

Dr Marc Faber 2009
Presentation for CFA Society Quebec
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Canada

WERE YOU BORN BEFORE OR AFTER 2007?

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TOPICS FOR DISCUSSION

Credit crisis is very serious. Fed can keep Fed fund rates at zero percent and pursue even more expansionary monetary policies. Also, fiscal measures can be expanded further. However, in the current conditions such policy measures may actually aggravate and prolong the problem.

Ultra expansionary monetary policies have also led to higher volatility for all asset markets.

Non-financial credit growth has declined from an annual rate of 16% in late 2006 to currently between 1% and 2%. Also, deleveraging is occurring among financial intermediaries. This is extremely negative for an economy addicted to credit growth.

Regardless of policies followed by the U.S. Government and its Agencies the consumer is in recession, and the recession will deepen. U.S. trade and current account deficits will shrink further and diminish international liquidity. The shrinkage of global liquidity is bad for all asset prices.

We had an unprecedented global economic boom between 2002 and 2007. A colossal global economic bust is now following.

Topics for Discussion cont'd.

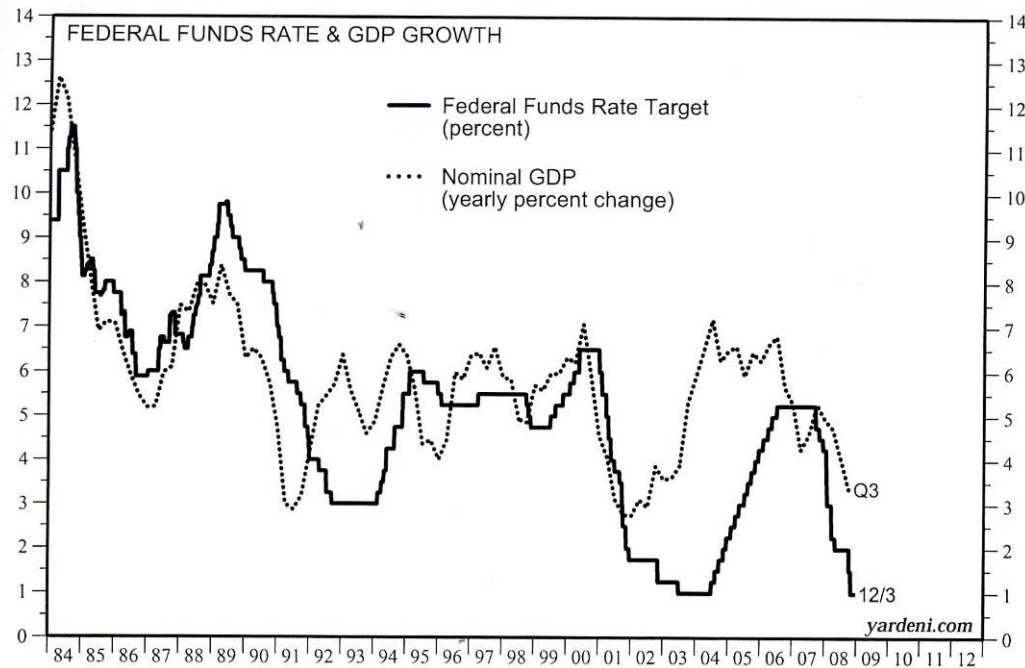
Inflation shifted in the early 1980s from rising consumer prices to asset prices, which subsequently soared in value. Now, the opposite seems to be occurring. Almost all asset prices collapsed in 2008. The wealth destruction is unprecedented.

There is still one bubble to be deflated: US government bonds.

Expansionary fiscal and monetary policies will, after a bout of deflation, lead to much higher inflation rates. This will have a negative impact on the valuation of equities in real terms.

Geopolitical tensions are on the rise. Balance of power is shifting to China and rogue states. Commodity shortages lead to increased international tensions and to resource nationalism.

ARTIFICIALLY LOW INTEREST RATES: THE CAUSE OF THE CRISIS



US economy began to expand in November 2001, but Fed Fund Rate remained at 1% until June 2004

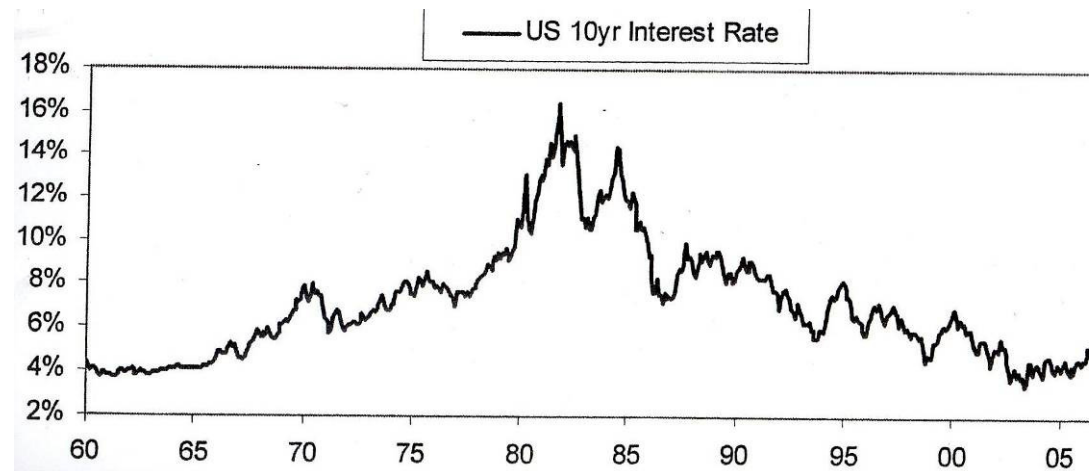
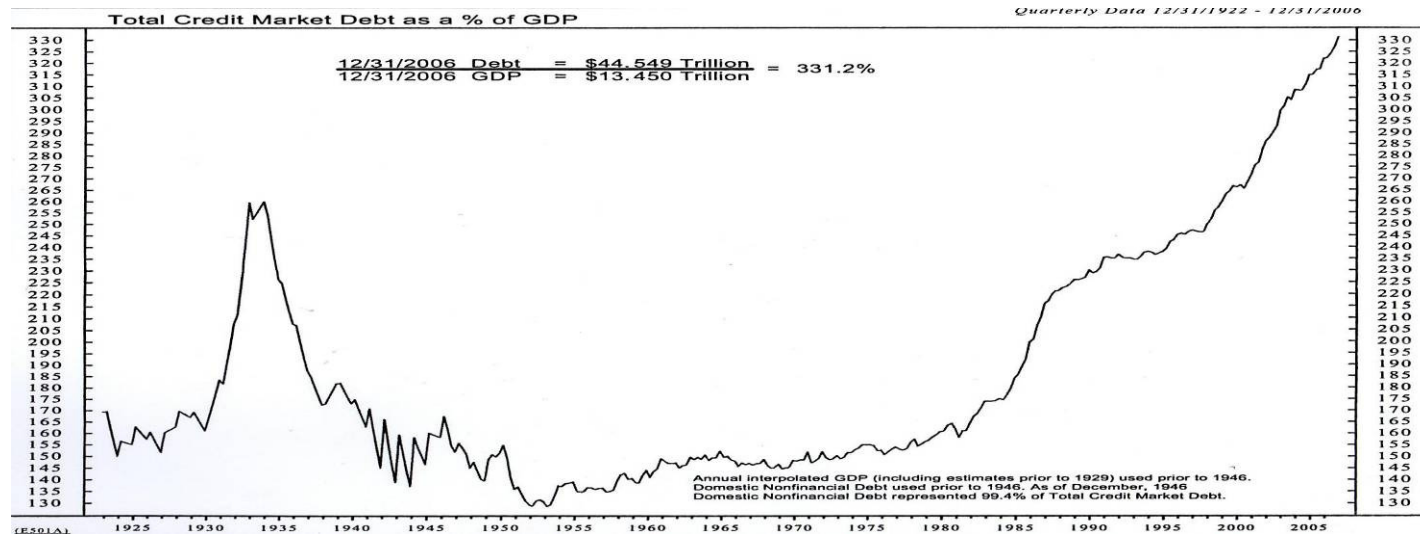
EASY MONEY LEADS TO HIGHER VOLATILITY



Source: Ed Yardeni, www.yardeni.com

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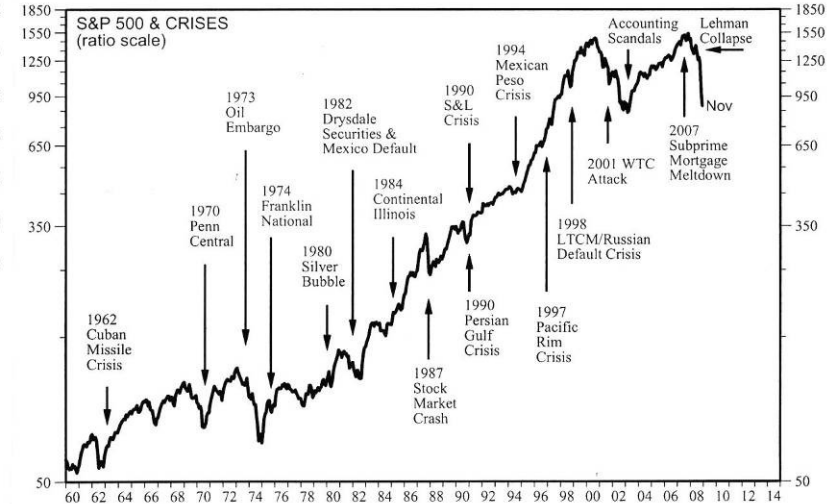
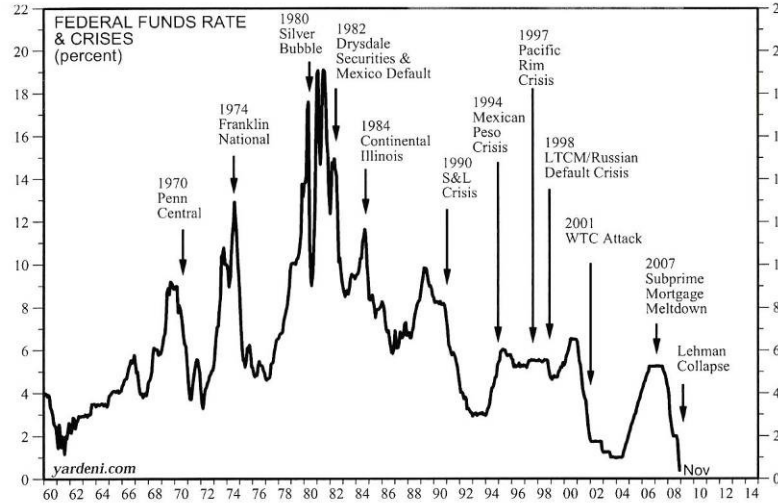
U.S. DEBT RATIOS HAVE BEEN PUSHED HIGHER BY REFLATION



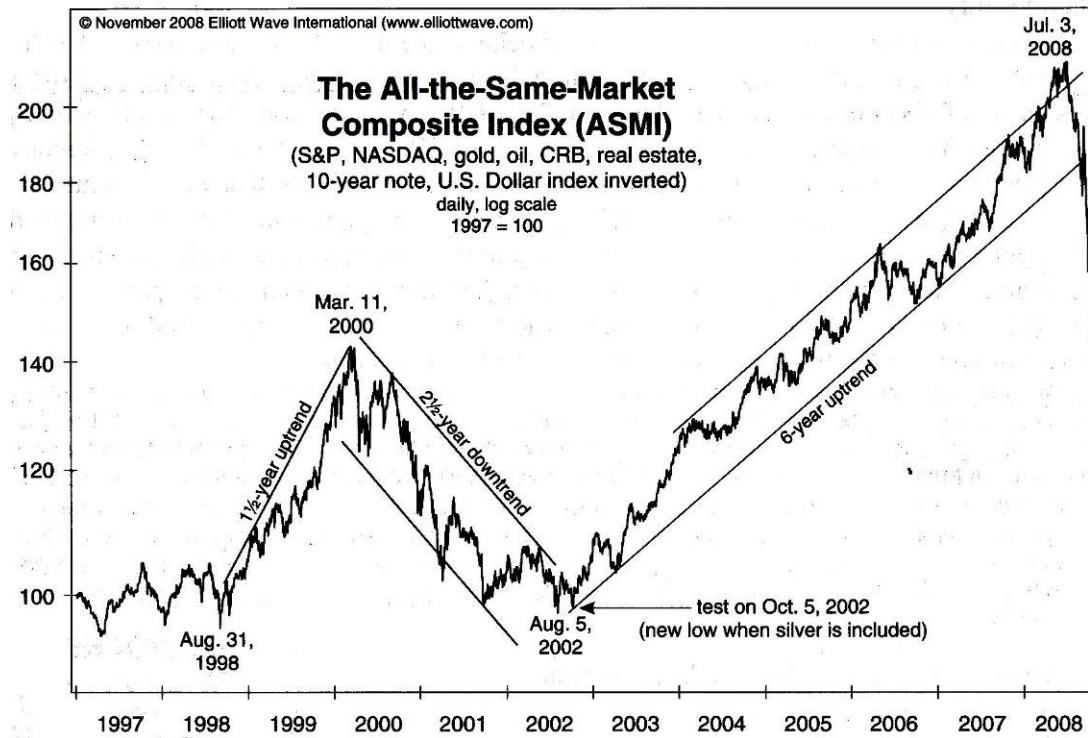
Source: Ned Davies Research, Bridgewater Associates

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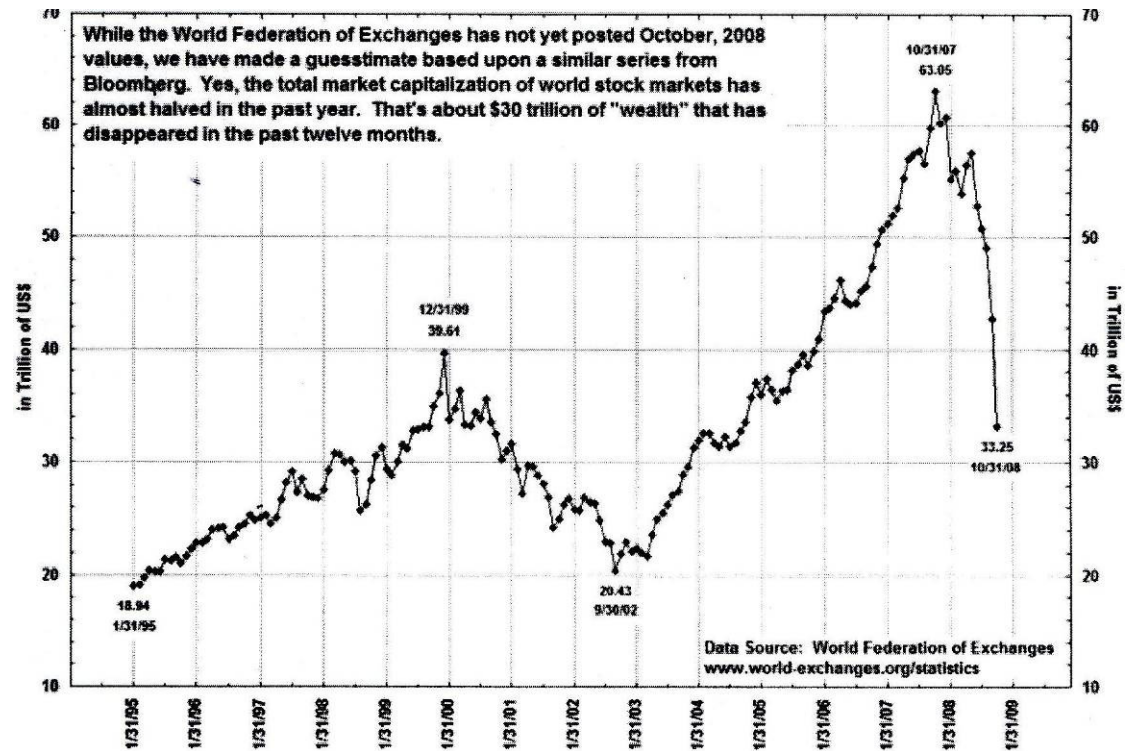
EACH CRISIS PRODUCED MORE MONETARY EASING AND HIGHER STOCK PRICES! BUT WILL IT WORK THIS TIME?



