The Preoccupation with the Future frequently prevents us from seeing the Present as it is

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The Monthly Market Commentary Report

Disclaimer

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"Try to learn something about everything and everything about something."

T. H. Huxley

"Read, every day, something no one else is reading. Think, every day, something no one else is thinking. Do, every day, something no one else would be silly enough to do. It is bad for the mind to continually be part of unanimity."

Gotthold Ephraim Lessing

"If a little knowledge is dangerous, where is the man who has so much as to be out of danger?"

T. H. Huxley

"The real end of life is not knowledge but action."

T. H. Huxley

How is it that children are so intelligent and men so stupid? It must be education that does it.

Alexander Dumas

Nothing that is worth knowing can be taught.

Oscar Wilde

For 2012 - I wish my readers to "live so you are at ease, in harmony with the world, and full of joy" (Chuang-Tsu). I am fully aware that 'Old people' (like me!), "like to give good advice, as solace for no longer being able to provide bad examples" (La Rochefoucauld). Yet I wish my readers never forget to be "freethinkers…who who are willing to use their minds without prejudice and without fearing to understand things that clash with their customs, privileges, or beliefs. This state of mind is not common, but it is essential for right thinking; where it is absent, discussion is apt to become worse than useless" (Leo Nikolaevich Tolstoy). As an aside, I consider Tolstoy not only to having been a literary genius and a great thinker but also a non-violent and spiritual anarchist. About governments he wrote, "The misapprehension springs from the fact that the learned jurists, deceiving themselves as well as others, depict in their books an ideal of government - not as it really is, an assembly of men who oppress their fellow-citizens, but in accordance with the scientific postulate, as a body of men who act as the representatives of the rest of the nation. They have gone on repeating this to others so long that they have ended by believing it themselves, and they really seem to think that justice is one of the duties of governments. History, however, shows us that governments, as seen from the reign of Caesar to those of the two Napoleons and Prince Bismarck, are in their very essence a violation of justice; a man or a body of men having at command an army of trained soldiers, deluded creatures who are ready for any violence, and through whose agency they govern the State, will have no keen sense of the obligation of justice. Therefore governments will never consent to diminish the number of those well-trained and submissive servants, who constitute their power and influence." He also opined that, "Governments need armies to protect them against their enslaved and oppressed subjects" (nowadays in the US, we could add to 'armies' - the police force, the FBI, the CIA, Homeland Security, the Transportation Security Administration etc.).

Last month, I critically discussed the rising cost of education. Since then I had some more thoughts about education. My friend 'Mish' Shedlock (he drove me once from Madison to his house on the outskirt of Chicago) recently published on his blog (highly recommended) that, "Since 1985 college tuition has increased nationally by 498 percent compared with 115 percent for prices overall – an unsustainable bubble. Higher education commentators Andrew Hacker and Claudia Dreifus have commented that a large portion of this additional college tuition revenue is being funneled into athletics and not towards education. Over the same time the average compensation of **public college football coaches has increased 750 percent compared with 32 percent for professors**. The two colleges that will play for the BCS championship this season spend $1,320 per every member of the student body ($204,919 per player) to support the football programs. In the words of Dr. James J. Duderstadt, the former president of the University of Michigan, athletics 'has drifted so far from the educational purpose of the university. They exploit young people and prevent them from getting a legitimate college education. … We are supposed to be developing human potential, not making money on their backs.'"

Laeeth Isharc (laeeth@laeeth.com) recently sent me several articles about education. One of them by Lynn Parramore was entitled "When Cults Collide: How Big Sports and CEO Worship Threaten Societies" (www.alternet.org). Parramore discusses "**The Church of Football…..**The silence. The lack of accountability. The blind loyalty. The case of Penn State's Jerry Sandusky and similar horrors have shown us that under certain circumstances, **otherwise normal people will stand by in the face of crimes as heinous as systemic child abuse and child rape. How could it happen that a university would protect a football program over the lives of innocent children?** The real question is: How could it be otherwise? Big Sports in America, along with the corporate religion of CEO -worship that infuses it, exhibits cult-like features that make the tolerance of criminal activity something we should expect. When cults collide, conditions emerge that are poisonous to healthy, law-abiding, open societies…….. In his essay 'The Sporting Spirit' George Orwell outed the cult-like aspect of large-scale sports, which arose in the 19th century in England and the U.S. in a way the world had not seen since Roman times. He debunked the myth that serious sports was nothing more than good clean fun. Sure, it's possible to play harmless games, but when losing means shame for the whole group, barbaric instincts surface. The competition takes on the character of warfare, where winning is the virtue, and getting in the way of winning is the vice. Intense rivalries beget a culture of cheating. **Serious sports aren't about fair play, concludes Orwell, but rather 'hatred, jealousy, boastfulness, disregard of all rules and sadistic pleasure in witnessing violence: in other words it is war minus the shooting**.'

Along with the rise of nationalism, big time sports grew as heavily financed activities that could draw huge crowds and inspire extreme loyalty.

People learned to identify with larger power units and to view everything in terms of competitive clout. Organized games flourished in urban communities where workers lived sedentary and confined lives without much chance of creativity or physical release. Cursing the other team on game day was an outlet for pent-up sadistic impulses.

In *Understanding Power*, Noam Chomsky notes that large-scale sports encourages anti-social human psychology and passive acceptance of traits like aggression. 'It's hard to imagine anything,' he observes, 'that contributes more fundamentally to authoritarian attitudes than this does'…..

College sports mega-programs, like football and basketball, are not built to nurture good and useful citizens, but to produce athletes who can draw in money through ticket sales or athletic boosters. Many of the values that make people good citizens, like sympathy and mutual support, are antithetical to the goals of sports teams. Programs receive millions of dollars of public funds, very often at the expense of education. The norms and values of the cult and those that make for a healthy society diverge.

Cults share several tell-tale characteristics, such as ritualistic activities, active recruiting, promises of reward or fame for converts, expectations of sacrifice for the group, and threats of humiliation and punishment for lack of compliance. And they *always* have charismatic, authoritarian leaders……As the salaries of corporate CEOs began to skyrocket, other sectors of society felt obliged to keep up. **The position of university president came to look more like that of a private sector CEO: the priority was no longer education, but rather fund-raising, maintaining political influence, and channeling those quasi-religious elements believed to inhabit his corporate counterpart**. Once upon a time, internal candidates like provosts and deans were considered viable contenders for the job of president. But that changed as universities increasingly aped the practices of the corporate world. They wanted stars. And they were prepared to pay for them, right out of students' pockets.

The *New York Times* reports that over the 1999-2000 to 2009-10 decade, the average pay of university presidents at the 50 wealthiest universities increased by 75 percent, while the pay of professors rose only 14 percent. A recent report by the 'Chronicle of Higher Education' showed that by 2008, thirty private college and university presidents earned more than $1 million during the 2008 fiscal year. The late Bernard Lander, founder and president of

Touro College, topped the list, earning a jaw-dropping $4,786,830 in 2008 (including $4.2 million in retroactive pay and retirement benefits).
Lavish as their salaries may be, few college presidents can match the Big Sports coaches they 'employ.' In a time of tight budgets and instructional spending declines, the salaries of coaches have soared. In 2011, the average compensation for a major-college head coach is $1.47 million, a jump of nearly 55% in six seasons. In his first season as head football coach at Florida State, Jimbo Fisher enjoyed a $950,000 raise, bringing his salary to a hefty $2.8 million, which is nothing compared to Mack Brown, head coach of the University of Texas's Austin Longhorn football team, who pulls in $5 million.
School officials like to say that coach salaries come from TV, media and marketing contracts. Not so, reported USA Today: 80 - 95% of Division I-A athletic departments must draw on university or state funds or student fees to pay coaches.

