

>: WARNING: Sober Up in '09 - Be Prepared For Decline!

Tuesday, January 6, 2009 / Chris Rowe

This article might make you filthy rich, or depress you. But you have GOT TO think about this like the smartest professional investors on earth do. The greatest investors and hedge fund managers are able to do what they do with little or zero emotion and that's what makes them that good. Here we go...

Let's not get too excited folks. The market, at best, is in the process of forming a bottom. That means we will most likely see another sell-off in the first quarter. I hate to rain on everyone's parade but I just want to be the one to sober you up when people are getting too comfortable. (Maybe you'll shout "boo!" now, but thank me later.)

PLEASE, don't criticize me when the market charges higher after I write this article (it's bound to happen).

"C'mon Chris, please don't tell me that NOW after this major sell-off, that you are getting bearish. Have you lost your mind?"

I'm not calling a short-term top here (as I have done in the past) because, as of now, the bulls are in control. But I'm just saying - we just entered a new year, we have a new president, the government (on your behalf) seems to be willing to jump in front of any bullet, and we just witnessed a stock market blood bath. So it's easy to believe the skies are bright. And for now (in the short-, or perhaps, intermediate-term), they do appear to be just that.

The market just took the sharpest ass whoopin since the Great Depression injected so much negativity into the market that it was hardly possible to be any more negative. I won't get into detail here, but you might check my Dec. 9 article ["Bear Rally: Is it for Real?"](#) where I talked about the market shrugging off bad news and rallying higher in the face of it all. That's a trend that has relentlessly continued.

The indicators I follow say there is probably a bit more upside to go, but with every percentage point the market trades higher, investors feel more confident and shrug off any bear market argument.

It's possible that we are, in fact, in the process of forming " *the bottom*

" but it's a long process. I can see a number of indications that this just might be it. You will continue to hear the experts make, what they view as, the safe call: Valuations are so low right now that if you're a buyer for the long-term, you can't go wrong here. Then they follow up with: Just be sure to only buy quality (do you ever purposely buy garbage?).

These comments are very dangerous and here's why - 90% of the people reading this article who have long-term minds also have short-term (intermediate-term at best) stomachs. Everyone believes they have stronger stomachs than they really do in rallies like the one we are looking at now. Many people are buying now, with a long-term outlook (because hey, "ya can't go wrong down here", right?) but if the market does turn around quickly, it will be quite nauseating. That opens you up for two pitfalls:

1. You get frightened out of the market in the next decline only to sell at the next bottom (which may be the same bottom we just bounced off of). Or..

2. You might hold on, believing in your bullish positions over the long-term, only to find that the market has more downside to go.

Therefore, you have to be willing to [buy deep in-the-money put options](#) when the bears do take control again. Please read the last sentence 5 times.

For 2009, you absolutely MUST be willing to hold both bullish as well as bearish positions in your portfolio simultaneously. Because there are some very valid arguments that say the Dow 30 can still drop another few thousand points over the long-term.

SHHHHHHHH! Chris, don't jinx it!

Ever since I started learning about financial markets, I've been taught that history repeats itself over and over again, that in every strong trending market (bull or bear) investors say, "This time, it's different" when in reality, that's just their emotions overtaking their logic and respect for stock market history. But we have to consider the idea that, relative to the past 3 or 4 decades, this time IS a little bit different. But if you trade both sides of the market you can still make a fortune!

These "low valuations" that you keep hearing the experts ranting about are relative to the mega-trend of the past few decades that we've gotten used to, but is ending before our very eyes.

We are entering a new world of higher taxes (you'll see, they will come) more regulation and significantly less leverage. We are used to a 30-40 year trend where corporate profits were largely a function of *cheap financing* and *high leverage*. But valuations should be viewed in the right context: In a global economy that is *deleveraging* (not leveraging). So XYZ stock that traded with a PE ratio (to give an easily digestible example) range between 6 and 30 times earnings over the

last 30 years might have a PE ratio of 9 right now. But that would mean something completely different in our new shy economy than it would in, say, the bold economy we knew in 2006.