FROM THE ILLUSION OF WEALTH TO TOTAL WEALTH DESTRUCTION, 1997-2008



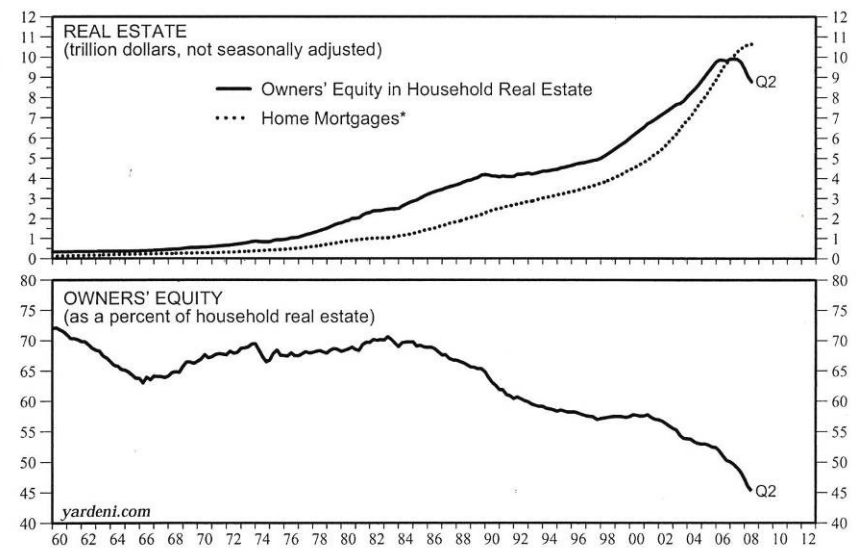
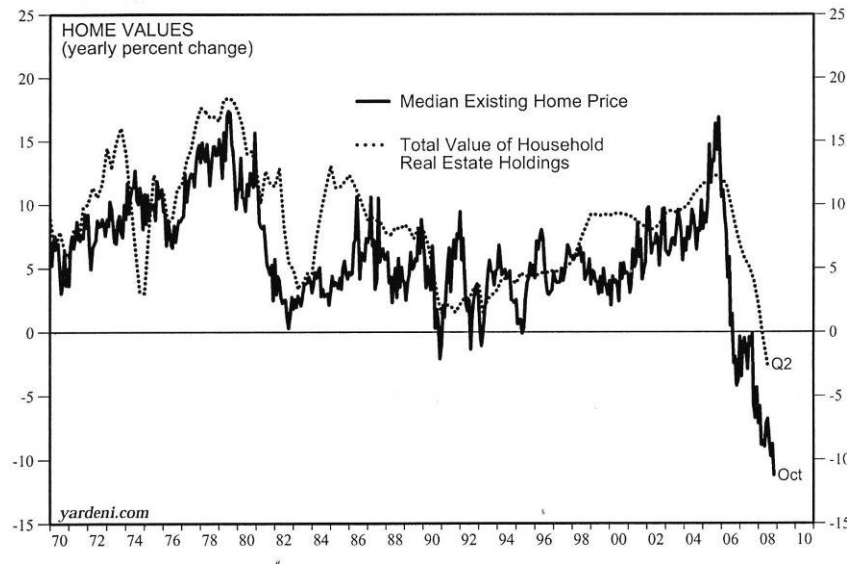
US\$ 30 TRILLION WEALTH DESTRUCTION



Source: Ron Griess, www.thechartstore.com

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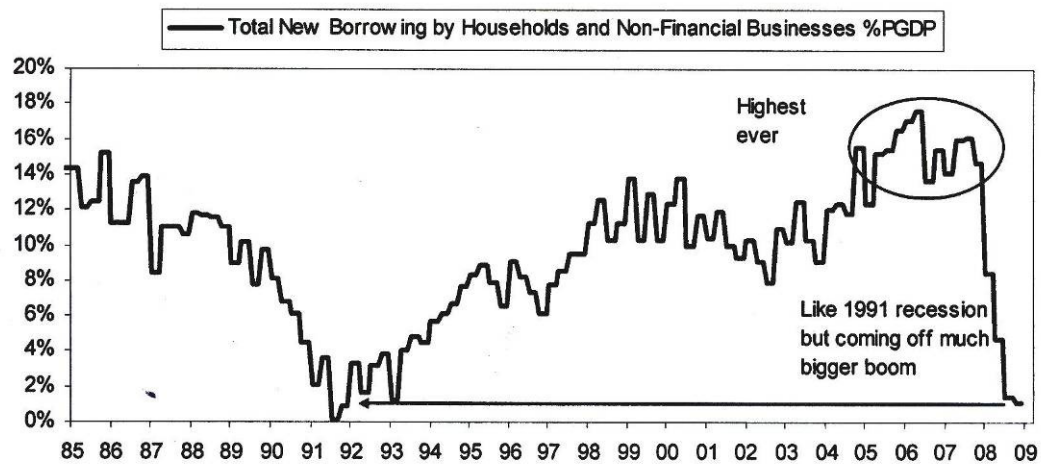
GLOBAL WEALTH DESTRUCTION IN REAL ESTATE



Source: Ed Yardeni, www.yardeni.com

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CREDIT GROWTH COLLAPSE

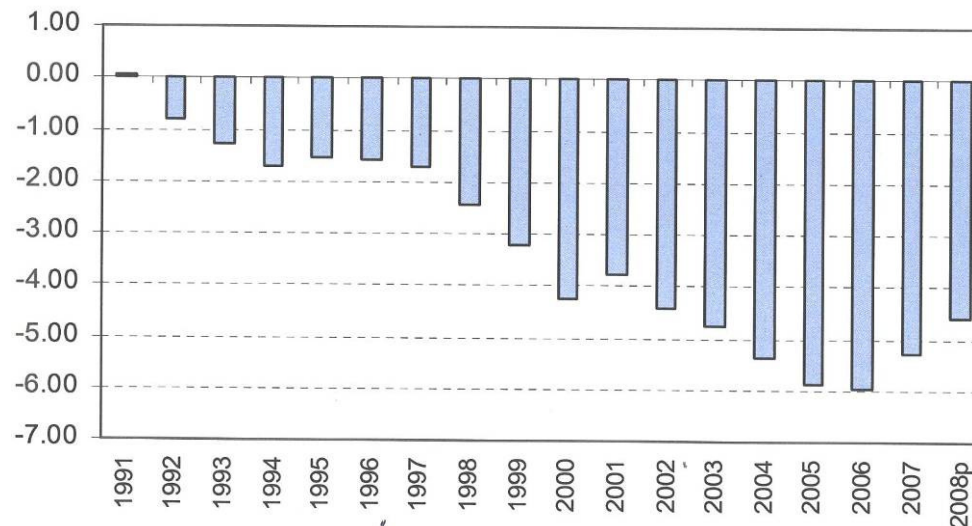


Source: Bridgewater Associates

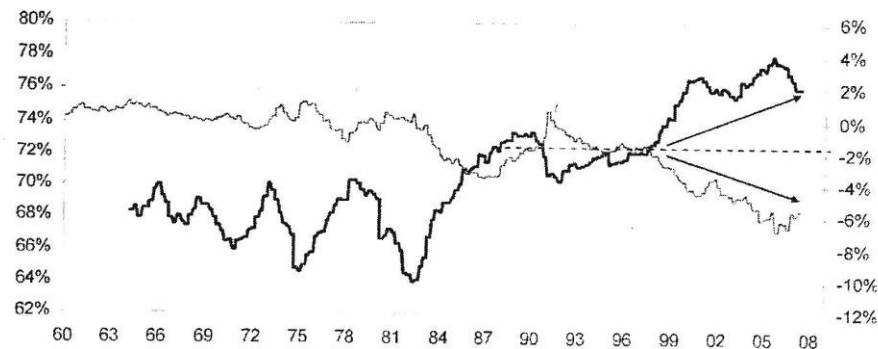
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EXCESSIVE CONSUMPTION LEADING TO A SOARING U.S. TRADE AND CURRENT ACCOUNT DEFICIT

U.S. Current Account Deficit as % of GDP



U.S. Household Spending + Residential Construction – U.S. Current Account (Inv.)

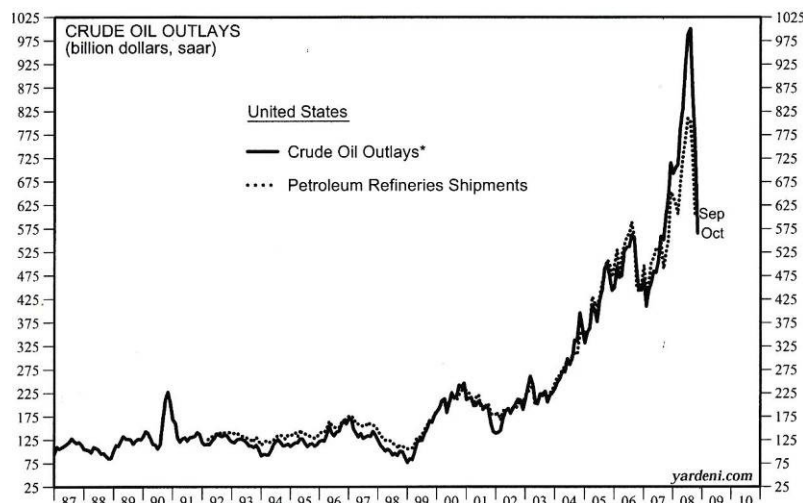


Source: Estudio Broda; Bridgewater Associates

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CHINESE EXPORT BOOM LIFTS COMMODITY PRICES AND GREASES THE ECONOMIES OF RESOURCE PRODUCERS

U.S. Crude Oil Outlays



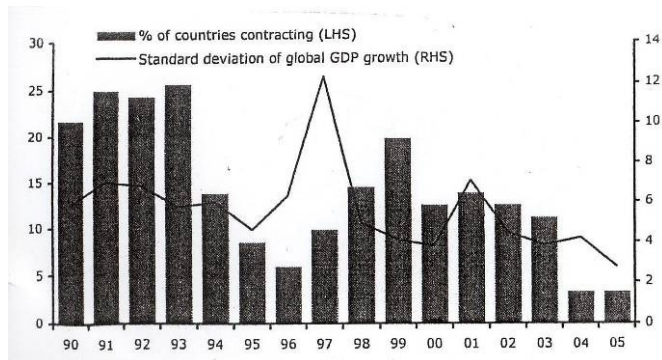
Asian Crude Oil Outlays



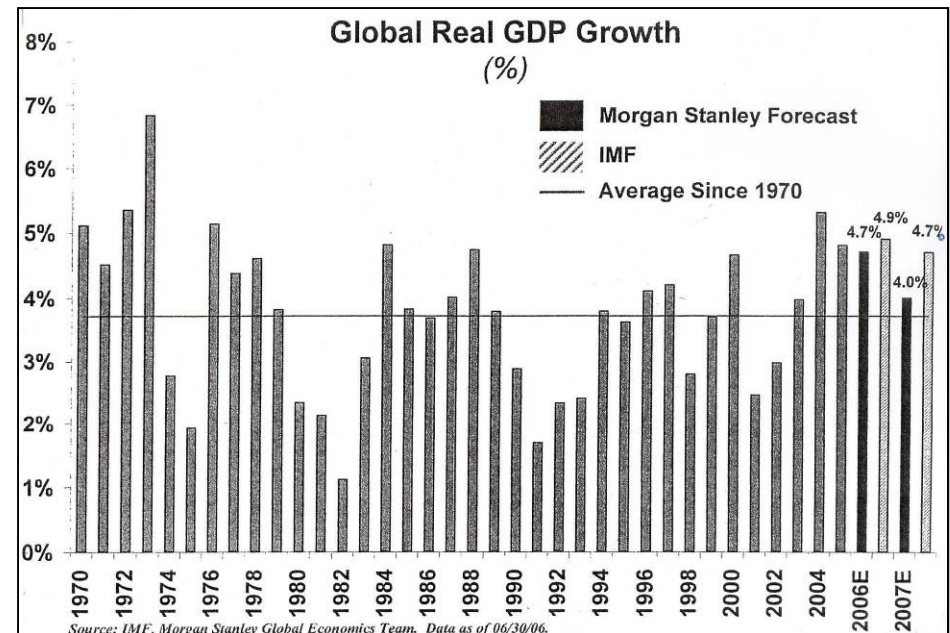
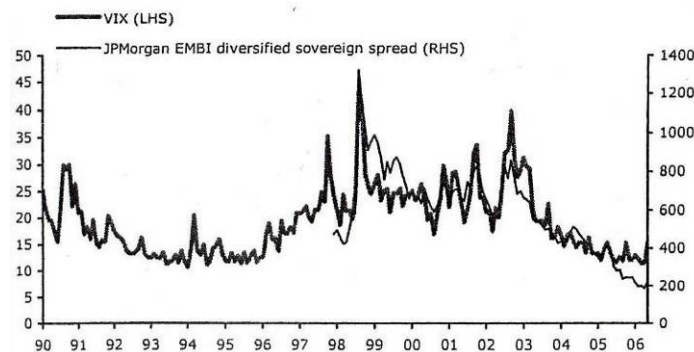
Huge transfer of wealth to resource producers!

FIRST SYNCHRONIZED GLOBAL BOOM AND BUST IN 200 YEARS OF CAPITALISM

Global economy has become
more synchronized



Risk Premiums remained low for too long!



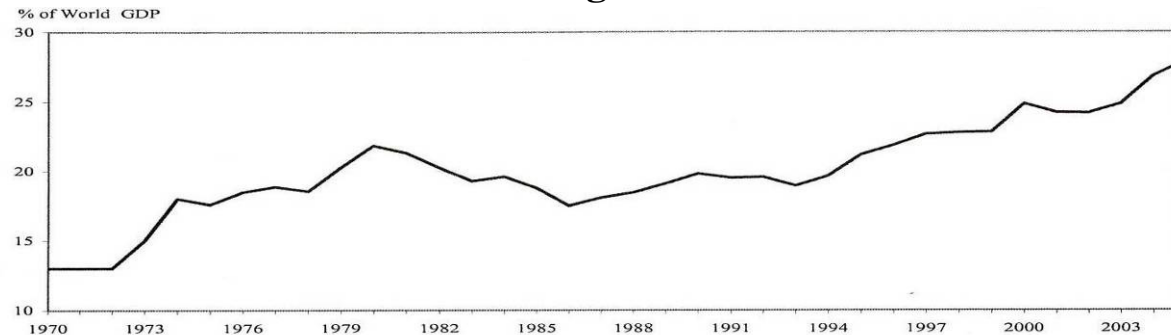
Source: Morgan Stanley

In 2006: Only one country in recession – money-printing Zimbabwe!