William Lazonick, director of the University of Massachusetts Center for Industrial Competitiveness and president of the 'Academic-Industry Research Network, told AlterNet that such stratospheric salaries for leaders are detrimental: 'Whether in business corporations or universities, extraordinarily high pay for those at the top separates their interests from those of the people in the organizations that they are purportedly leading, and indeed these so-called leaders put in place administrative procedures to enhance and protect their personal interests'" (emphasis added).

Now we do not need to agree with everything Lynn Parramore writes, but clearly, as the cost of education has risen (not because of the salaries of professors), sport has drifted too far from the educational purpose of the university and in many cases – actually prevents young people from getting a legitimate college education at a reasonable cost. Richard Vedder asks, "Why Did 17 Million Students Go to College?" (www.chronicle.com/blogs). Vedder points out that, "over 317,000 waiters and waitresses have college degrees (over 8000 of them have doctoral or professional degrees), along with over 80,000 bartenders and over 18,000 *parking lot attendants.* All told, some 17,000,000 Americans with college degrees are doing jobs that the BLS says require less than the skill levels associated with a bachelor's degree" (see Table 1).

Table 1: 17 Million Americans with College Degrees are doing Jobs that require less than the skill Levels associated with a Bachelor's Degree

Occupation	Percent with at least Bachelor's	Number
Customer service representatives	21.62	482,784
Waiters and waitresses	13.40	317,759
Secretaries, except legal, medical, and executive	16.64	311,440
Executive secretaries and administrative assistants	16.64	248,131
Receptionists and information clerks	12.89	141,476
Laborers and freight, stock, and material movers, hand	5.07	118,441
Janitors and cleaners, except maids and housekeeping cleaners	5.01	107,457
Truck drivers, heavy and tractor-trailer	5.09	85,205
Bartenders	16.00	80,542
Carpenters	7.27	65,412
Food preparation workers	7.24	63,737
Amusement and recreation attendants	24.61	63,704
Landscaping and groundskeeping workers	6.77	62,414
Construction laborers	5.82	59,409
Telemarketers	15.85	54,713
Postal service mail carriers	13.95	49,452
Electrician	7.76	49,109
Hotel, motel, and resort desk clerks	16.14	37,156
Flight attendants	29.80	29,645
Parking lot attendants	13.74	18,749

Source: Bureau of Labor Statistics, Richard Vedder

Adds Vedder:

I have long been a proponent of Charles Murray's thesis that an increasing number of people attending college do not have the cognitive abilities or other attributes usually necessary for success at higher levels of leaning. As more and more try to attend colleges, either college degrees will be watered down (something already happening I suspect) or drop-out rates will rise.

The relentless claim of the Obama administration and others that having more college graduates is necessary for continued economic leadership is incompatible with this view. Putting issues of student abilities aside, the growing disconnect between labor market realities and the propaganda of higher-education apologists is causing more and more people to graduate and take menial jobs or no job at all. This is even true at the doctoral and professional level - there are 5,057 janitors in the U.S. with Ph.D.'s, other doctorates, or professional degrees.

This week an extraordinarily interesting new study was posted on the Web site of America's most prestigious economic-research organization, the National Bureau of Economic Research. Three highly regarded economists have produced "Estimating Marginal Returns to Education," Working Paper 16474 of the NBER. After very sophisticated and elaborate analysis, the authors conclude "In general, marginal and average returns to college are not the same."

In other words, even if on average, an investment in higher education yields a good, say 10 percent, rate of return, it does not follow that adding to existing investments will yield that return, partly for reasons outlined above. The authors (Pedro Carneiro, James Heckman, and Edward Vytlacil) make that point explicitly, stating "**Some marginal expansions of schooling produce gains that are well below average returns, in general agreement with the analysis of Charles Murray**."

Now it is true that college has a consumption as well as investment function. People often enjoy going to classes, just as they enjoy watching movies or taking trips. They love the socialization dimensions of schooling - particularly in this age of the country-clubization of American universities. They may improve their self-esteem by earning a college degree. Yet, at a time when resources are scarce - when American governments are running $1.3-trillion deficits - when we face huge unfunded liabilities associated with commitments made to our growing elderly population – Should, we be subsidizing increasingly problematic educational programs for students whose prior academic record would suggest little likelihood of academic - much less vocational - success? I think the American people understand - albeit dimly - the logic above. Increasingly, state governments are cutting back higher-education funding, thinking it is an activity that largely confers private benefits.

The pleas of university leaders and governmental officials for more and more college attendance appear to be increasingly costly and

unproductive forms of special pleading by a sector that abhors transparency and performance measures (emphasis added).

My interpretation of Table 1 is that, there are too many college graduates without, as Vedder writes, "the cognitive abilities or other attributes usually necessary for success at higher levels of leaning." At the same time, as Joel Kotkin (www.city-journal.org) explains in an article entitled - "Wanted: Blue Collar Workers" - the American industrial heartland may look to many, "like a place mired in the economic past - a place that, outcompeted by manufacturing countries around the world, has too little work to offer its residents. But things look very different to Karen Wright, the CEO of Ariel Corporation in Mount Vernon, Ohio. **Wright's biggest problem isn't a lack of work; it's a lack of skilled workers**. 'We have a very skilled workforce, but they are getting older,' says Wright - who employs 1,200 people at three Ohio factories. 'I don't know where we are going to find replacements'…….Driving **the skilled-labor shortage** is a remarkable resurgence in American manufacturing. Since 2009 - the number of job openings in manufacturing has been rising - with average annual earnings of $73,000, well above the average earnings in education, health services and many other fields, according to Bureau of Labor Statistics data. Production has been on the upswing for over 20 months- thanks to productivity improvements, the growth of export markets (especially China and Brazil) and the lower dollar, which makes American goods cheaper for foreign customers. Also, as wages have risen in developing countries - notably China - the production of goods for export to the United States has become less profitable, thereby creating an opening for American firms. The American Chamber of Commerce in Beijing expects China's 'low-wage advantage' to be all but gone within five years.

It's also true that American industry hasn't faded as much as you might think. Though industrial *employment* has certainly plummeted over the long term, economist Mark Perry notes that the U.S's share of the world's manufacturing output - as measured in dollars - has remained fairly stable over the last 20 years, at about one-fifth. **Indeed, U.S. factories produce twice what they did back in the 1970s, though productivity improvements mean that they do it with fewer employees**. The industrial resurgence comes with a price though: a soaring demand for skilled workers. Even as overall manufacturing employment has dropped, **employment in *high-skill* manufacturing professions has soared 37 percent since the early 1980s**, according to a New

York Federal Reserve study. These jobs can pay handsomely. An experienced machinist at Ariel Corporation earns over $75,000. Indeed a good wage in an area where you can buy a nice single-family house for less than $150,000.

