

Expert's Podium

## Time to take advantage of gloomy U.S. equity markets

You should be buying American now: The sale won't last forever

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“ Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria. ”—  
John Templeton

I remember John Templeton on the PBS show, *Wall Street Week* in the summer of 1982 when the U.S. markets were trading at ridiculous bargain prices. The gloom at the time was so thick you couldn't help but feel it.

Mr. Templeton's advice cut through it all: Stocks are at fire-sale prices – they won't be this low again for a generation. And he was right.

Moments like that are rare but we are living in one now.

They tend to happen when the available evidence looks so lopsided that you simply have to cut through it all if you are going to figure out what to do. And right now the task is cutting through the fear and loathing around the idea of investing in anything American. To put it bluntly: You should be buying American now.

**'Clients won't buy anything in the U.S. – period.'**

Why do I say that? Well, clients usually give you a range of opinions about what they like or don't like. A consensus view might rise up from time to time, but generally the outlook is mixed or divided. Not now.

I just got off the road talking to advisers, planners and brokers. Every single visit the exact same message was delivered: “Clients won't buy anything in the U.S. – period. If it has any U.S. content, they won't touch it!” Meanwhile, U.S. investors, according to the Investment Company Institute, have withdrawn a staggering \$33.12-billion (U.S.) from domestic stock market mutual funds in the first seven months of the year.

The sort of unanimity of opinion of the masses that the U.S. markets are radioactive, is exceptional, to say the least. I've been in the investment business for 31 years and I've seen a few such circumstances – the market bottom of 1982, the gold and precious metals buying panic in the late 1970s and early 80s, the tech madness at the beginning of this century, to name a few.

Now, we have seen some dire circumstances strike fear into the hearts of investors – the financial crisis did start in the U.S. after all; there is a lot of debt piling up at all levels of government; the stimulus package seems to not quite be doing enough; unemployment remains stubbornly high; and on and on it goes.

It's worse in a way for Canadian investors since anyone holding unhedged U.S. investments has been clobbered by the loonie's rise against the greenback. There have been terrific returns here at home as well.

From the sound of things, it seems that a lot more Canadians intend to keep their loonies here at home. Wrong move.

“ Here’s my prediction: I’d be shocked if you don’t make a lot of money in U.S. stocks over the next decade. ”

Before we relegate America to the trash heap of other fallen economic and military empires, remember that they have been through worse. It will undoubtedly take time and cost to get over the current mess. But America is a vibrant nation, composed of an entrepreneurial, adaptable people who don’t easily accept being second rate.

As usual, people mistakenly conclude that what has happened in the past is indicative of what the future will look like.

Warren Buffett, referring to pension fund managers, said back in a 1979 article, that they “continue to make investment decisions with their eyes firmly fixed on the rearview mirror. This generals-fighting-the-last-war approach has proved costly in the past and will likely prove equally costly this time around.”

### **Canadian Stocks**

Ten years ago, all clients wanted were U.S. and global investments, after they had achieved a fantastic appreciation over the previous 18 years. Canada? You couldn’t give Canadian investments away a decade ago. Fixed income, balanced funds, and dividend funds – at the time, all out of favour.

And which categories outperformed over the next 10 years? We all know the answer. Canadian equities have comfortably outperformed U.S. and global stocks.

In August, 1999, I wrote an article in this paper in which I said, “The only predictive statement I feel comfortable in making is that I’d be shocked if the next 20 years’ worth of returns even slightly resemble the past 15 to 20 years.”

I went to large cash positions in our U.S. investment vehicle because I couldn’t find what I was looking for – wonderful businesses at bargain prices. Many investors didn’t appreciate this stance but I’ll let my track record speak for itself. We protected our clients from losses and actually made money over the decade. That was not too bad, especially compared with the no-return world of the average U.S. business during the same period.

There are rare occasions when the evidence is so overwhelming, that you can make such broad pronouncements. So, here’s my prediction: I’d be shocked if you don’t make a lot of money in U.S. stocks over the next decade.

### **Bargain Prices**

As usual, I can’t begin to forecast what will happen in the short term. What I do know is that for the first time in years, I’m finding fantastic businesses for sale at what I know are bargain prices. Are you all sitting down? I’m over 70 per cent invested (in the early 2000s I reached peak cash at about 90 per cent), and buying more U.S. equities almost every day.

Mr. Buffett brilliantly summed up our current situation from his perch in 1979: “There may well be some period in the near future when financial markets are demoralized and much better buys are available in equities; that possibility exists at all times. But you can be sure that at such a time the future will seem neither predictable nor pleasant. Those now awaiting a ‘better time’ for equity investing are highly likely to maintain that posture until well into the next bull market.”

In my opinion, there currently exists an exceptional opportunity for investors to pick up some real bargains in the U.S. equity markets. When economic conditions are this dismal, at some point, the environment will

begin to turn positive and a lot of money will be made. But remember: The opportunity won't last forever.

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