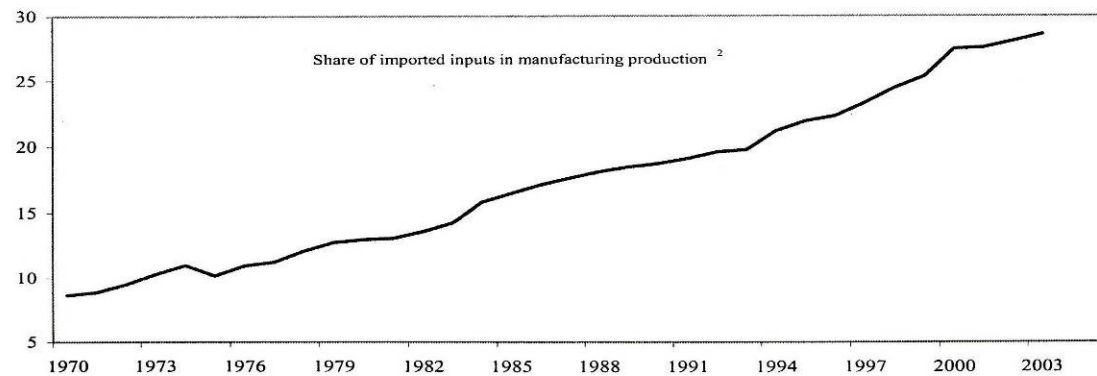
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GLOBAL TRADE LINKS ARE STRENGTHENING

Trade as Percentage of World GDP ¹



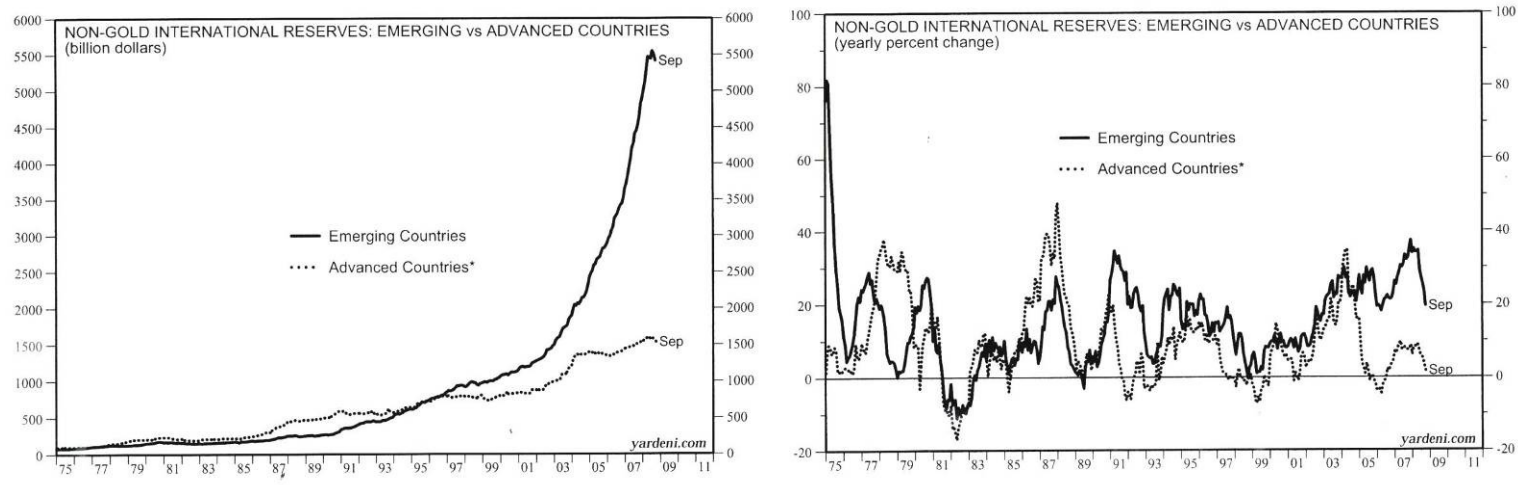
Share of Imported Inputs in Manufacturing Production ²



1. Imports of goods and services

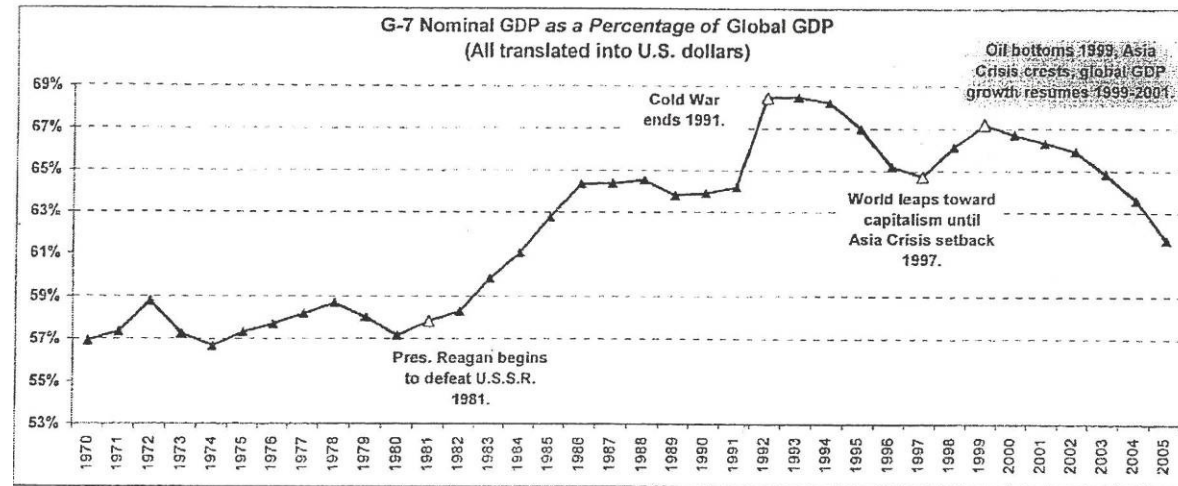
2. Based on weighted average of major OECD economies

GROWTH IN U.S. TRADE AND CURRENT ACCOUNT DEFICIT LED TO INCREASING INTERNATIONAL RESERVES AND A WEAK U.S. DOLLAR



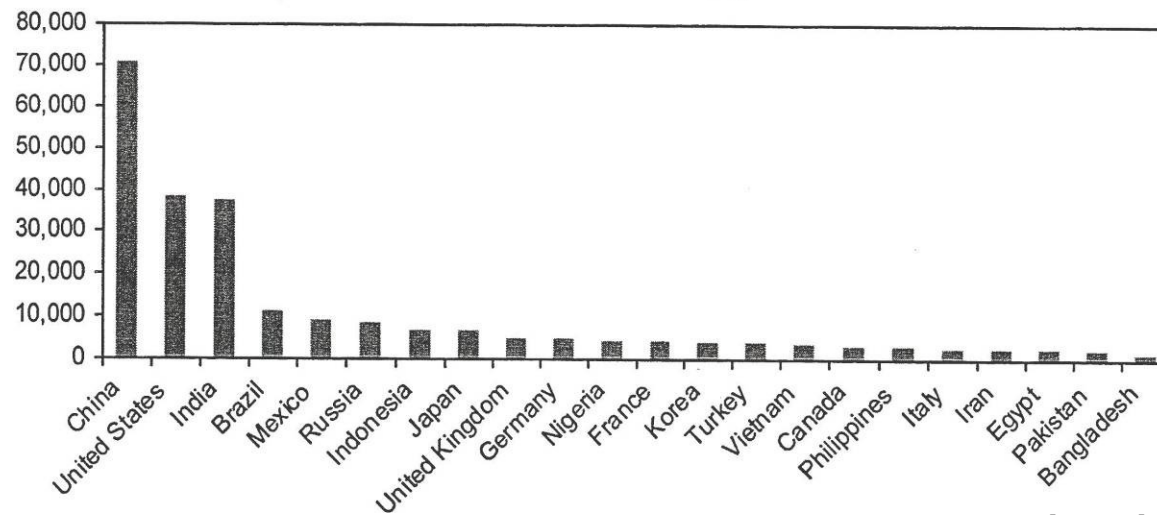
Strong inverse correlation between the growth rate in International Reserves and the U.S. dollar!

FROM NOW ON FASTER GROWTH IN EMERGING ECONOMIES



GDP 2006 US\$ bn

The World in 2050



Source: Barry Bannister, Stifel Nicolaus & Co; Goldman Sachs

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PER CAPITA GDP (IN 1960 U.S. DOLLARS)

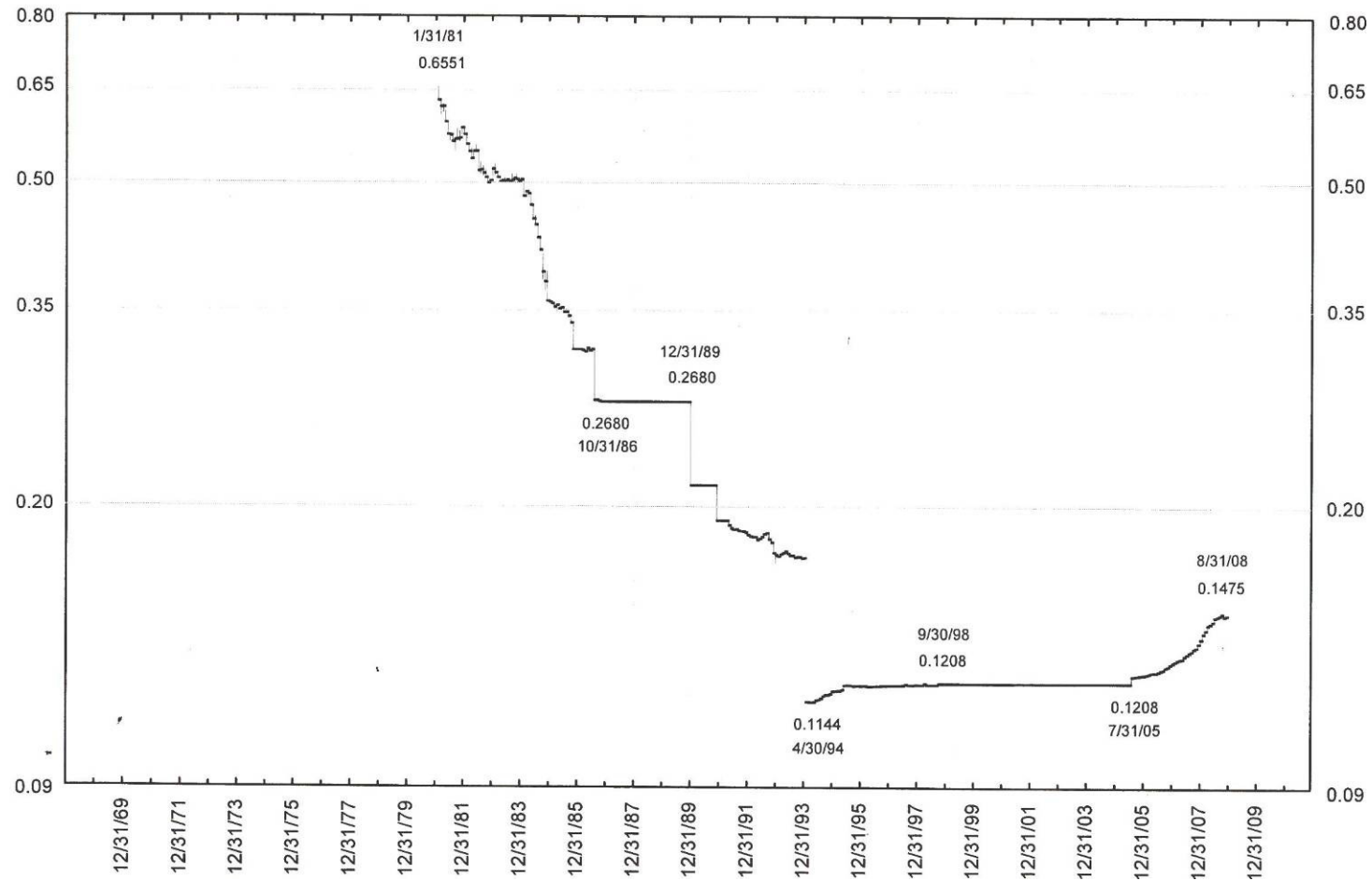
	Most Developed Countries	Developed Countries	Less Developed Countries	World
1750	230	182	188	188
1800	242	198	188	190
1860	575	324	174	218
1913	1350	662	192	560
1950	2420	1050	200	590
1995	5230	3320	480	1100

UP 21 TIMES

UP 2.5 TIMES

**Rising wealth inequality between the MDCs and the LDCs
over the last 250 years has reversed for good!**

CHINESE YUAN (Monthly Spot – in US\$), 1981-2008



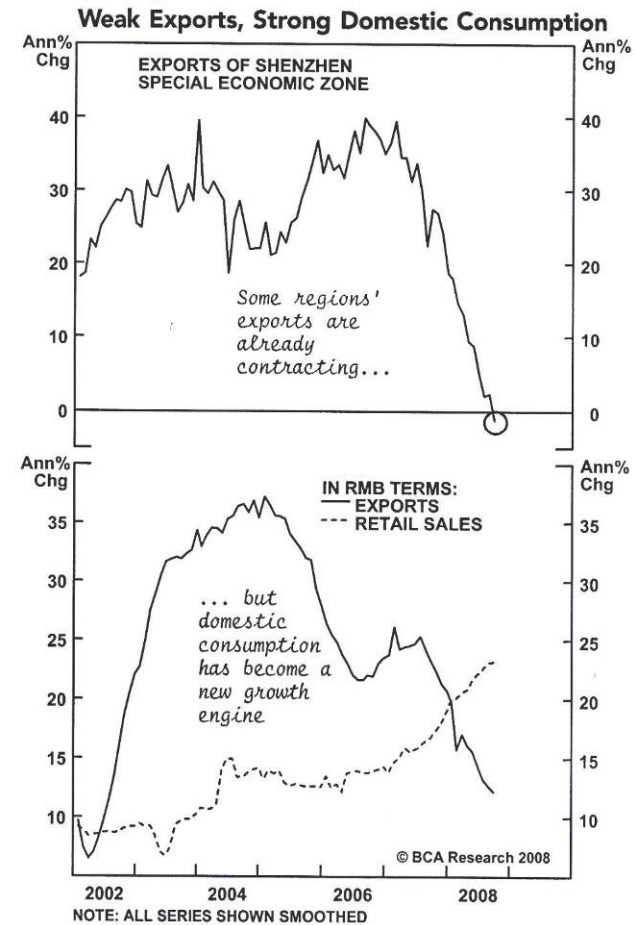
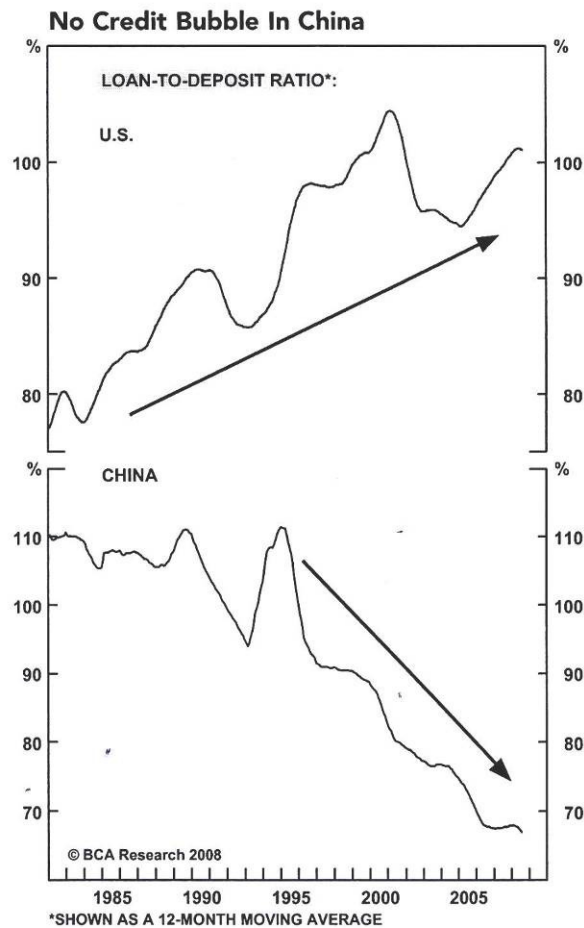
WEAKNESS IN CURRENCIES OF RESOURCE PRODUCER AND EMERGING ECONOMIES