A big reason for the demand is changes on the factory floor. At Ariel - Wright points out - the operator of a modern CNC (computer numerical control) machine, which programs repetitive tasks such as drilling, is running equipment that can cost over $5 million. A new hire in this position must have knowledge of programming, metallurgy, cutting-tool technology, geometry, drafting and engineering. Today's factory worker is less Joe Six-Pack and more Renaissance man.

So perhaps it isn't surprising that American employers are hard-pressed to find the skilled workers they need. Delore Zimmerman, the CEO of Praxis Strategy Group (for which I consult), observes that this shortage extends to virtually any industrial operation. In his hometown of Wishek, North Dakota, whose population is just 800, one company making farm machinery has 17 openings that it can't fill. **Skilled-labor shortages grip the whole of this energy-rich state**. Demand for skilled workers in the North Dakota oilfields—from petroleum engineers to roustabouts—exceeds supply by nearly 30 percent. The shortage of machinists is 10 percent.

The shortage of industrial skills points to a wide gap between the American education system and the demands of the world economy. For decades, Americans have been told that the future lies in high-end services- such as law, and 'creative' professions- such as software-writing and systems design. This has led many pundits to think that the only real way to improve opportunities for the country's middle class is to increase its access to higher education.

That attitude is a relic of the post–World War II era, a time when a college education almost guaranteed you a good job. These days, the returns on higher education, particularly on higher education gained outside the elite schools - are declining - as they have been for about a decade. Earnings for holders of four-year degrees have actually dropped over the past decade, according to the left-of-center Economic Policy Institute, which also predicts that the pattern will persist for the foreseeable future. **In 2008, more than one-third of college graduates worked at occupations such as waiting tables and manning cash registers, traditionally held by non–college graduates**. The reason for the low rewards is that many of the skills learned in college are now in oversupply. A recent study by the economic forecasting firm EMSI found that fewer computer programmers have jobs now than in 2008. Through 2016, EMSI estimates- the number of new graduates in the information field will be *three times* the number of job openings. There's a similar excess of many postgraduate skills. Take law, which flourished in a society that had easy access to credit. Now, with the economy tepid- law schools are churning out many more graduates than the market wants. Roughly 30 percent of those passing the bar exam aren't even working in the profession, according to a survey by the National Association for Law Placement. Another EMSI study indicates that last year - in New York State alone - the difference between the numbers of students graduating from law school and the number of jobs waiting for them - was a whopping 7,000.

The oversupply of college-educated workers is especially striking when you contrast it with the growing shortage of skilled manufacturing workers. A 2005 study by Deloitte Consulting found that 80 percent of manufacturer's expected a shortage of skilled production workers- more than twice the percentage that expected a lack of scientists and engineers and five times the percentage that expected a lack of managerial and administration workers. 'We don't just need people - we need people who can meet our standards,' worries Patrick Gibson- a senior manufacturing executive at Boeing's plant in Heath, Ohio.

Some of Gibson's fellow manufacturers blame the shortage of skilled workers on the decline of vocational education, which has been taking place for two decades now. Such training is unpopular for several reasons. For one thing, many working-class and minority children were once steered into vocational programs even if they had aptitude for other things - an unfair practice that many people haven't forgotten. Today's young people- moreover, tend to regard craft work—plumbing, masonry and carpentry for instance - as unfashionable and dead-end. No doubt! They've been instructed to aspire for college. '**People go to college not because they want to – but, because their parents tell them that's the thing to do**,' says Jeff Kirk, manager of human relations at Kaiser Aluminum's plant in Heath, Ohio. 'Kids need to become aware of the reality that much of what they learn in school is not really needed in the workplace. **They don't realize a pipe fitter makes three times as much as a social worker**.'

Fortunately, there are signs that some schools are getting that message and passing it along to their students. Tennessee - like Texas, a growth-oriented state - has developed 27 publicly funded 'technical centers' that teach skills in just months and carry a far lower price tag than a conventional college does. Two-year colleges will be crucial to the effort to train skilled workers. One of these schools- Central Ohio Technical College, has recently expanded by 70 welding students and 50 aspiring machinists per year.

I apologize to my readers who were bored by my expose about education and who question what education has to do with the investment markets. For one, there is among some economist - the notion - that suggests that there will be a huge industrial revival in the US. I have my doubts because as we explained above, there is a skilled labor shortage which I do not believe will just go away. The problem - as I see it, is that we Western economies have become spoilt and entitlement driven societies in which only very few people are interested in unglamorous jobs such as working with or servicing highly sophisticated machines on factory floors, which are required for the efficient production of goods. So when I read that Central Ohio Technical College has recently expanded by 70 welding students and 50 aspiring machinists per year, I am simply thinking about how much - technical schools in China, India and other emerging economies have expanded over the same time. In addition, on my journeys to emerging economies I see regularly Chinese, Korean and Philippine workers building bridges, dams, railroads, mines, water treatment plants etc. By contrast, most of Western young people I observe in the same countries are working for mostly useless NGOs, charities, churches, missions etc. They attend boring parties at Embassies and drive in large Range Rovers but actually do preciously little to improve the lives of the poor people. Consequently, I find it hard to believe that there will be a huge surge in manufacturing in the US (and for that matter in some southern European countries) for the simple reason that many industries are not only running out of people with the proper skills but also out of patience with the government's increasing regulations (health care) and taxes. As an aside, Jean M. Twenge and W. Keith Campbell explain in "The Narcissism Epidemic: Living in the Age of Entitlement" (available on Amazon.com) that the US suffers from a relentless rise of narcissism, which amounts to a very positive and inflated view of self. Narcissists believe they are better than others, lack emotionally warm and caring relationship, constantly seek attention and treasure material wealth and physical appearance. The authors consider narcissism as destructive and corrosive to society.