The free trade mentality that we may have had just 12 months ago can't be used to support the growth rates of the future. You may have read a lot about the huge dangers of protectionism, like how the "[Smoot-Hawley Tariff Act](#)" (which raised tariffs, causing a global tariff war) pushed us deeper into the Great Depression. And then you probably heard the experts rebut that saying the U.S. won't make that same mistake.

But you'd be surprised at how governments or market experts make the same (or similar) mistakes over and over again. Mark Twain said: "*History doesn't repeat itself, but it rhymes*". It's disgraceful how some of the most powerful people in the world have such little respect for history.

Also, perhaps the U.S. won't repeat the mistakes made in the early '30s, but the new global powers have a stronger ability to trip the world up this time around.

If you don't think we are in danger of protectionism, then you don't think the governments, who have taken and are taking large stakes in companies within their countries will show favoritism to those companies that they now own. Do you think the U.S., who has taken stakes in the Big 3, for example, won't make it easier for them to make a profit instead of foreign car companies? What do you think happens when unemployment rises above 10%? Do you think it can get much higher? I do.

China has been motivating their state-owned companies to start acquiring their smaller private companies. They bailed out the top two airlines (state-owned airlines) and left the first private airline to halt operations. Basically, they are taking back control from private businesses. Clearly they are already showing favoritism of state-owned companies and we'll see how they react to our new global economy.

Don't even make me bring up the fact that we've been printing so much green paper here in the U.S. that we are bound to see huge inflation - not right away, but it's coming. This will prop up commodity prices and increase your bills, lowering the value of the U.S. dollar, the dollar that is becoming less and less attractive to foreigners.

I'm not here trying to say you have to get bearish immediately. I'm not even saying we aren't forming "the bottom". I'm just reminding you that the party may NOT be beginning just yet, so SOBER UP IN '09. We have to see a lot more proof from the market, and we just don't have enough facts in front of us yet aside from what I've mentioned above. Sure, the market could ignore any of the above for some time, but it probably can't do so for ever.

I will have people beating me up after reading this - I assure you. They beat me up when I recommended the Asian stocks and ETFs below too. If too many readers agreed with me, I would be frightened (as arrogant as that sounds - I'm not arrogant, it's just a fact). **Those stocks traded up 32.5% on average**, but I think over the next 10-15 years they trade up 1000%, or more, on average. Frankly, I didn't recommend them for intermediate-term trades,

| Stock or ETF | Date of rec. | Price | Today's Price | Gain |
|--------------------------------|--------------|----------|---------------|------|
| CNOOC (Sym: CEO) | 10/28/08 | \$56.00 | \$105.91 | 89% |
| PertoChina Company (Sym: PTR) | 10/28/08 | \$57.00 | \$98.64 | 73% |
| China Life Ins Co (Sym: LFC) | 10/28/08 | \$33.47 | \$48.55 | 45% |
| New Oriental Ed (Sym: EDU) | 11/18/08 | \$55.46 | \$55.38 | UNCH |
| American Dairy Inc. (Sym: ADY) | 11/18/08 | \$14.45 | \$14.68 | UNCH |
| Focus Media (Sym: FMCN) | 11/25/08 | \$6.90 | \$9.05 | 31% |
| Baidu (Sym: BIDU) | 11/25/08 | \$115.13 | \$137.97 | 20% |
| iShares Singapore (Sym: EWS) | 12/2/08 | \$6.18 | \$7.39 | 20% |
| iShares Hong Kong (Sym: EWH) | 12/2/08 | \$9.45 | \$10.77 | 14% |

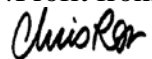
It's important to remember the key takeaway here...

Most investors have long-term brains but short-term stomachs and more often than not, the stomach controls our actions. So the best course of action for most of you will be to make long-term investments while

at the same time, employing a trading strategy that allows for hedging. I'm not dismissing the possibility that we are forming "THE BOTTOM" but that possibility, to me, is just as valid as the possibility that we break a new low.

But who am I to make that prediction. And frankly, I don't care - as long as you and I both profit from it.

?Profit from the Trend?



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