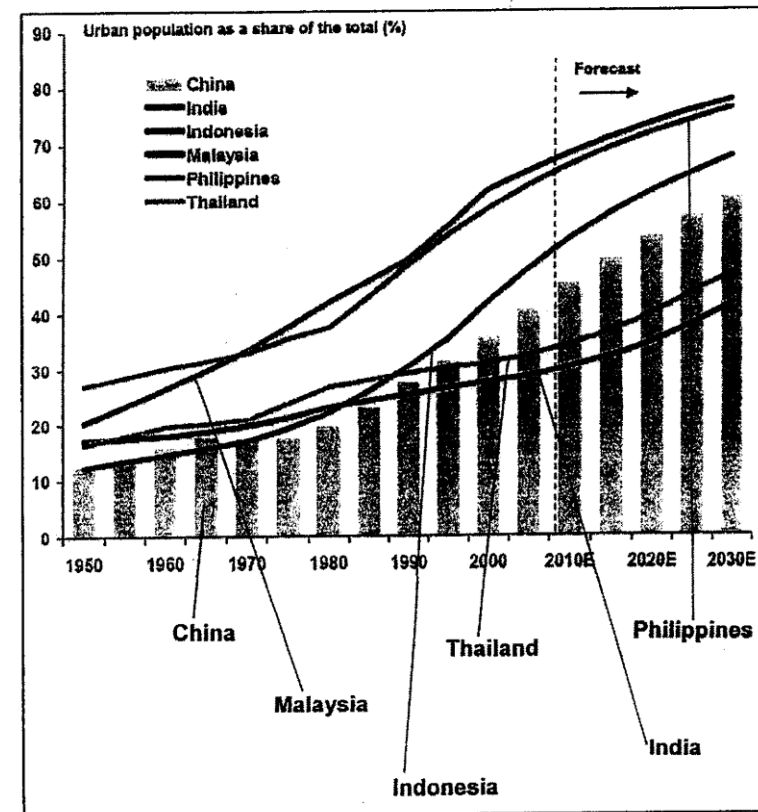
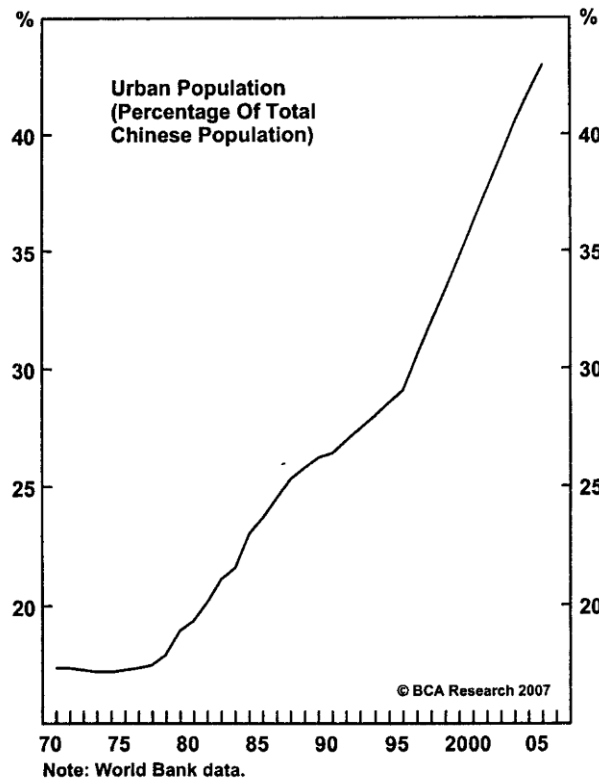
Source: Ed Yardeni, www.yardeni.com

www.gloomboomdoom.com

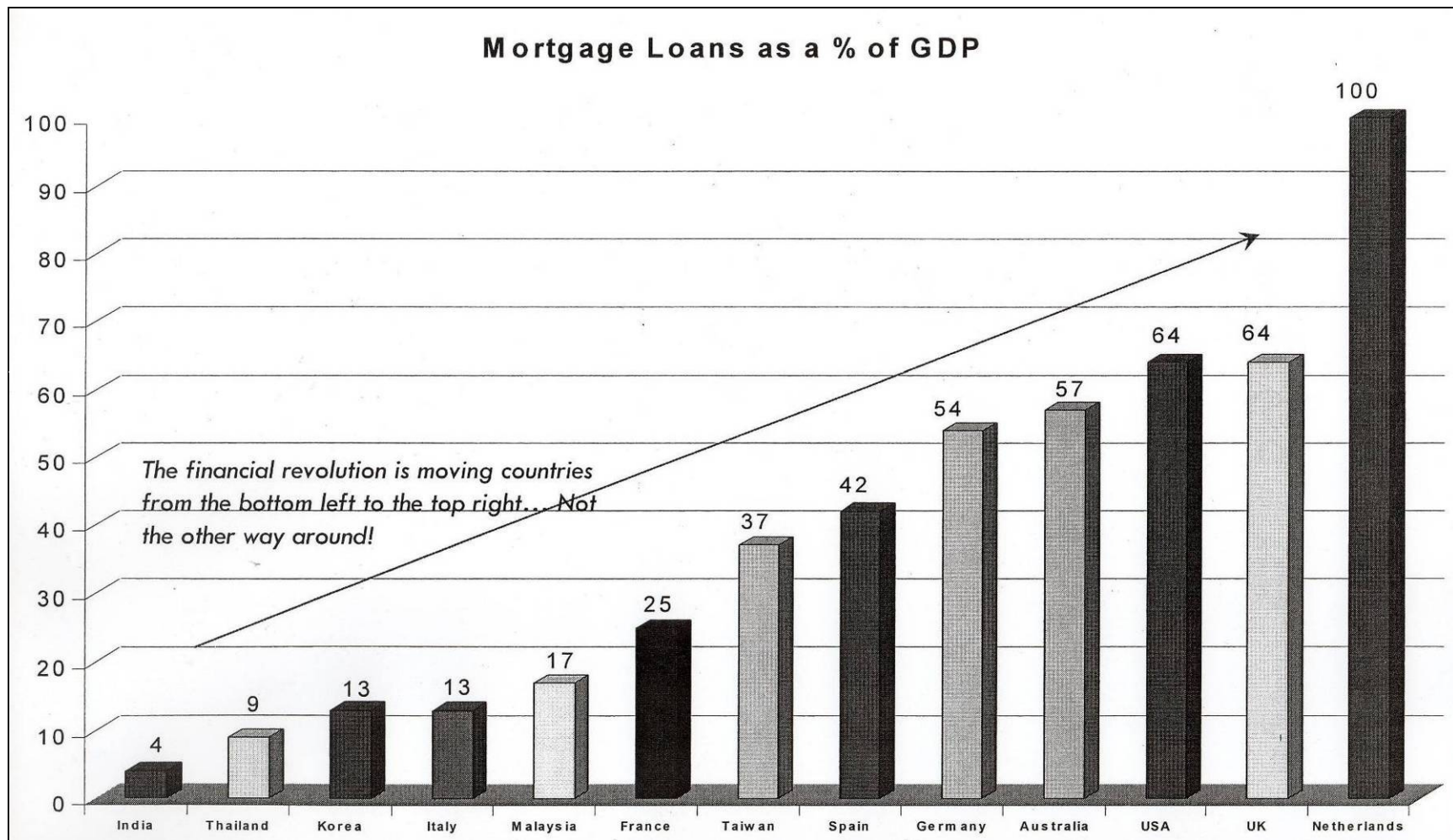
CHINA



URBANIZATION IN ASIA



THE FINANCIAL REVOLUTION AT WORK: WHICH WAY WILL DEBT LEVELS GO?

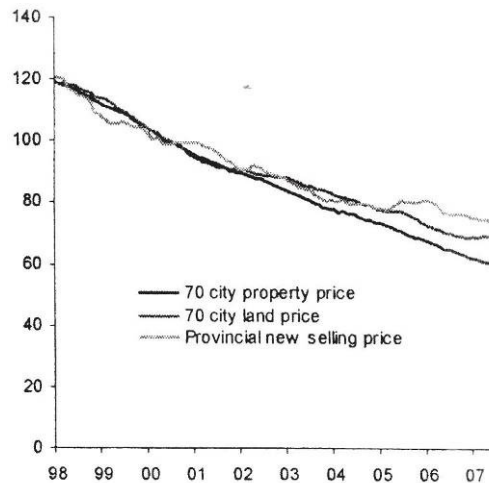


Source: GaveKal Research

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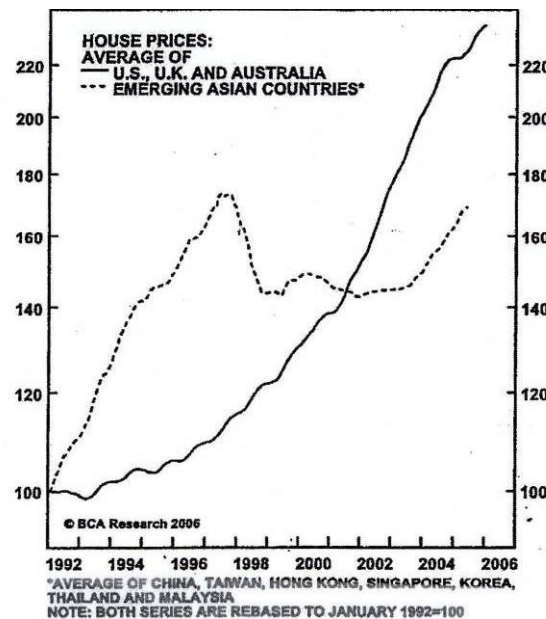
IS THERE A CHINESE PROPERTY BUBBLE?

China Housing: Prices Relative to GDP, 1998-2007



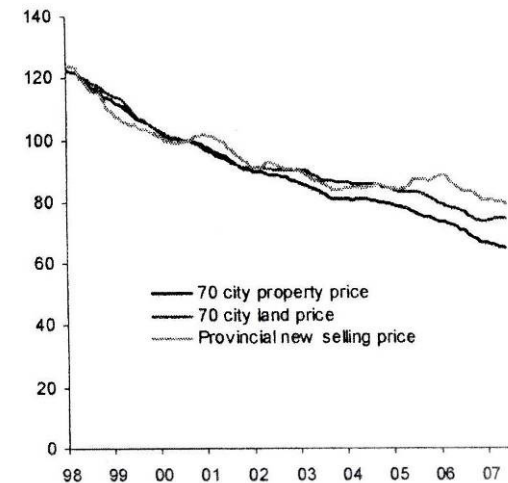
Source: Jonathan Anderson, UBS

Asia versus Anglo-Saxon Countries



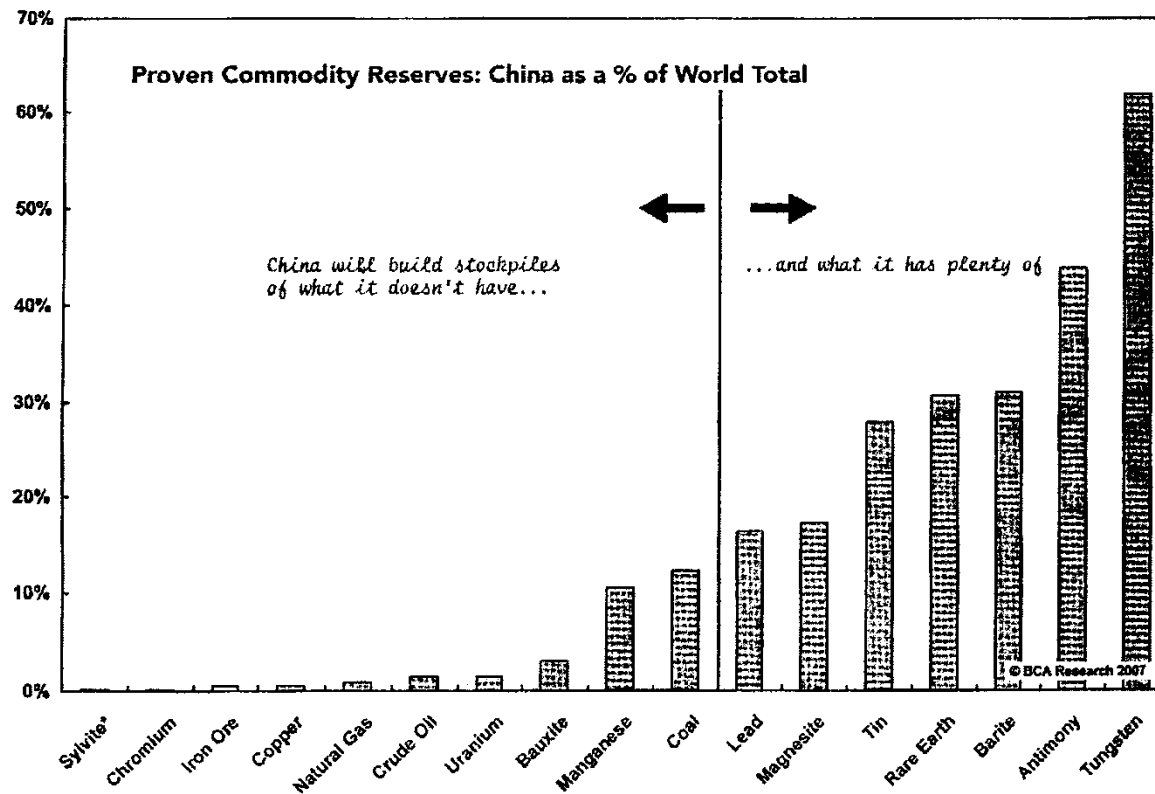
Source: The Bank Credit Analyst

China Housing: Prices Relative to Household Income, 1998-2007



Source: Jonathan Anderson, UBS

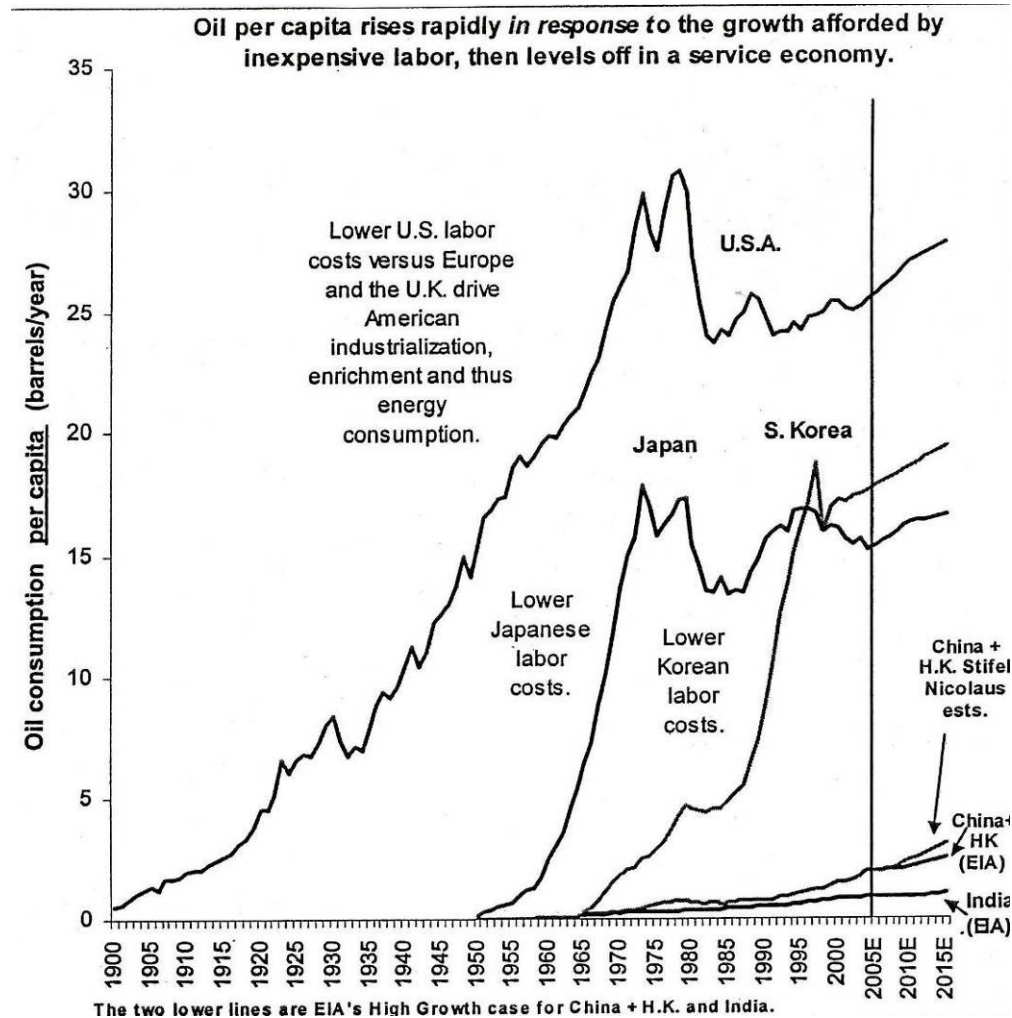
FOR WHICH COMMODITIES WILL DEMAND NOT COLLAPSE?