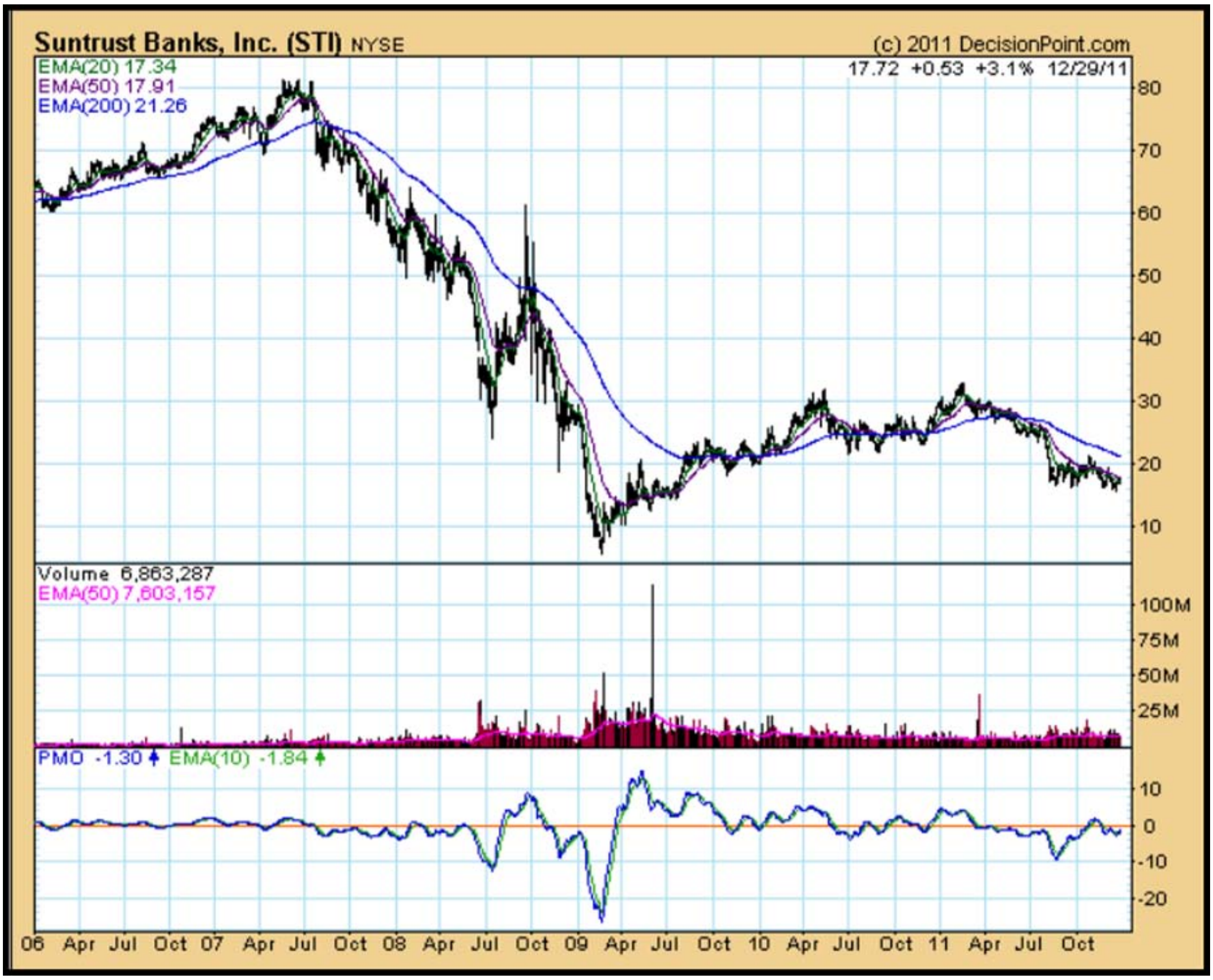
The last point I wanted to make about education is that I regularly receive emails asking me for advice about how to enter the financial sector after having worked in other sectors of the economy. I take a very negative view of the prospects of the financial sector and I believe that employment in finance and related sectors will decline by around 30% or even more (see Figure 1).

Figure 1: S&P Banks Select Industry Index ETF, 2006 – 2011

Source: www.decisionpoint.com

I am not implying that financial stocks will collapse but that employment in the financial sector as well as compensation will decline because of lay-offs, lower profits and further consolidation within the industry. I assume that a large number of regional banks will in time be acquired by larger financial institutions. Banks such as BB&T (BBT), Regions Financial Corp (RF), Southern Missouri Bancorp (SMBC) and Sun Trust (STI) are all acquisition candidates with some significant speculative upside potential (see Figure 2).

Figure 2: Suntrust Banks, 2006 - 2011



Source: www.decisionpoint.com

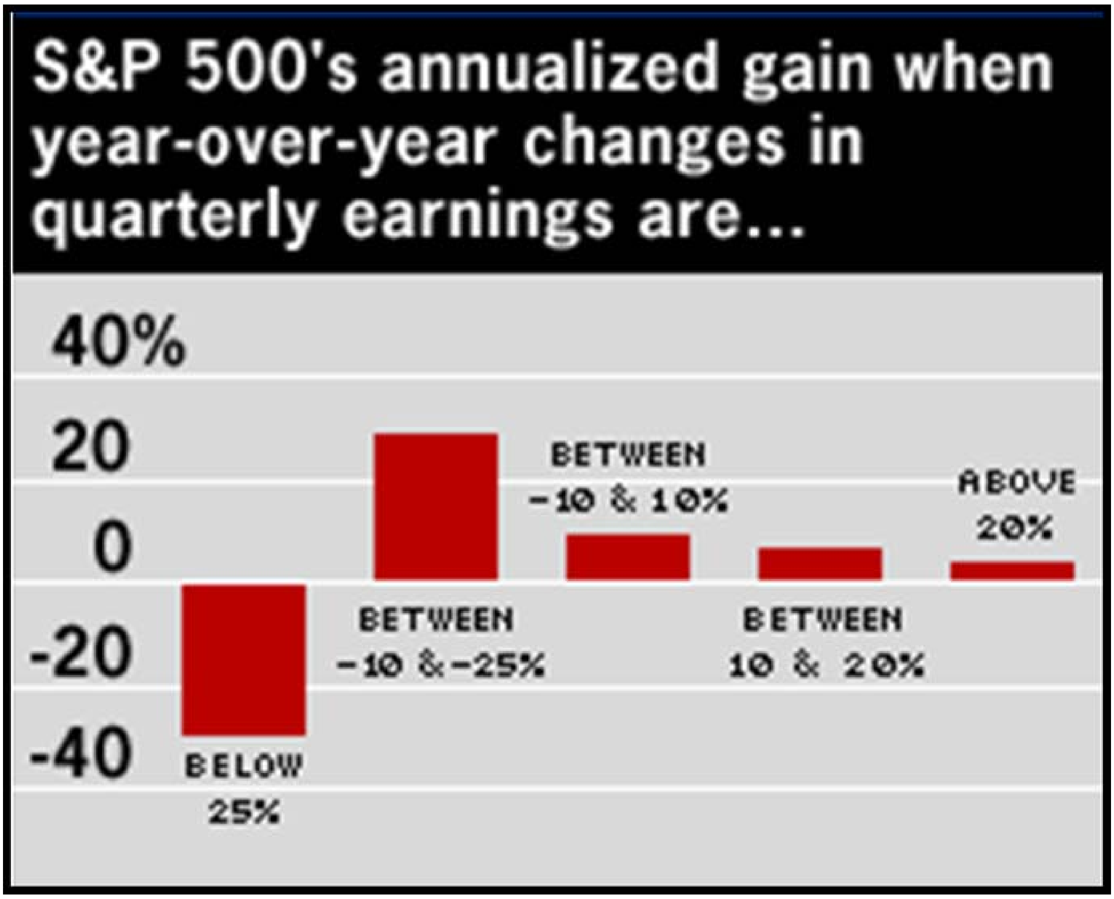
My friend Dennis Gartman who publishes a very informative daily economic and financial report recently wrote that,

The more we find out about the balance sheets of America, the more positive we become bullish. What has our interest at the moment is the huge move on the part of "small cap" American to buy its own shares back. This is normally what "Big Cap" America does. "Big Cap" America has tended to be far more amendable and far more active in buying in its shares than "Small Cap." Small Cap American companies tend, if they are growing, to use what capital then can for expansion, for inventories, for new employees et al. But in the present environment, with likely few if any new employees to be added until after next year's election given the impact of Obama Care, small cap America is using what cash it has on buying back its own shares. We are told, for example, that the companies of the Russell 2000 have $168 billion of cash on hand… this according to JPMorgan. This is the largest holding of cash on the part of this cohort of American business in history, with likely no intention on the part of the treasurers of those companies to deploy that cash in plant, equipment, and/or labour. Further, JPMorgan tells us that in the 3rd quarter, 39% of the companies in the Russell bought back some of their shares, buying in just under $8 billion of shares or nearly 1% of their combined market capitalization. This we find astonishing really, for the 39% number was itself shocking, but the 1% of capital was even more so. JPMorgan says that these are the largest figures they've ever compiled. What is interesting is that the pace of these buybacks is accelerating rather than decelerating. More than 100 of the Russell-listed companies announced buy-back programs in October and November, taking perhaps up to $6 billion out of the market.

