I own 30-year bonds yielding, say, 4.7 per cent? It does not look as a good deal."

Last year was especially negative for European holders of US bonds because of the dollar...

"That's my point. In 2006, US government bonds were one of the worst performing assets. They did not go up as much as stocks, but you suffered the currency depreciation."

Risks?

"Yields may go up very slowly and you need to be prepared with a lot of patience."

What about stocks? In 2006, European stocks had a great performance...

"My major recommendation is that if you like equities, then be in equities outside the US, because they will outperform. My thesis has been widely discussed. The Federal Reserve can print money and through printing money they can drive up the market. That is a possibility. But in the process the dollar gives ground and the overall return becomes disappointing. You know, in 2006 perhaps the S&P went up by 14%, but in euros? The Nasdaq was actually negative in euros. European markets largely outperformed. The trend is supposed to go on."

In the euro area, economic activity may have entered a period of satisfactory growth with low inflation. In the abstract, shouldn't this be a good environment for stocks?

"Yes, basically, Europe is doing relatively well. In general it is my contention that the super-bulls are too optimistic on America and too pessimistic about Europe. At least on this side of the Atlantic we have infrastructures that function more or less. In the US they are horrible. And we have outstanding manufacturing. I mean Germany has a higher cost than America, but it has the largest trade surplus in the world. All in all, in a way I am more Europe optimistic than America optimistic."

What's the outlook for the euro?

"The euro is not cheap. It is about where it should be because the price level is actually about the same as in the US, if not higher."

It seems that, in your opinion, the single most important variable is liquidity.

"Yes, of course. Excess liquidity can drive asset prices up, but, in turn, higher asset prices increase the liquidity in the system. In other words, if you have a house which is worth €100,000, you can borrow and spend, say, €50,000. But if the price goes to € 200,000, you can borrow and spend much more. That is why credit expansion can follow a boom/burst sequence."

Many professionals say that liquidity depends in part on the posture adopted by the Japanese central bank. With interest rates so low, traders borrow in yen and buy everything else. In fact, last spring, when rumors surfaced that the BOJ was about to tighten, the fact sent a shiver

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