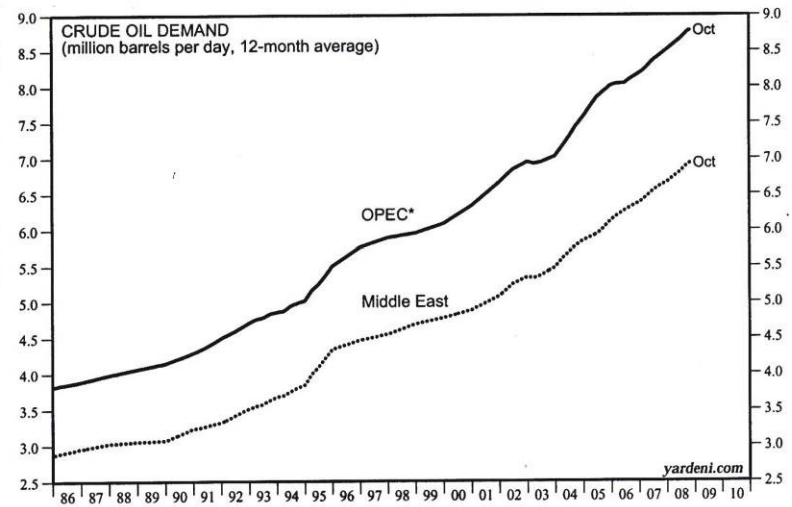
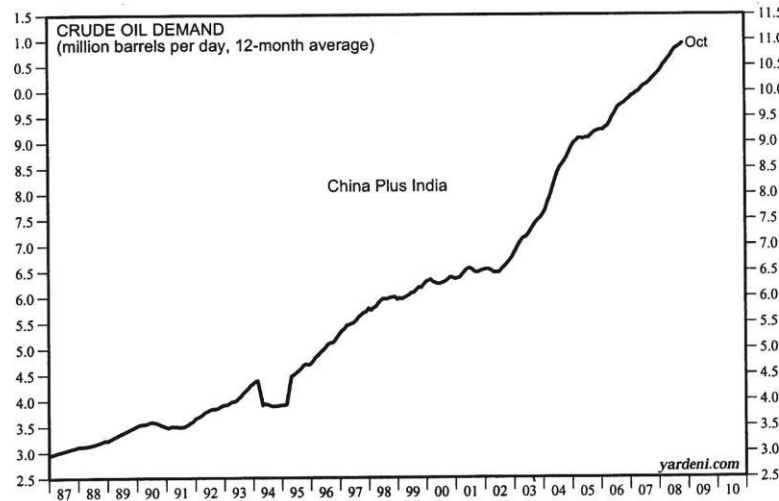
Source: Bank Credit Analyst

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OIL CONSUMPTION



CRUDE OIL DEMAND IN CHINA, INDIA AND OPEC 1987-2008



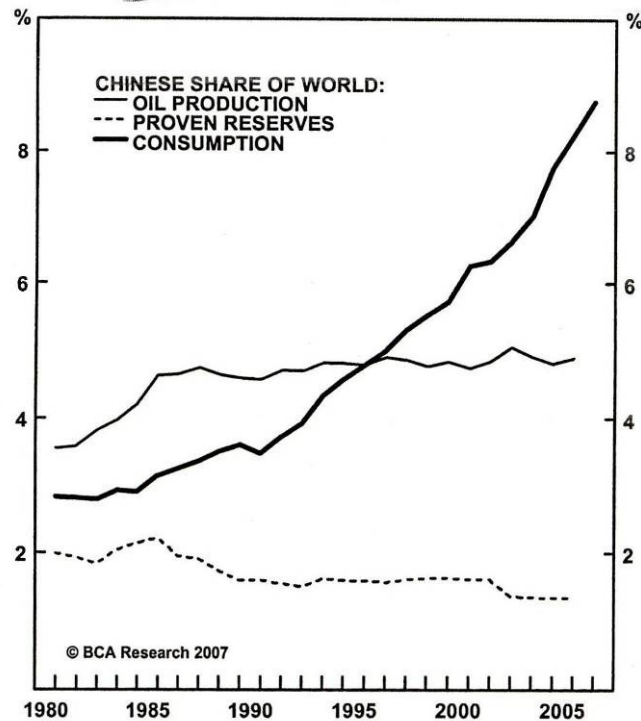
Source: Ed Yardeni, www.yardeni.com

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THE GEOPOLITICS OF OIL

Map of Iran

Chinese Share of World Oil Demand and Production



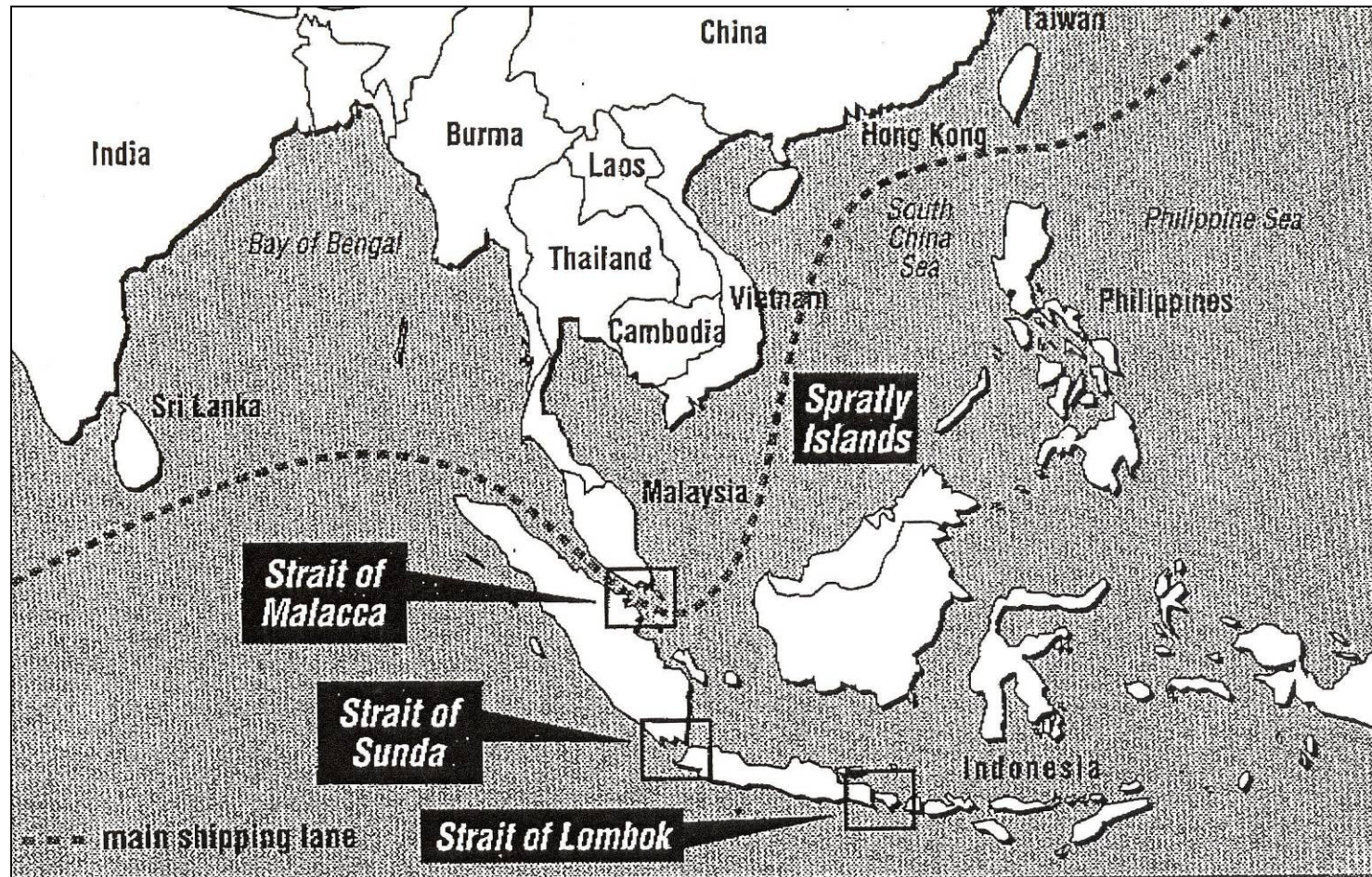
Source: The Bank Credit Analyst



Source: Perry-Castaneda Library Map Collection

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THE GEOPOLITICS OF OIL IN ASIA: THE CONTROL OF SEA LANES



THE SCO INCLUDES CHINA, RUSSIA, KAZAKHSTAN, KYRGYZSTAN, TAJIKISTAN AND UZBEKISTAN

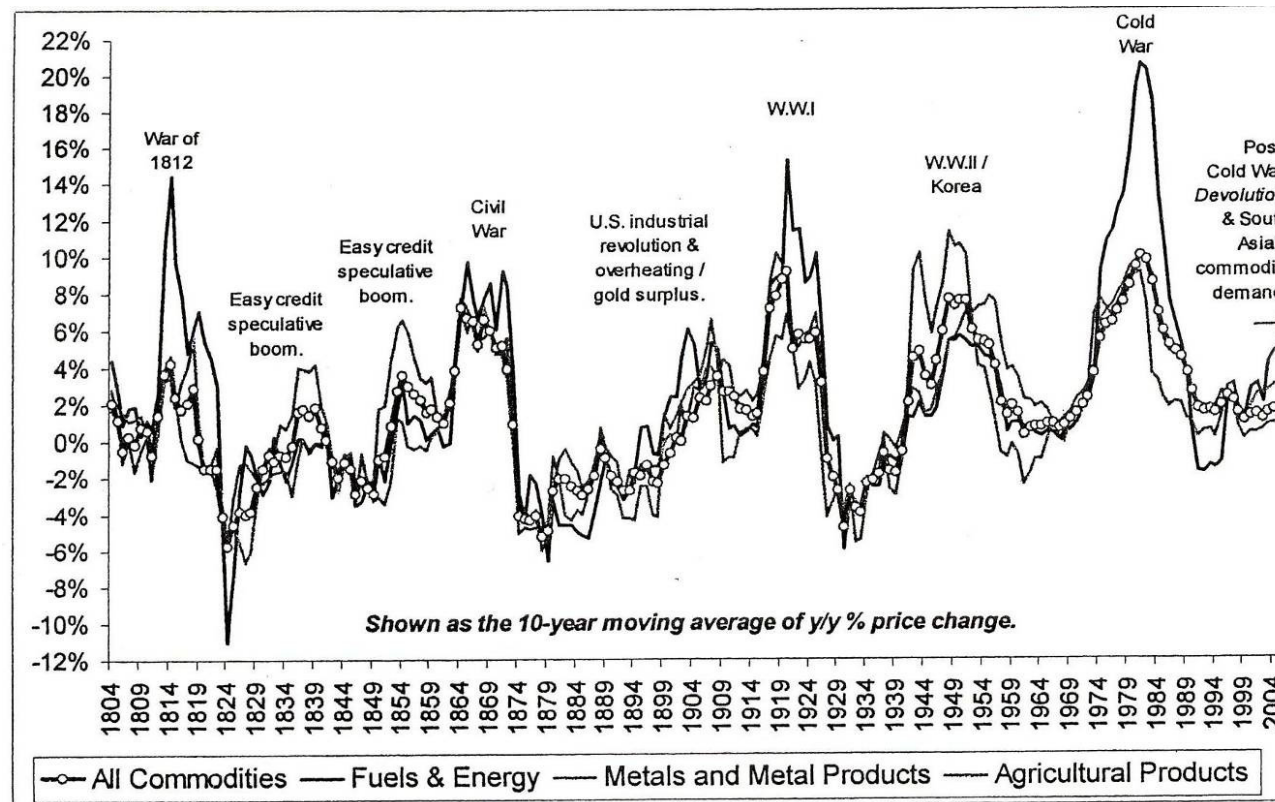


Source: 1999 MAGELLAN GeographixSM, (805) 685-3100: www.maps.com

www.gloomboomdoom.com

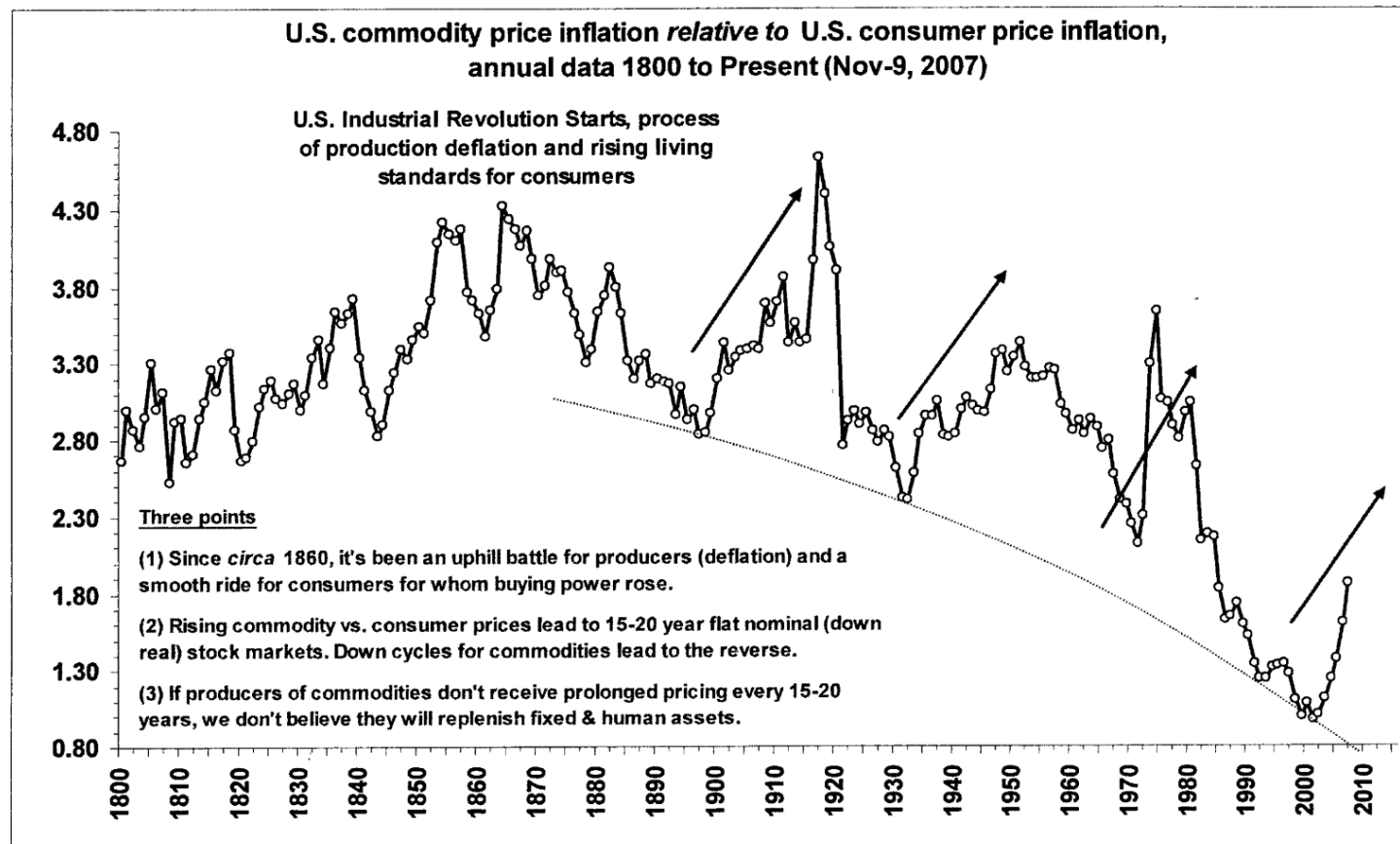
RIISING COMMODITY PRICES LEAD TO INTERNATIONAL TENSIONS – WARS LEAD TO SOARING PRICES

PPI for Energy, Agriculture, Metals and All Commodities, Y/Y %, 10-yr. M.A.