I should add that overseas, the corporate sector has also added to its cash hoard. According to Allen & Overy, "Large listed companies in Singapore have been hoarding cash at the fastest rates in the last 2 yrs. Singapore corporation's cash balances reached USD 59.55bn +34% year-on-year, and +72% in the last two years." A&O "expect much of what M&A there is next year to be driven by well-cashed companies looking to make opportunistic or strategic acquisitions".

My regular readers know that I have a very cautious view about the future. The Chinese slowdown (crashing property prices) is now evident, geopolitical tensions in the Middle East are increasing and corporate profits - while unlikely to collapse - are likely to disappoint. However, as Mark Hulbert pointed out - small declines in corporate profits do not necessarily imply declining stock prices (see Figure 3).

Figure 3: Moderate Declines in Corporate Profits are Positive for Equities.



Source: Ned Davis Research, Mark Hulbert

According to Hulbert, "Faster earnings growth puts more pressure on the Federal Reserve to raise interest rates. And in a head-to-head contest over which factor has greater impact on the stock market, interest rates usually trump earnings growth.

Consider data compiled by Ned Davis Research. Over the past 80 years, faster earnings growth has reliably been accompanied by a more sluggish market - except when earnings were falling out of bed and were more than 25% below year-earlier levels. Another way of understanding the finding from Ned Davis Research is to think of the roles that earnings growth and interest rates play throughout the economic cycle. When the economy is just emerging from a recession - quarterly earnings often will be well below those of a year earlier. But the stock market - as a discounting mechanism - senses that earnings are about to start growing again. Even better, there will be no pressure on the Fed to raise interest rates since the economy is only emerging from a recession. This combination of imminent earnings growth and no interest rate pressure proves to be a powerful tonic for the market. **This explains why, according to Ned Davis Research, the highest average stock market returns since 1924 were registered in quarters in which quarterly earnings were between 10% and 25% below year-earlier levels. During all such quarters over the last 80 years, the S&P 500 produced an average annualized gain of more than 28%"** (emphasis added).

I concede that in the past corporate earnings decline were accompanied by interest rate cuts whereas now further interest rate cuts in the US are - unlike in emerging economies - impossible. Still, monetization (QE3) is a distinct possibility and would likely support equity prices. Moreover, in a number of cases- equities have a far higher dividend yield than government bonds. Therefore, investor are paid to be patient even if dividends are cut somewhat (see Table 2).

Table 2: Dividend Yield on Selected Singapore REITs

Ticker	CS's S-REITs universe	Price (S$)	Rating	TP (S$)	Up/dn %	Mkt cap (S$ mn)	Yield T+1	Yield T+2	Yield T+3	ROE (%)	P/B (x)	Debt/ asset (%)
CT SP	CapitaMall Trust	1.78	O	2.22	25	5,911	5.3	5.9	6.3	5.35	1.10	38.4
MCT SP	Mapletree Commercial Trust	0.86	O	1.07	25	1,594	5.9	6.9	7.2	4.26	0.91	38.5
FCT SP	Frasers Centrepoint Trust	1.46	O	1.90	31	1,198	6.2	6.5	6.9	5.23	1.03	31.3
CCT SP	CapitaCommercial Trust	1.06	O	1.33	25	3,003	6.8	7.1	7.4	4.18	0.69	27.4
SUN SP	Suntec REIT	1.13	U	1.10	-3	2,514	8.5	7.8	7.7	4.52	0.62	39.9
KREIT SP	K-REIT Asia	0.87	O	1.16	34	2,181	8.0	8.3	8.3	1.31	0.69	39.8
AREIT SP	Ascendas REIT	1.96	U	1.99	2	4,084	6.7	6.8	7.0	7.10	1.04	31.5
MLT SP	Mapletree Logistics Trust	0.83	O	1.10	33	2,002	10.0	8.1	8.2	6.28	0.94	41.3
MINT SP	Mapletree Industrial Trust	1.09	N	1.22	12	1,775	7.3	7.8	8.1	5.58	1.11	39.2
ART SP	Ascott REIT	1.00	N	1.18	18	1,130	7.8	8.2	8.1	4.40	0.74	41.1
CDREIT SP	CDL Hospitality Trusts	1.51	O	2.00	32	1,453	7.6	7.8	8.0	7.17	0.96	26.5

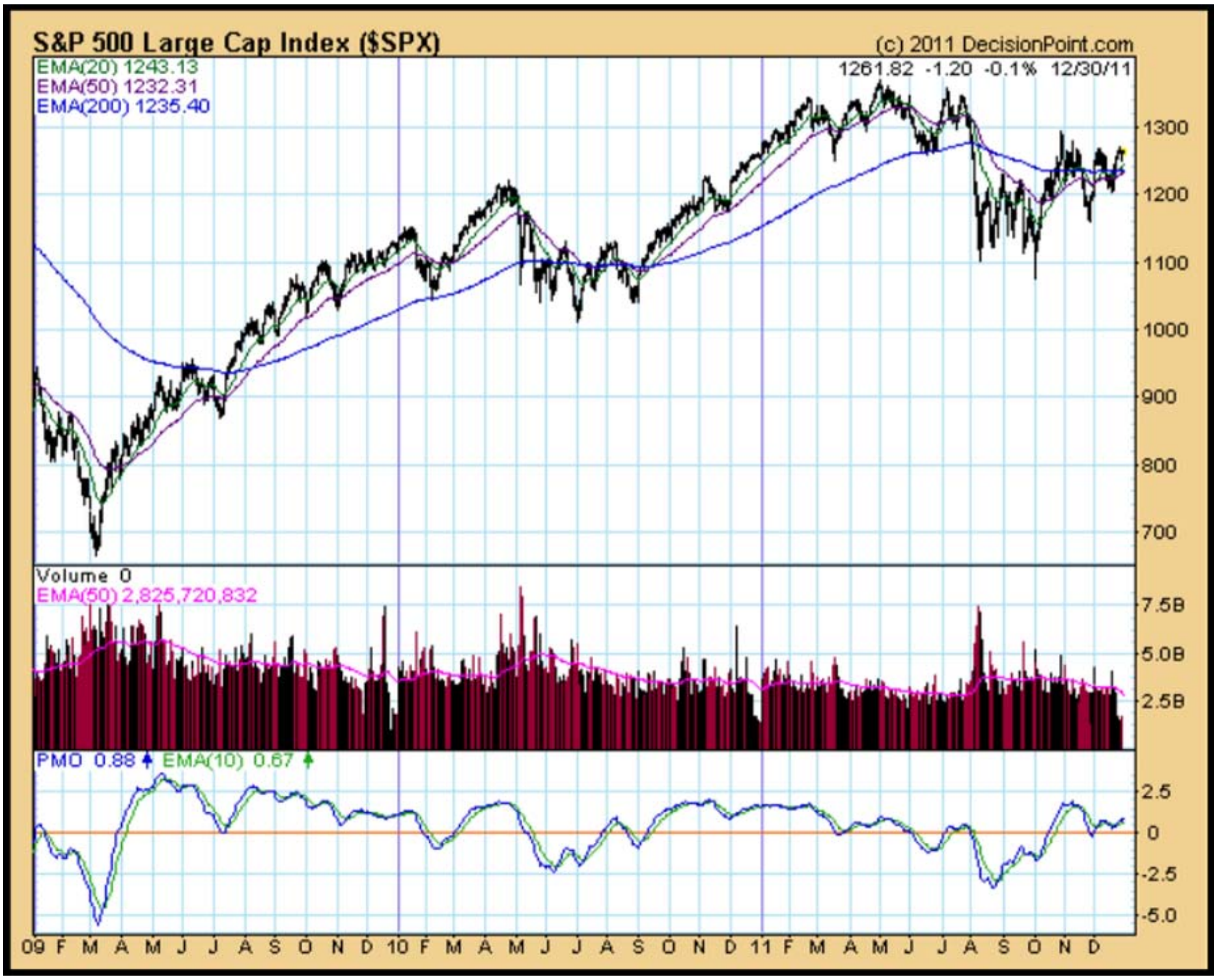
Note: O = Outperform, N = Neutral, U = Underperform. Source: Company data, Credit Suisse estimates

