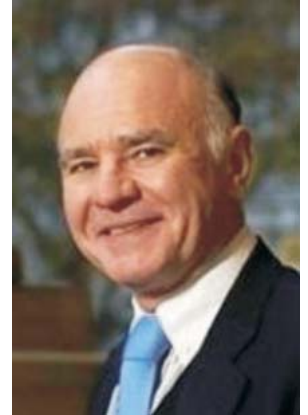


Key Highlights from Marc Faber's speech

Go Physical !!!!



Background

Marc Faber was born in Zürich and schooled in Geneva, Switzerland, where he raced for the Swiss National Ski Team. After studying Economics at the University of Zurich, he completed his PhD in Economics (Magna Cum Laude) at the age of 24. He is best known for the 'Gloom Boom & Doom Report' newsletter, which has a commendable following.

During the 1970s, he worked for White Weld & Company Limited in New York City, Zürich, and Hong Kong. He relocated to Hong Kong in 1973 and was a managing director at Drexel Burnham Lambert Ltd., Hong Kong, from 1978 until the firm's collapse in Feb 1990. Thereafter, he set up his own business, Marc Faber Limited.

Marc Faber has a reputation for being a contrarian investor and has been called "Doctor Doom" for a number of years. He was the subject of a book written by Nury Vittachi in 1998, entitled Doctor Doom - Riding the Millennial Storm - Marc Faber's Path to Profit in the Financial Crisis.

Marc Faber Ltd.

The company acts as an investment advisor, concentrating on value investments with tremendous upside often based on contrarian investment philosophies. Faber also invests and advises wealthy private clients. His current tag-line : 'Buy a USD100 bond and frame it to teach your children about inflation by watching the US bond value diminish to almost nothing over the next 20 years', sums up his investment philosophy succinctly.

Nevertheless, his market advice since 2000 has been quite accurate. Faber foresaw the rise of oil, precious metals, other commodities, emerging markets and especially China in his book, 'Tomorrow's Gold: Asia's Age of Discovery', much before others. One of his well remembered calls has been the slide of the US dollar since 2002, as he has been extremely critical of the Fed's inflationary actions.

His views for the short-run has been almost always deflationary except for precious metals; Faber still views hyperinflation as a certainty within the next 10 years. This is despite him expressing temporary bullishness for the US dollar in the middle of 2008, before it dramatically recovered and has positive expectations for holding the Japanese yen. Again, in the tradition of getting his market turnaround calls right, he correctly predicted a turnaround in the U.S. stock markets on March 09, 2009.

Writings

Apart from authoring several books, Faber writes the monthly investment newsletter, 'The Gloom Boom & Doom' Report.

He has been a regular contributor to several leading publications around the world in the past; Forbes and International Wealth (a sister publication of the Financial Times) are amongst them.

Faber has been long-term bearish about the American economy for a number of years and continues to be so. He is well remembered for the conclusion in his June 2008 newsletter, which was as follows:

“The federal government is sending each of us a USD600 rebate. If we spend that money at Wal-Mart, the money goes to China. If we spend it on gasoline it goes to the Arabs. If we buy a computer it will go to India. If we purchase fruit and vegetables it will go to Mexico, Honduras and Guatemala. If we purchase a good car it will go to Germany. If we purchase useless crap it will go to Taiwan and none of it will help the American economy. The only way to keep that money here at home is to spend it on prostitutes and beer, since these are the only products still produced in US. I have been doing my part.”

Key points elucidated during the conference.

US Economy

Dr. Faber spoke extensively on the US economy and the various phases it has been through. He highlighted the fact that Alan Greenspan, the venerated Chairman of the Fed at the time, missed the asset bubble developing within the US during his tenure. Though the US economy has witnessed several troughs and crests in the past few decades, none were as tumultuous as the subprime crisis, which led to a permanent alteration in the way the US banks have been governed. Lax Federal Reserve policies laid the foundation for the subprime crisis wherein interest rates eased to very low levels, thereby leading to an unprecedented credit and housing bubble.

Dr. Faber was categorical that the roots of the subprime recession had become well entrenched by the end of December 2007 and it was just a matter of time before the after effects reared its ugly head.

Dr. Faber is of the view that monetary policies have had a de-stabilising impact on the economy. The US economy grew at a healthy rate during the period from the 50's until the early 80's, backed by a steady growth in credit rates. However, post that, credit offtake grew at a much faster pace compared to the economy, aiding the Medicare and Social security policies set by the government.

The US housing sector witnessed a crash after being on a strong upward trend for nearly 60 years. Dr. Faber believes that occurred due to the steep rise in leverage in the realty sector from 80% fully paid up in 1960 to less than 10% in 2007. The common man got his home by paying nothing upfront following which prices appreciated and he moved out, expecting a capital gain on his mortgage. Over a period of time, this proved to be the undoing of the U.S. economy.

The kind of synchronised global boom which was witnessed across the globe, from 2002-2007, will not be witnessed again anytime soon because of the structural problems faced by the western world.

Private sectors cutting credit - governments across the globe adding credit

After the recent crash across asset classes, overleveraged consumers, especially across the developed nations, are in the process of deleveraging and are cutting credit, whereas the governments and central banks across the globe are getting more and more leveraged in the processes of rescuing the troubles corporates and households.

The Path to the Doom

- From 2002-08, all US stocks and commodities rose in price, while the US dollar fell.
- Post 2008, all stocks fell but the US dollar and bond rates remained strong.
- Early 2009, bond prices peaked out.
- Feb 2009, the US dollar peaked.

Dr. Faber feels that the bubbles created in the US economy were not specific to the financial sector but were part of a deeper malaise affecting every sector.