Source: US Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1970, Legg Mason Format

COMMODITY PRICES IN REAL TERMS, 1800-2008

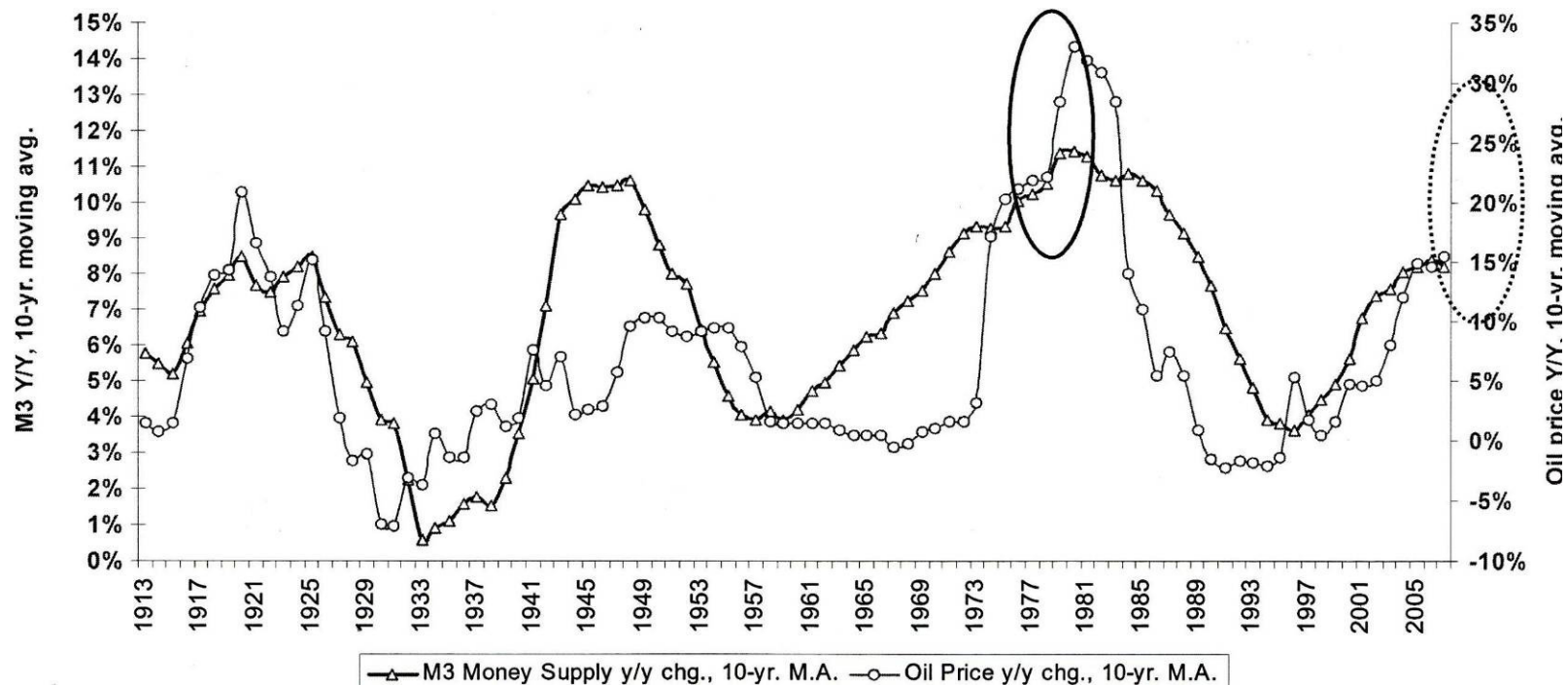


Source: Barry Bannister; Nicolaus & Co.

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M3 MONEY SUPPLY Y/Y GROWTH VERSUS OIL PRICE PER BARREL Y/Y GROWTH

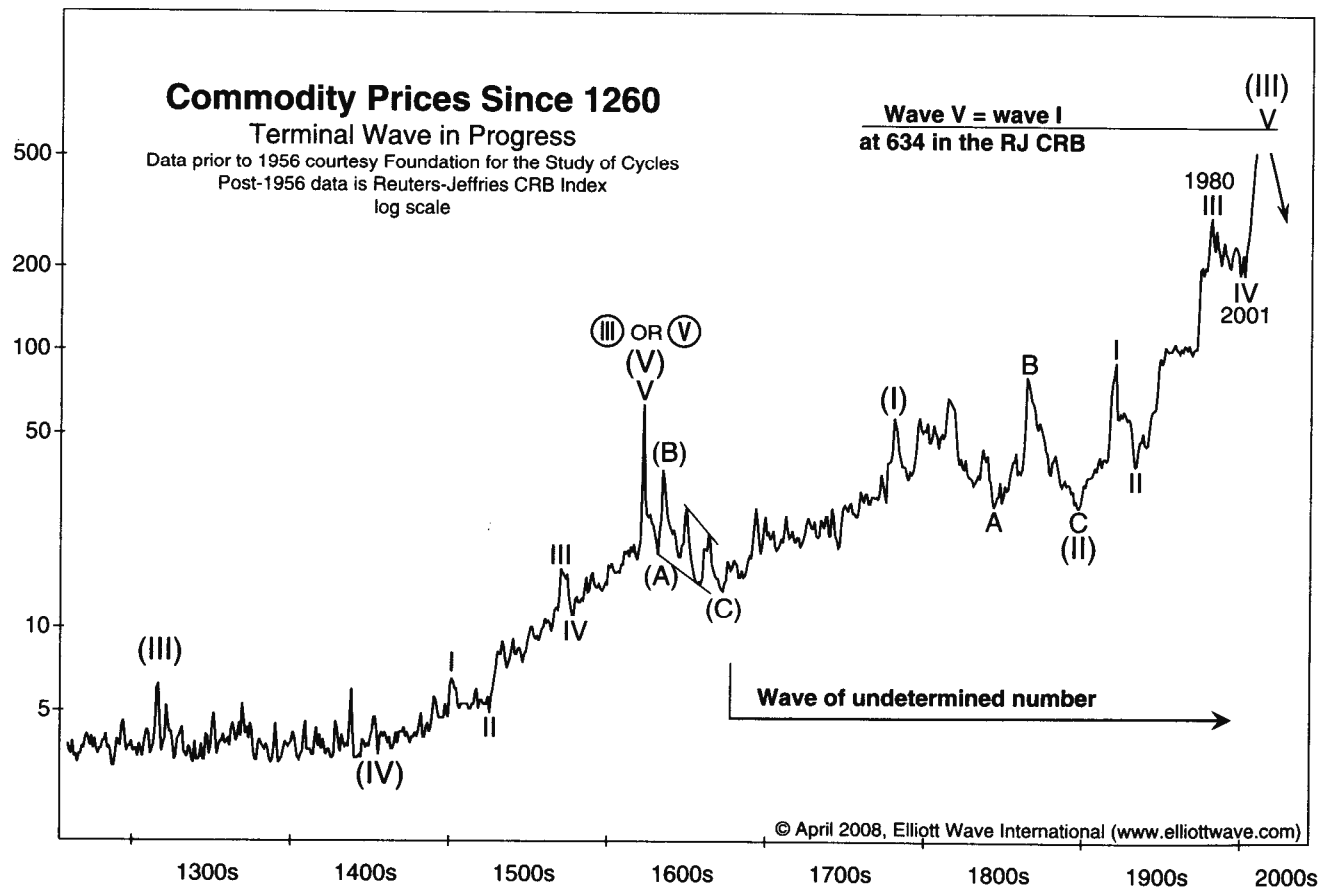
(10-yr moving average of yearly percent change), since the Fed's creation in 1913



Source: Barry Bannister, Nicolaus Stifel

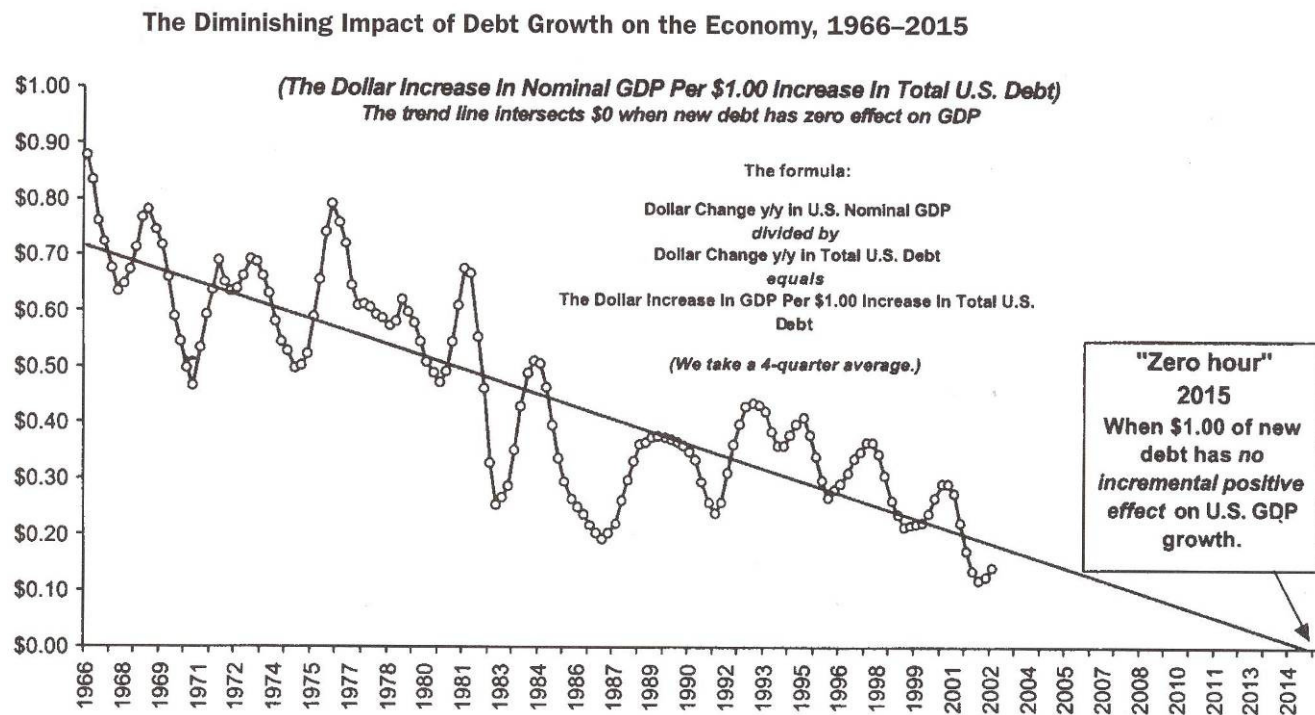
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AFTER THE PRICE REVOLUTION OF THE 16TH CENTURY COMMODITY PRICES SLUMPED BUT REMAINED FAR HIGHER THAN IN THE 15TH CENTURY!



MAJOR CONCERNS: EASY MONEY AND DEBT GROWTH HAVE A DIMINISHING IMPACT ON U.S. ECONOMIC GROWTH.

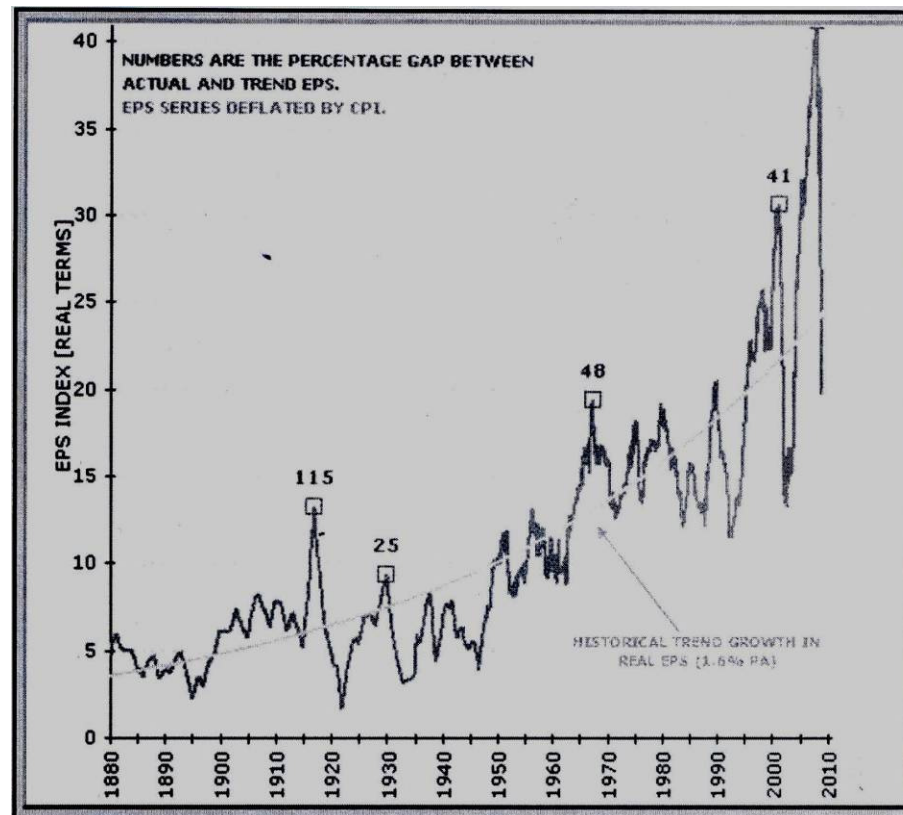
“ZERO HOUR” MAY ALREADY HAVE ARRIVED!



2000-2007: Nominal GDP Growth: + \$4.2 trillion
Total Credit Market Debt: + \$21.3 trillion

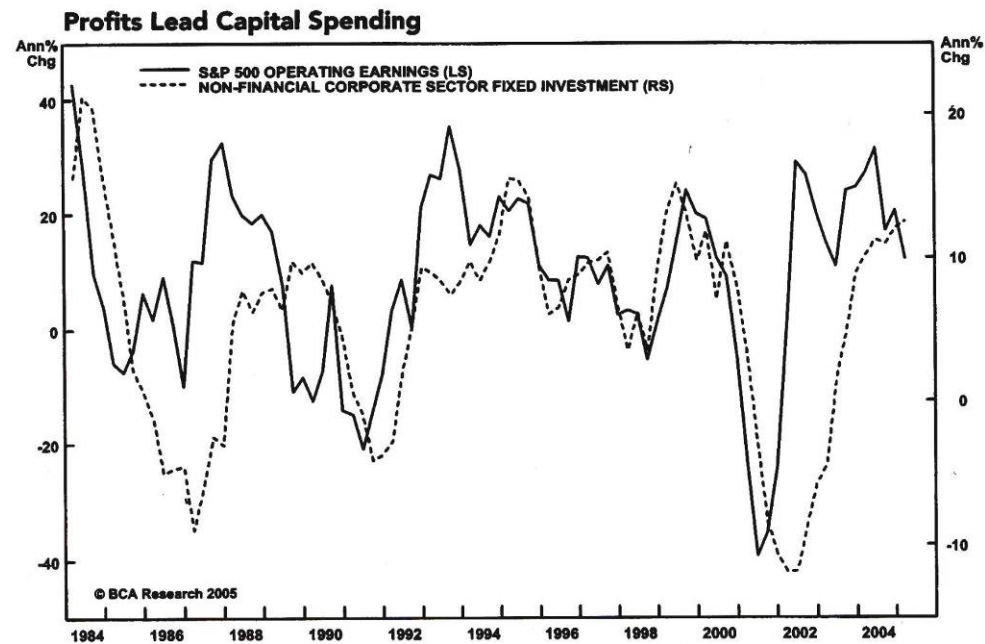
AN EARNINGS BUBBLE?