Source: Credit Suisse

I do not wish to convey the impression that I am particularly positive about the outlook for equities. But given the low level of interest rates and further monetary easing **everywhere** in the world - I do not expect an implosion in equity prices in the foreseeable future. Michael Kahn, technical analyst at

Barrons.com and with whose view I currently tend to agree, believes that stock markets could first head lower because for the S&P 500 - "the bull market from the March 2009 low ended last July when its major trendline was broken to the downside" (see Figure 4).

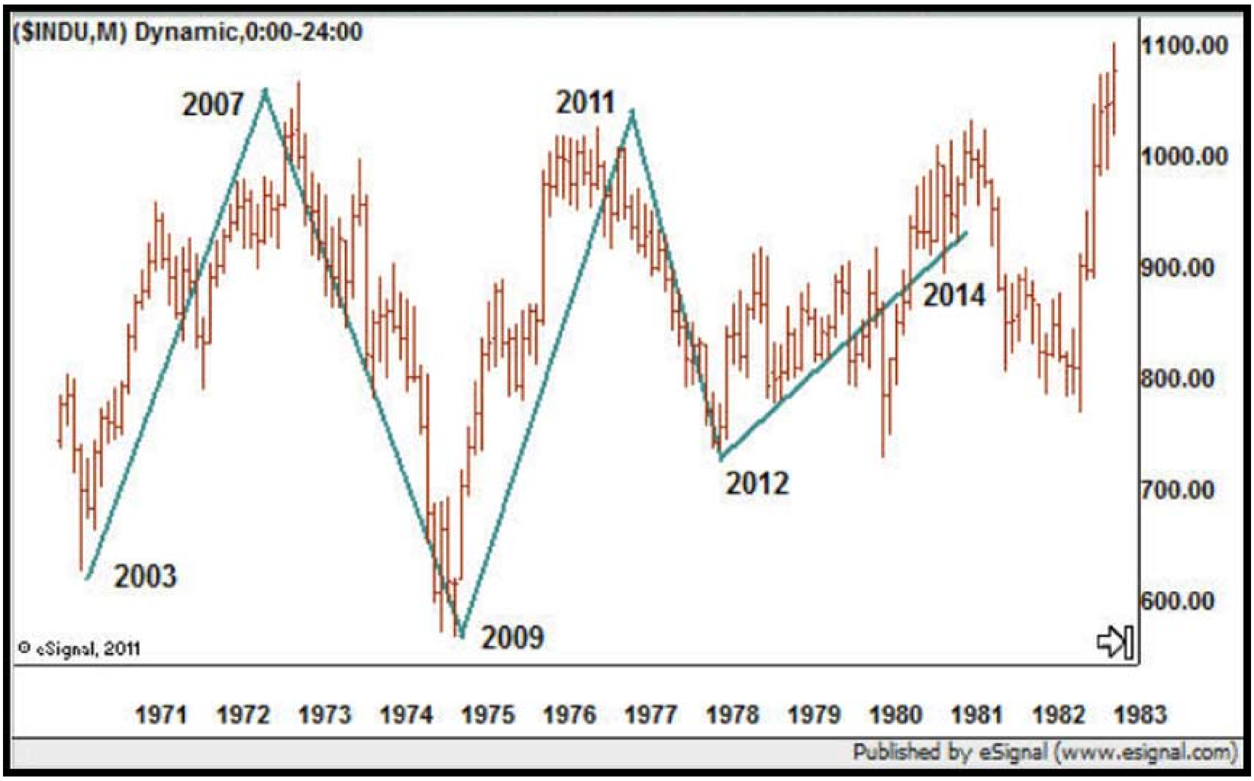
Figure 4: S&P 500, 2009 – 2011



Source: www.decisionpoint.com

Kahn argues that, "Comparisons of the current decade have been made to both the 1970s and the 1930s. While economic conditions may be more similar to the latter, price action - in my view - is more closely aligned with the former. This conclusion is partly based on the analysis pioneered by George Lindsay - a technical analyst in the late 1960s - as introduced to me by Ed Carlson, of Seattle Technical Advisors. Carlson is a recognized expert on Lindsay's work. Lindsay is better known for his 'three peaks and a domed house' pattern but he also studied the relation between price and time. It is this latter work, on which Carlson's views are based. Although my interpretation of some of the details varies somewhat from Carlson's, we both agree on the market's upcoming twists and turns. The next chart overlays the Dow Jones Industrial Average in the 1970s with my view of the current market's theoretical path" (see Figure 5).

Figure 5: Comparing Current Stock Market to the 1970s



Source: Michael Kahn, www.Barrons.com

According to Kahn, Figure 5 shows that "the 2009 low lines up with the end of the grueling bear market in 1974. The 2011 high lines up with the 1976 high. And if the pattern holds true, a 2012 low lines up with the 1978 low. That latter ended a 27% decline and I am looking for something similar when all is said and done. To be sure, the Dow could fall to 9,000 next year, which is considerably lower than the 10,404 hit earlier this year, but that's nothing close to the Dow's 2009 low of 6,470. But sometime in the middle of next year, **a great new buying opportunity** should arise" (emphasis added). I am not as bearish as Michael Kahn though. I believe the S&P 500 made a major low on October 4, 2011 at 1074 (see Figure 4). Strong support exists for the S&P 500 between 1,100 and 1,150 and should the S&P drop by 100 points or so in the early part of 2012 - QE3 would almost become a certainty. More so, many large market capitalization stocks appear to have formed long-term base formations (see Figure 6).