Federal Reserve

Faber believes that the Federal Reserve disregarded the bubble and has been slashing interest rates. He feels that this extraordinary measures taken by the governments would bring self-engineered inflation into the system thereby endangering it further.

Credit growth grew at five times that of GDP in the last couple of years, despite the watchful eye of the Fed. This has had a cascading effect on the leveraging and Faber believes that this will ultimately lead to another disaster for the financial world.

He expects the Fed to permanently monetise US debt (at least under Ben Bernanke), whereby extra money will not be withdrawn - similar to what happened in Zimbabwe, but at a slower rate. As a result, INFLATIONARY pressures will be enormous.

The one liner by Dr. Faber, "Ben Bernanke appears to have Robert Mugabe (President of Zimbabwe) as his 'Mentor' summed it all.

Fed adding more credit, akin to giving a drug addict more drugs

Faber stated that the Fed has been pumping money to increase liquidity and has bailed out several institutions. Interest rates being almost zero and asking the banks to increase the lending to already leveraged borrowers, is akin to giving more drugs to a drug addict.

Easy Monetary policies - destructive in nature

Easy monetary policy by the Fed has created consumption bubbles that have been destructive as low interest rates for extended period of time incite people to leverage in housing sector. They tend to use their houses as ATM, i.e. using home equity (taking loan on the incremental increase in the value of home) leading to consumption bubbles as people leverage and splurge.

The US Dollar Outlook

"The intrinsic value of the US dollar is zero and that is where it will go. Whether it will happen in five or ten-year time, nobody knows. I don't believe in a new world reserve currency for the immediate future, but I believe that the US dollar, after a near-term rebound that could last three-four months, will continue to depreciate. I started to talk about the equation of weak dollar-strong asset markets and vice-versa several years ago. Now this has become such an accepted rule that everybody knows it as a strong dollar-weak asset market. The rules of the game might have changed somewhat and what you could get is six months of a strong dollar and strong US stock markets, relatively speaking. I don't think the S&P or any market will go up significantly after rising 50-100% in the past eight months. I don't see the markets rising the same way over the next eight months. The risk-reward is not as favourable as it was in March 2009," said Dr. Faber.

Gold

Dr. Faber is a firm believer in owning assets in the physical form and advised people to park 5% of their investments in the yellow metal. At current levels, he felt that gold was not overpriced. Faber believes the central banks in the world will continue to print more money and there will be more quantitative easing and stimulus packages in the US. The fiscal deficit there will not come down much, so on that basis, gold has a place in every portfolio.

Dr. Doom predicts a dollar tumble over the next decade and suggests to BUY physical assets - realty, gold, commodities.

Could see a pattern of central banks buying gold

Heavy borrowing by the US government will further weaken the dollar and there are already doubts about dollar's status as a global currency. He opined that going forward, central banks especially in Asia will be converting their dollar reserves into gold.

Asia: The new super power

Dr. Faber is extremely bullish on the growth outlook for the two strongest economies in Asia - China and India. Being the largest consumers of crude and buyers of automobiles, the Asian powers are indicative of the expanding economies.

Decoupling to happen gradually and emerging economies will be bigger than G7 countries

Dr. Faber believes that emerging markets will continue to grow and will be bigger than developed worlds and G7 GDP as % of global GDP will shrink. Western countries will continue to shed their excesses, whereas emerging economies led by India and China will continue to grow at a sustainable rate for coming decades.

Geopolitical issues to play a major role in valuation of assets

The current shift in the balance of power from the western world to emerging countries like China and India will lead to lots of geopolitical issues, which will play a major role in determining the value of assets, especially commodities.

He expects near term pressures on emerging market stocks, with higher risks outweighing the upside potential due to the sharp run up in stock prices in 2009. He also feels that economic weakness is likely to persist in US and Europe despite the stock market rally and interest rates will continue to remain near zero.

China

China is the leading exporter to the US and it is felt that if the US stops its imports from China, the Asian nation would not be able to sustain growth. However, as Dr. Faber has a contrarian opinion, he believes that in such a scenario, China would continue to grow on back of rise in industrial production on back of increasing domestic consumption, with entrepreneurs willing to set up more factories and cater to the internal demand of the country. In the past, the Chinese had a higher buying price compared to selling. A reversal in this trend is being witnessed currently, as a result of which

margins have improved and several commodities, such as steel, aluminum, etc., have boomed. The Chinese have very little crude oil, natural gas, iron ore and copper of their own. This should support commodity prices because they are not going to stop buying these commodities in the foreseeable future.

Dr. Faber cited the example of how initially the US grew due to the jump in its domestic economic activity. A similar growth could be witnessed in the China and India.

India

His point of view on India - Dr. Faber stated that with a middle class of 230 million people buying cars like the USD2,500 Nanos and other goods, a huge improvement in their standard of living and social class was underway. He believes that with the same wages, if the affordability goes up, then the Indian economy is on the right path to grow. He feels that with only 30% of the total population residing in cities, the remaining towns and rural parts are a major opportunity to grow and create newer cities.

While he felt that Indian markets were not as compelling in the near term, he conceded that they offered great value in the long term - with a very positive bias toward the financial sector.

India will continue to grow despite its internal problems

Comparing India with US of 18th century, Dr. Faber said that US faced much more problems and challenges than India. US even faced a civil war but still managed to grow and become a super power. He admits that while India continues to have its own set of problems, it will continue with despite all this.

Summing up he said **‘There is no one more skeptical of India, than Indians themselves’**, and though ironical, it holds true in the deepest sense..

Notes

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