REAL S & P EARNINGS PER SHARE, 1880-2007

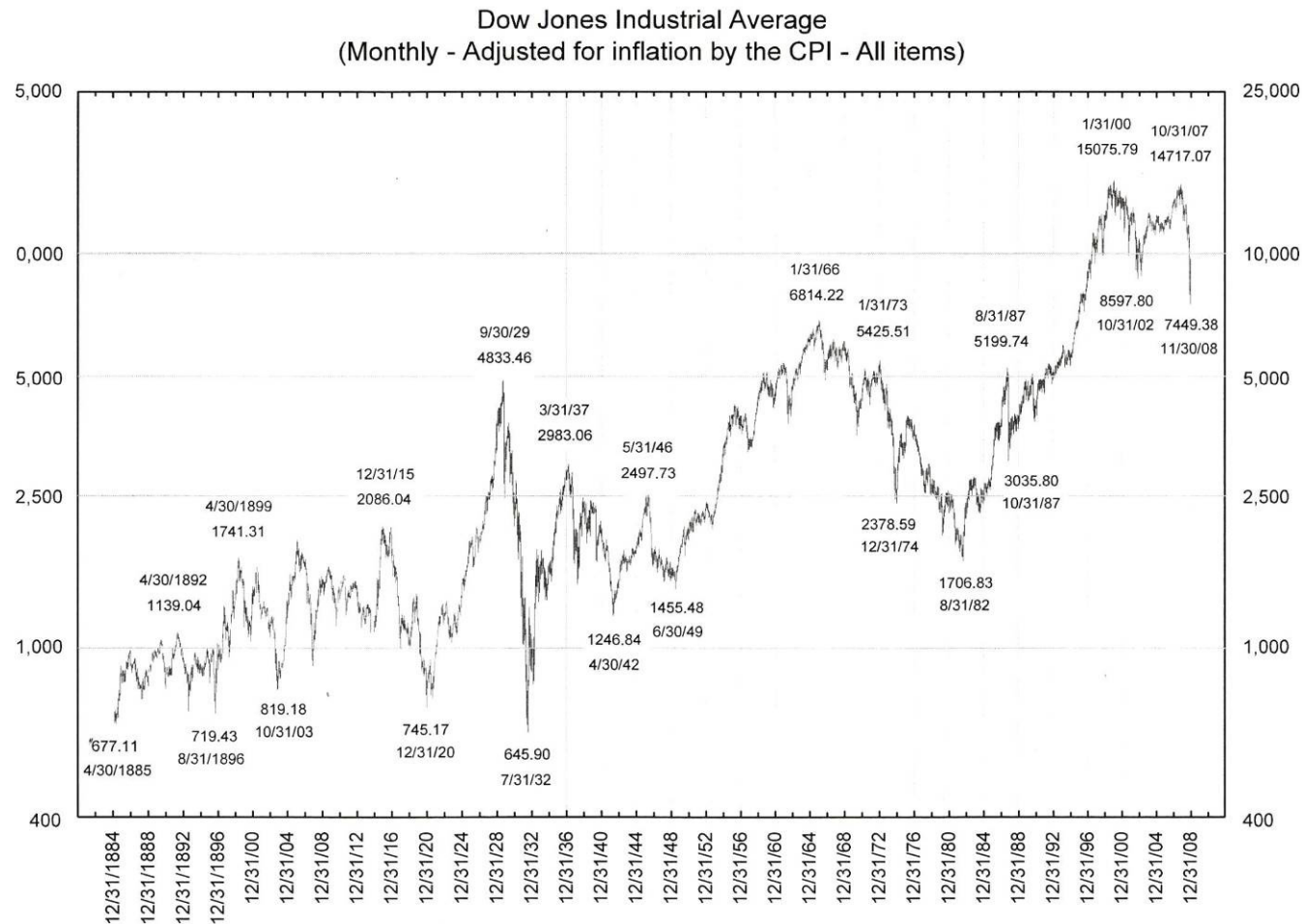


Since 1990, financial sector earnings up 5 times. Non-financial sector earnings up 100%

THE COMING COLLAPSE IN CAPITAL SPENDING



DOW JONES INDUSTRIAL AVERAGE MONTHLY – ADJUSTED FOR INFLATION BY THE CPI 1885-2008

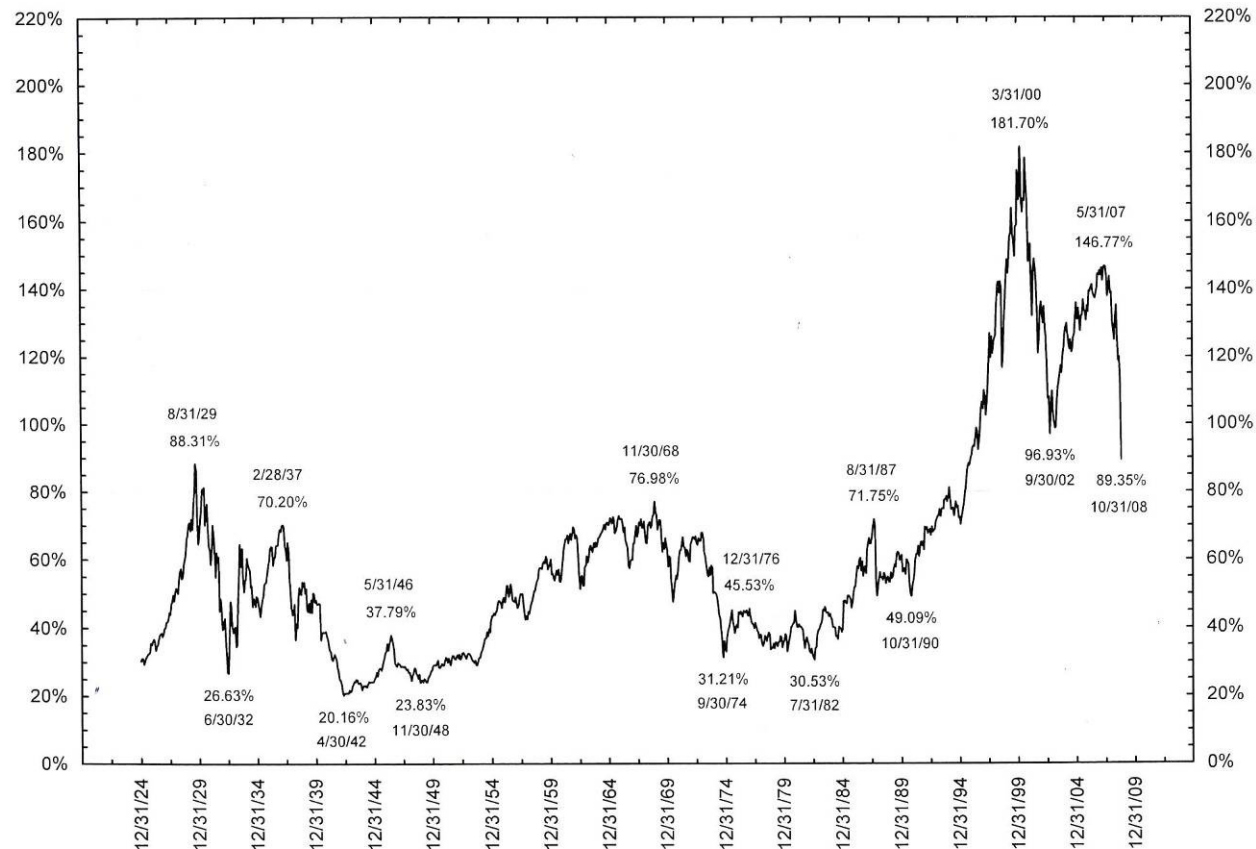


Source: Ron Griess, www.thechartstore.com

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MARKET CAPITALIZATION AS A PERCENTAGE OF NOMINAL GDP, 1924-2008

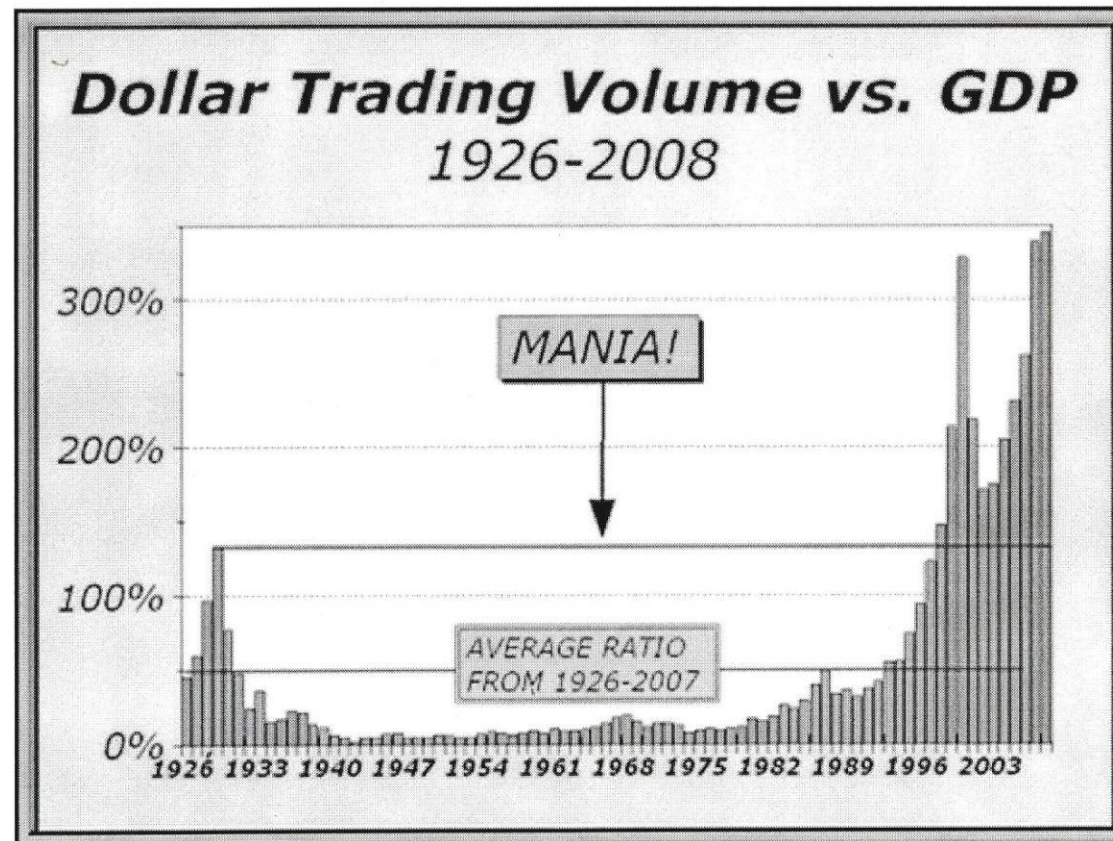
(NYSE from 1925) plus (NASDAQ from 1985)



Source: Ron Griess, www.thechartstore.com

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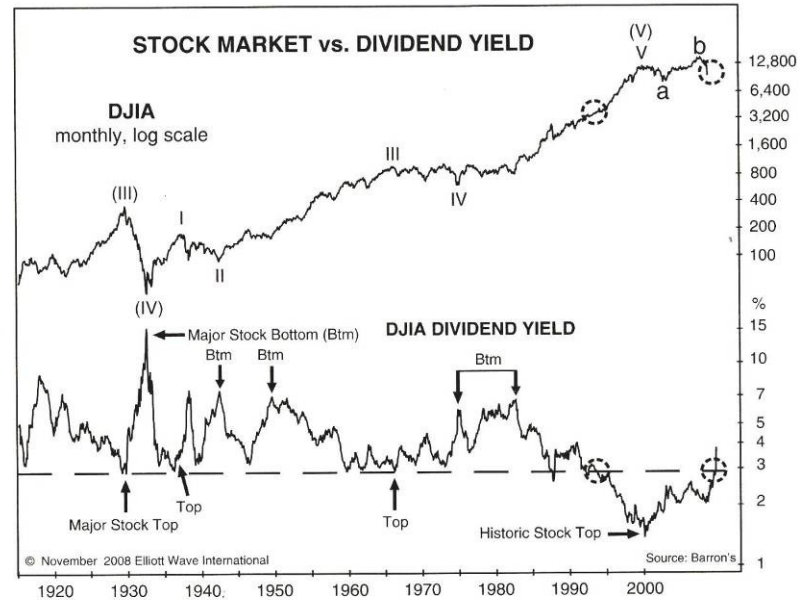
TOO MUCH SPECULATION



Source: Alan Newman, www.cross-current.net

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ARE U.S. STOCKS INEXPENSIVE?