Figure 6: Wal-Mart, 1997 - 2011

Source: www.decisionpoint.com

Equally, I am not quite as positive as Micheal Kahn is. As I have argued since May 2011 - it will be difficult for the S&P to overcome heavy resistance between 1,300 and 1,350 (see Figure 4). Moreover, I am concerned that there are still many stocks that are breaking down and approaching their 2009 lows (see Figure 7).

Figure 7: Sears, 2003 - 2011

Source: www.decisionpoint.com

Also, there's one issue which I am struggling with. In 2011, the US stock market vastly outperformed emerging stock markets (see Figure 8). I have argued in recent comments that this outperformance would persist in 2012.

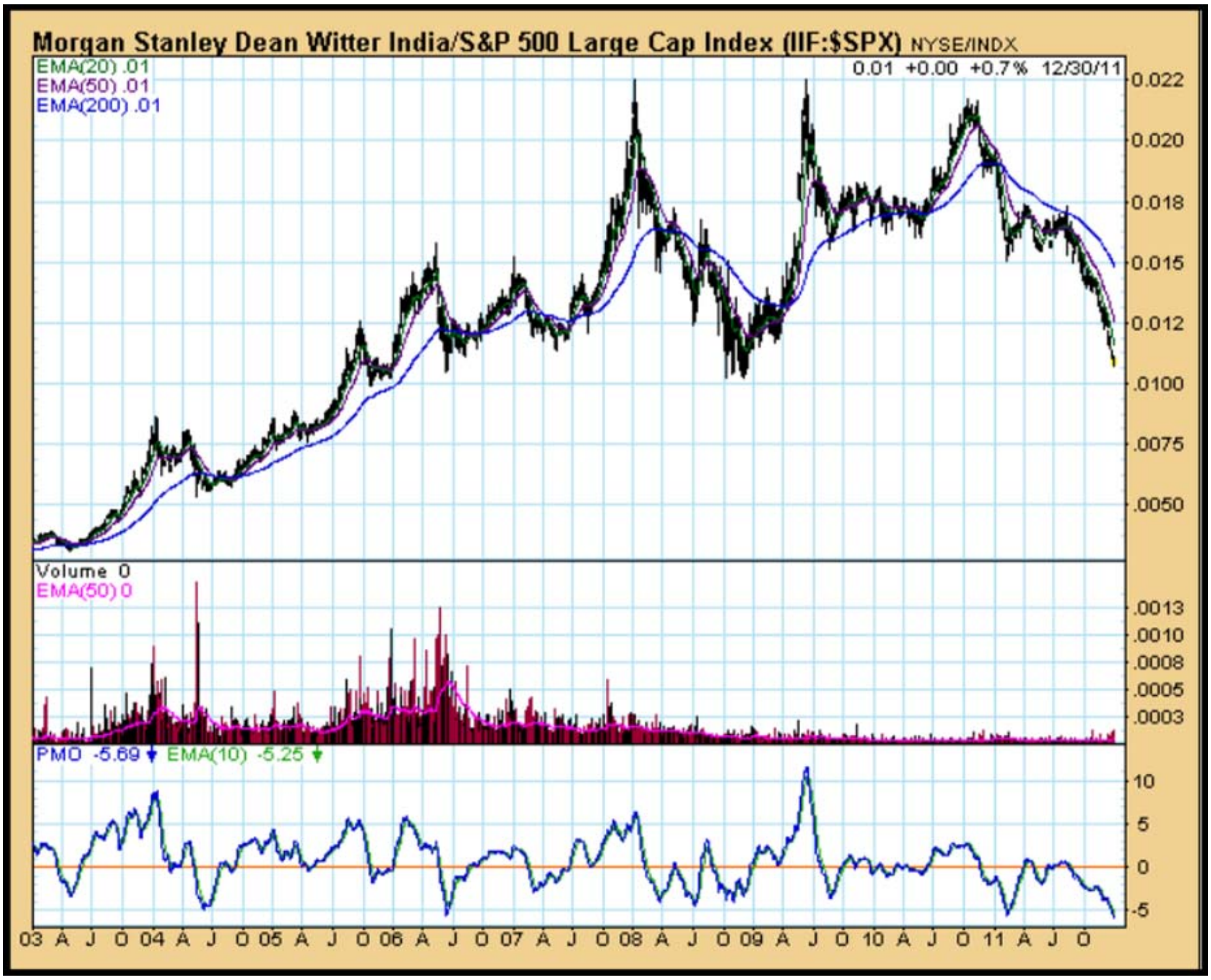
Figure 8: S&P 500 Compared to Emerging Markets, 2010 – 2011

Source: www.decisionpoint.com

However, when I read Michael Kahn's comments - I could make the case that in emerging markets the 2009 low equates the 1974 low. The highs we saw between the end of 2010 and May 2011 equate the 1976 high. Now, as we are entering 2012 we are approaching a major low, as was the case in 1978 (see Figure 5).

I therefore, suggest investors should consider increasing their emerging market exposure in the first quarter of 2012. Take as an example India. The Indian stock market 2011 underperformance is approaching the 2008 underperformance, which led to a significant low in late 2008/early 2009 (see Figure 9).

Figure 9: Morgan Stanley India Fund Compared to S&P 500, 2003 - 2011



Source: www.decisionpoint.com

My friend Heinz Blasnik (an economist with a deep knowledge of Austrian economics - www.acting-man.com) recently made some observations concerning the price of gold (see Figure 10).