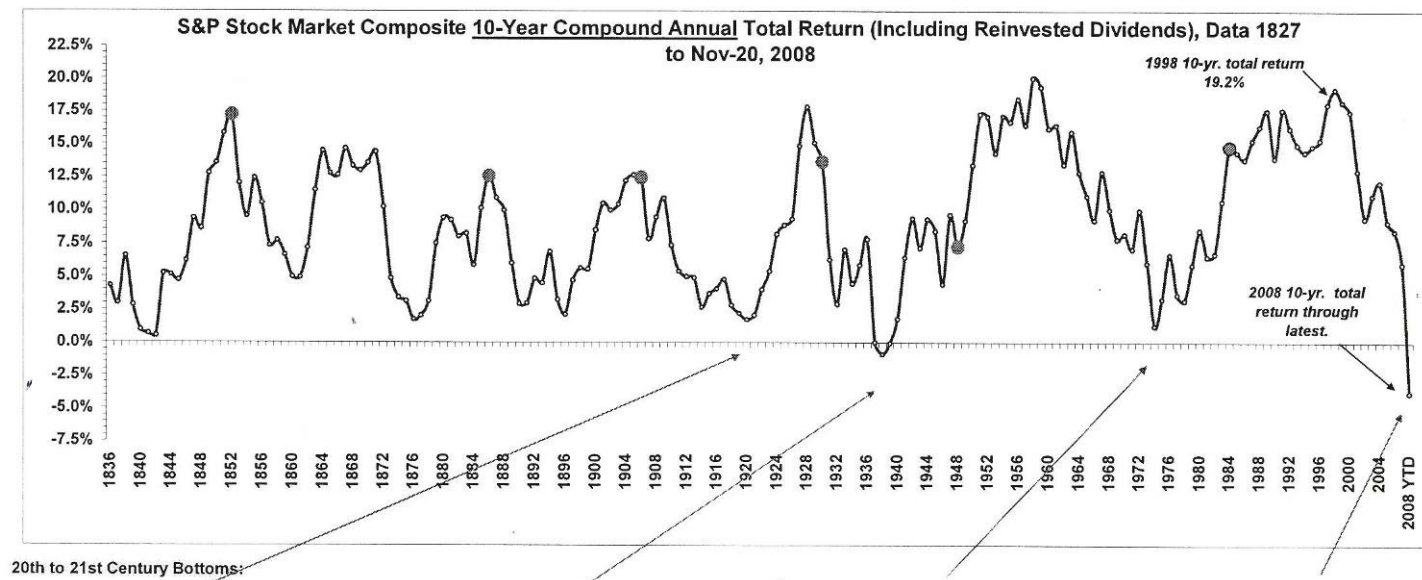


Source: www.elliottwave.com; Ed Yardeni, www.yardeni.com

www.gloomboomdoom.com

U.S. STOCK MARKET

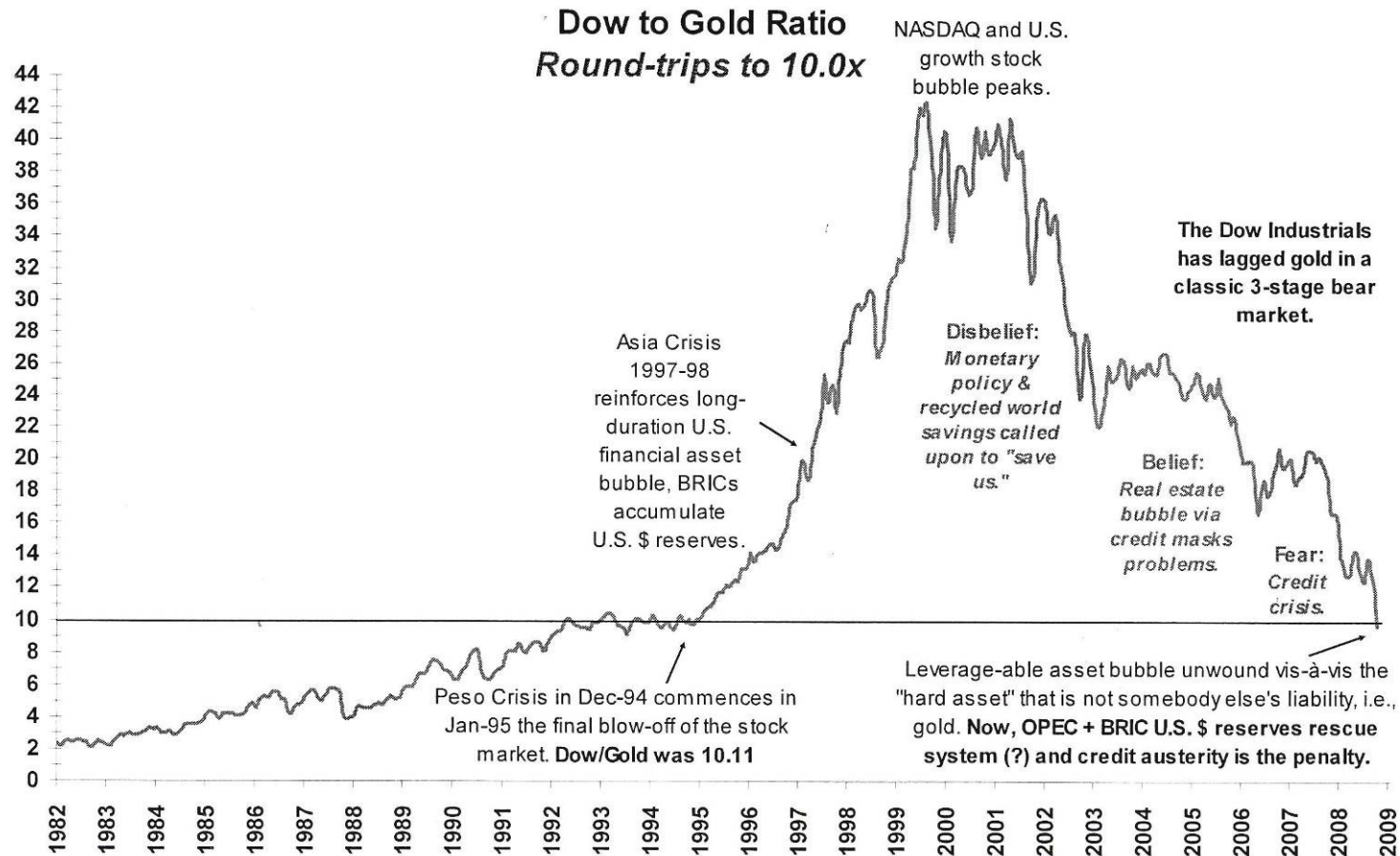
10-YEAR COMPOUND ANNUAL TOTAL RETURN



Source: Barry Bannister, Stifel Nicolaus

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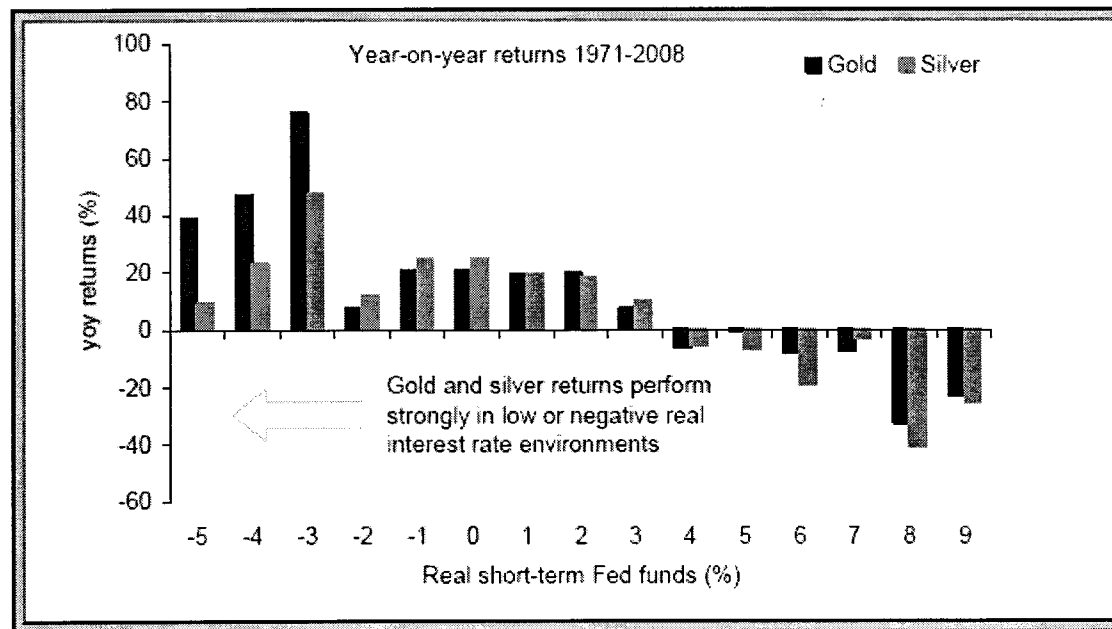
DOW TO GOLD RATIO, 1982-2008



Source: Barry Bannister, Stifel Nicolaus

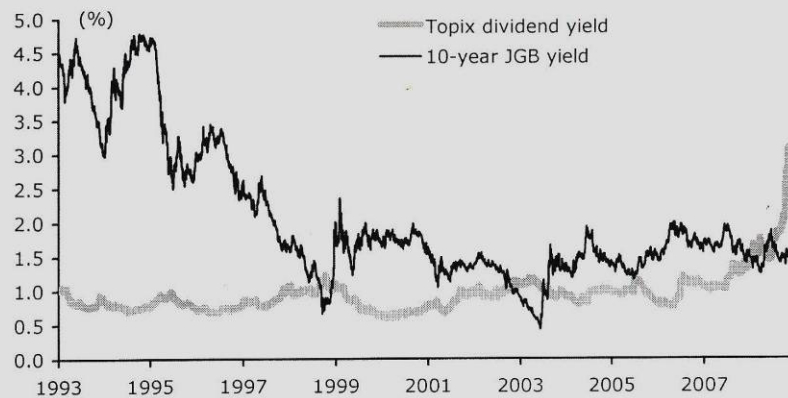
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GOLD AND SILVER RETURNS AMIDST NEGATIVE AND POSITIVE REAL INTEREST RATES

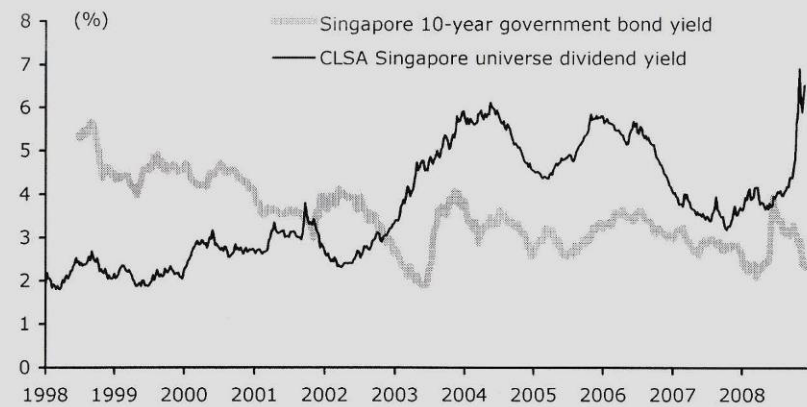


ASIA: HIGHER DIVIDEND YIELDS THAN BOND YIELDS

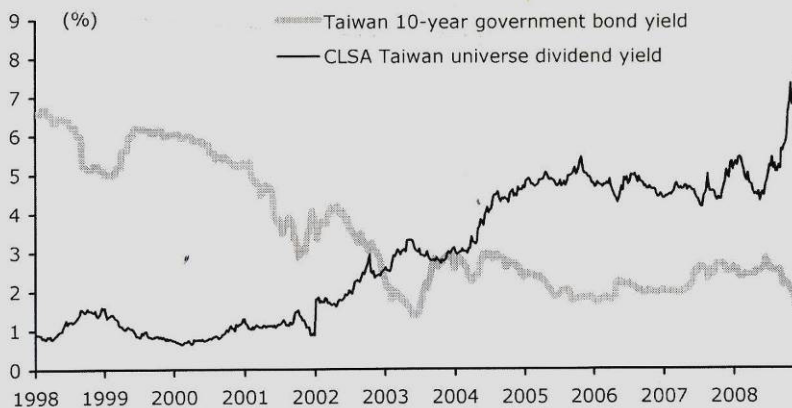
Topix dividend yield and 10-year JGB yield



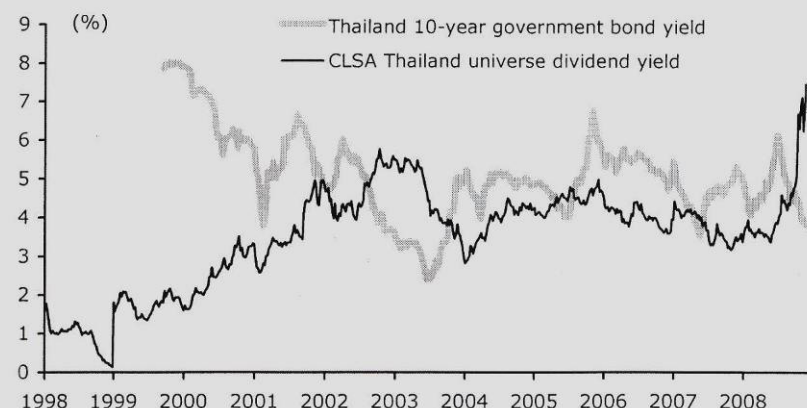
CLSA Singapore universe dividend yield and 10-year government bond yield



CLSA Taiwan universe dividend yield and 10-year government bond yield



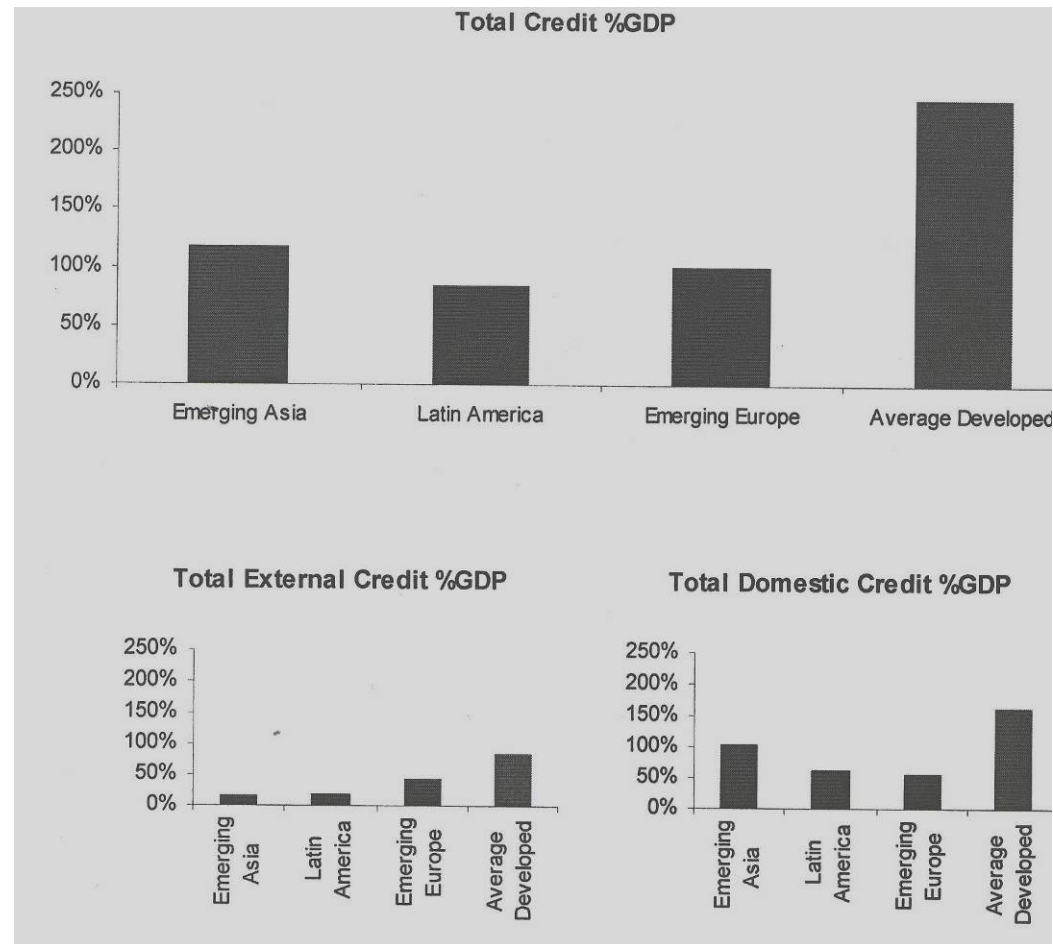
CLSA Thailand universe dividend yield and 10-year government bond yield



Source: Christopher Wood, CLSA

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CREDIT CONDITIONS IN EMERGING ECONOMIES RELATIVELY FAVOURABLE



Source: Bridgewater Associates

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INVESTMENT THEMES

Real Estate in Asia:	Avoid real estate in financial centers
Equities in Asia:	Many markets are at 20-year lows
Healthcare:	Pharmaceutical, hospital management companies
Local Brands:	May displace some international brands
Commodities:	Volatile, but upward trend. Corrections of 50% are common. Caution about industrial commodities is warranted
Tourism:	Hotels, casinos, beach resorts. Potential problem is oversupply
Financial Services:	Banks, insurance companies, brokers in emerging economies

Investment Themes cont'd.

Infrastructure: Bottlenecks everywhere. Potential problem could be cancellations

Plantations and Farmland: Indonesia, Malaysia, Latin America, Ukraine

Japan: Very depressed, banks look interesting

New Regions: Cambodia, Laos, Myanmar, Mongolia

Africa as a play on Asia

Gold and Silver: Long

US Government Bonds: Short

Corporate Bonds: Long

CONCLUSIONS

The current synchronized global economic boom and the universal asset bubble, which lasted between 2002 and 2007, has led to a colossal bust.

The wealth destruction arising from falling asset prices is unprecedented since the Second World War.

Expansionary monetary policies, which caused the current credit crisis in the first place, are the wrong medicine to solve the current problems. They can address the symptoms of excessive credit growth but not the cause. But what options does the Fed have with a total credit market debt to GDP of more than 350%?

Has the central banks' magic wand lost its power under excessive debt burdens?
Also, have central bankers become hostage to inflated asset markets?
Will tight money – when necessary – ever be implemented again?

In 2008 money became extremely tight even though central banks aggressively cut interest rates. It was not central banks that tightened monetary policies but the market participants: lenders curtailed the availability of credit through tightening credit standards and rising risk aversion by investors led to a collapse of credit growth.

As Ludwig von Mises observed, “the dearth of credit which marks the crisis is not caused by a contraction but by the abstention of further credit expansion.”

Rolling Inflation, Stagflation and Deflation may succeed each other in rapid sequence. In real terms, US equities would not seem to be attractive.

Secular uptrend in commodity prices is likely to continue once the global economy recovers.

When the global economy recovers, inflation and interest rates are likely to increase along with rising commodity prices.