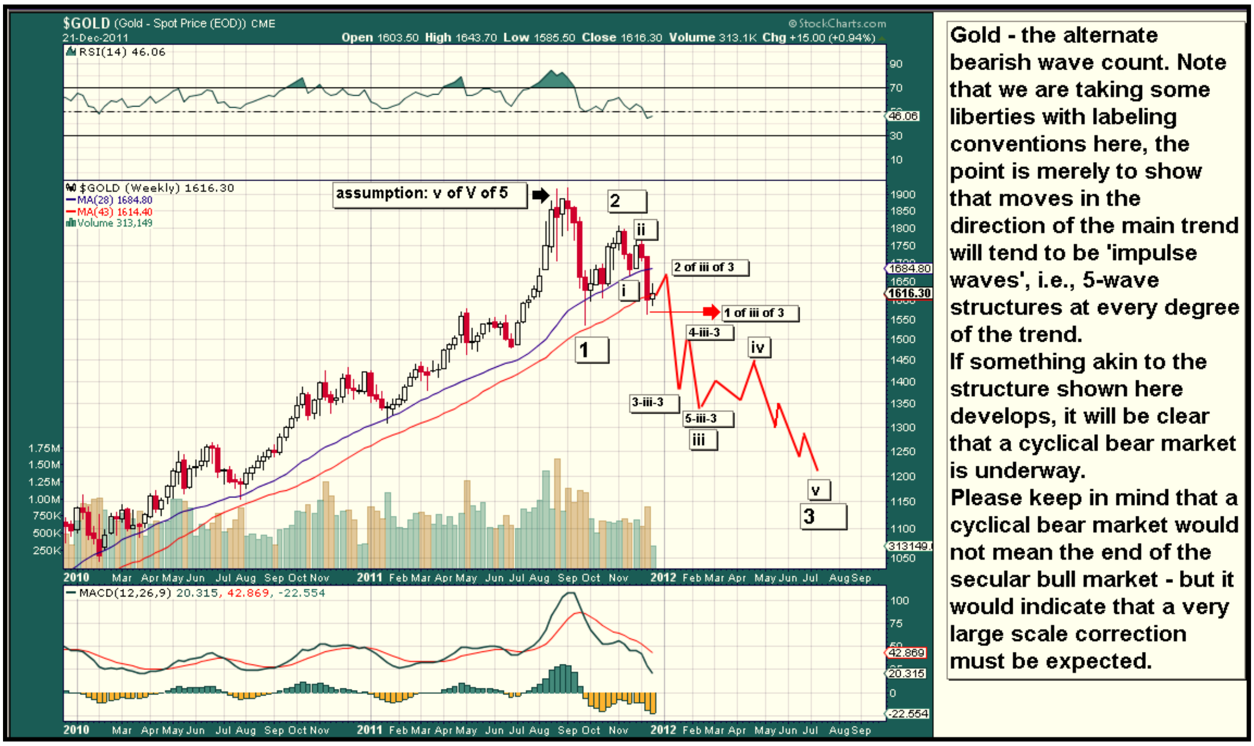
Figure 10: Gold: The Positive Wave Count

Source: Heinz Blasnik, www.acting-man.com

According to this "bullish wave count", gold should bottom in the next two months (I suppose between $1,400 and $1,500).

Blasnik also created a bearish alternative wave count. According to him, the shape of the decline is important. If it becomes impulsive as depicted in Figure 11, "then it would likely indicate a beginning cyclical bear market (however, I doubt the secular bull market would be over if that happened and **I assign a very low probability to this scenario due to both the fundamental and the sentiment backdrop**)." Adds Blasnik: "Now, fundamentals for gold look great: negative real interest rates, US true money supply growing at 15.4% year-on-year at last count (end November), credit spreads widening, inflation expectations low but turning up, euro area money supply poised to grow faster following the ECB's liquidity pumping measures, US yield curve still steep in spite of Operation Twist, federal deficit still growing by leaps and bounds and 'QE3' waiting in the wings. The sentiment picture looks consistent with a low of at least medium term significance being close: public opinion on silver is below its 2008 low, public opinion on gold just a tad above (the 'public opinion' charts are an amalgamation of various sentiment surveys).The Rydex precious metals fund's assets and cumulative cash inflows sit at a multi-year low and CEF (a closed end bullion fund) trades at a rare discount to its NAV.”

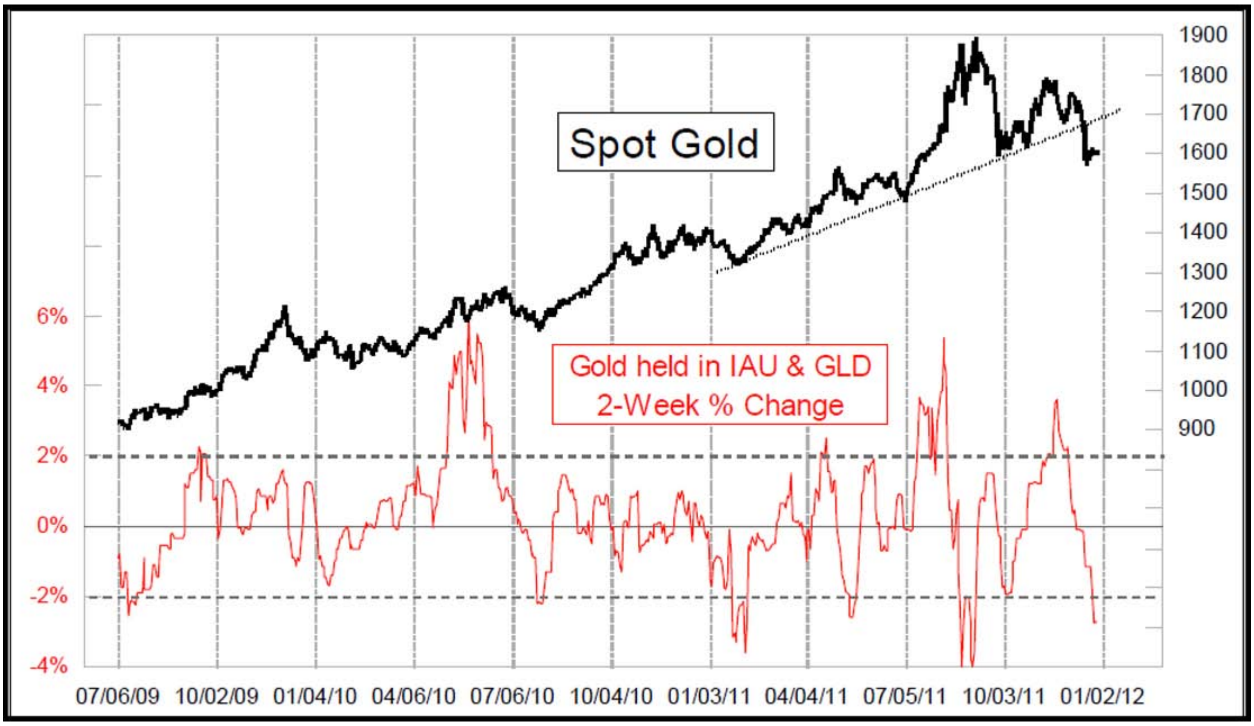
Figure 11: Gold: The Alternate Bearish Wave Count



Source: Heinz Blasnik, www.acting-man.com

I also assign a very low probability to the bearish wave count largely because sentiment has turned very bearish (see Figure 12).

Figure 12: Gold held in IAU & GLD ETFs, Two-Week Percentage Change, 2009 - 2011



Source: Tom McClellan, www.msocillator.com

According to Tom McClellan, "Getting the 2-week ROC down below -2% is usually good for marking an important bottom. So we have an evident downtrend, but a bottoming indication. Prices can still fall further with a condition like this, and that's how I'm betting, but I'm also going to go stand next to the door in case a reversal becomes evident."

I have for some time argued that gold was, following its September 6 high at $1921, in a correction phase that would likely last for approximately 6 months. However, as Blasnik points out, the fundamentals remain favorable and I would use any further weakness as an opportunity to increase positions in physical gold. Still, I should mention that 2011 produced an anomaly. The price of gold rose 12% (remarkable given the recent steep correction) whereas gold equities performed miserably with the Gold Bugs Index finishing the year down

20%. As a result, gold mining companies are gradually moving into a buying range relative to the physical gold price (see Figure 13).

Figure 13: Gold Bugs Index Relative to Spot Gold Price, 2003 - 2011

Source: www.decisionpoint.com

A final observation: I think that most investors lack patience and simply cannot accept the fact that there are times when trading little and holding a diversified portfolio of different assets (as I have suggested in the past) may be the best strategy.