

Seer? or Sucker?

J. Scott Armstrong: "The seer-sucker theory: the value of experts in forecasting"

http://repository.upenn.edu/cgi/viewcontent.cgi?article=1010&context=marketing_papers

- "No matter how much evidence exists that seers do not exist, suckers will pay for the existence of seers."
- My version: "If you think I'm a seer, then you're a sucker."

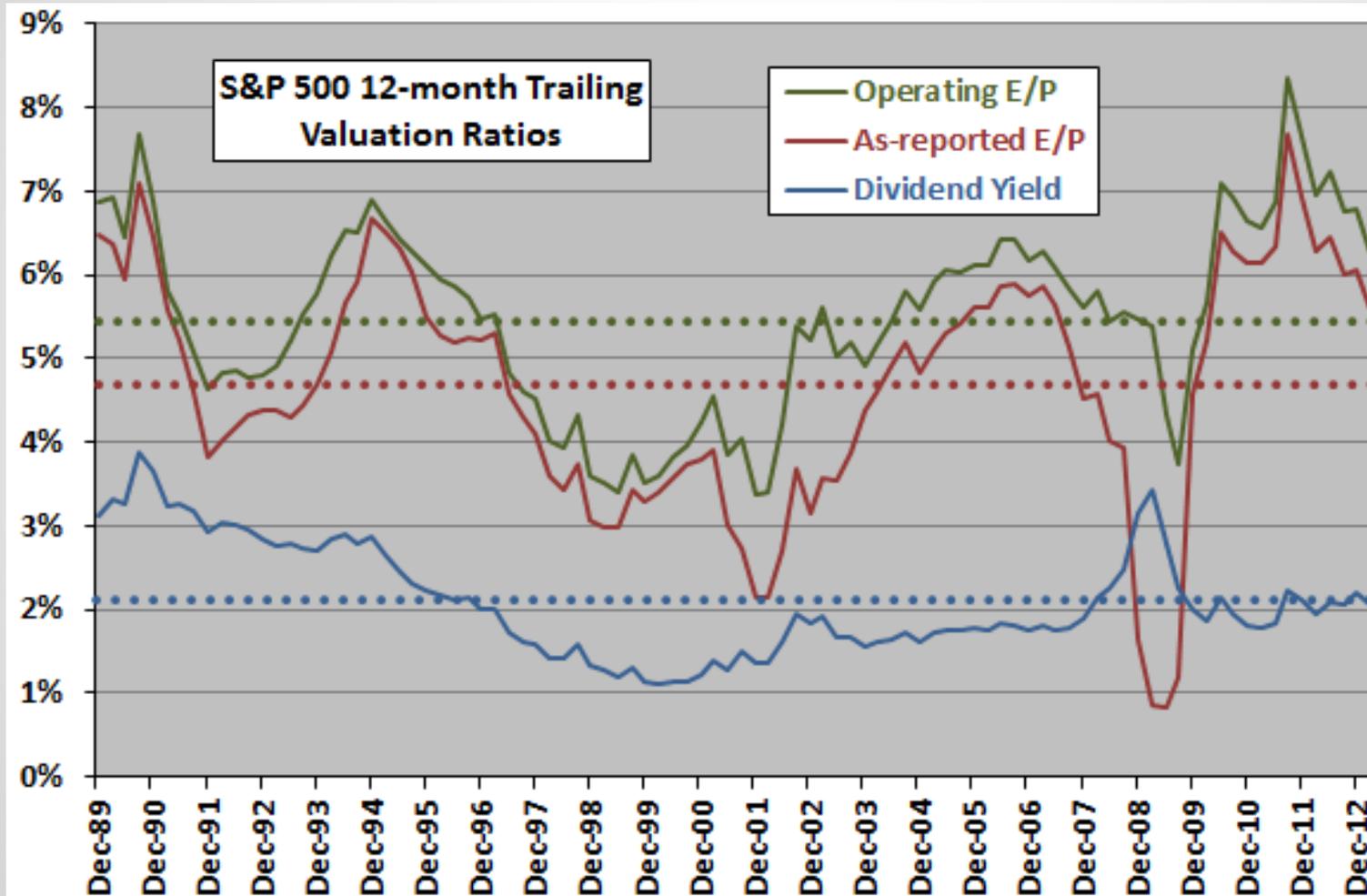
Rosy: Morningstar, CXO Ratio Trends

Gloomy: Shiller, Mauldin (Louis and Charles Gave, Vitaliy Katsenelson), Sam Zell

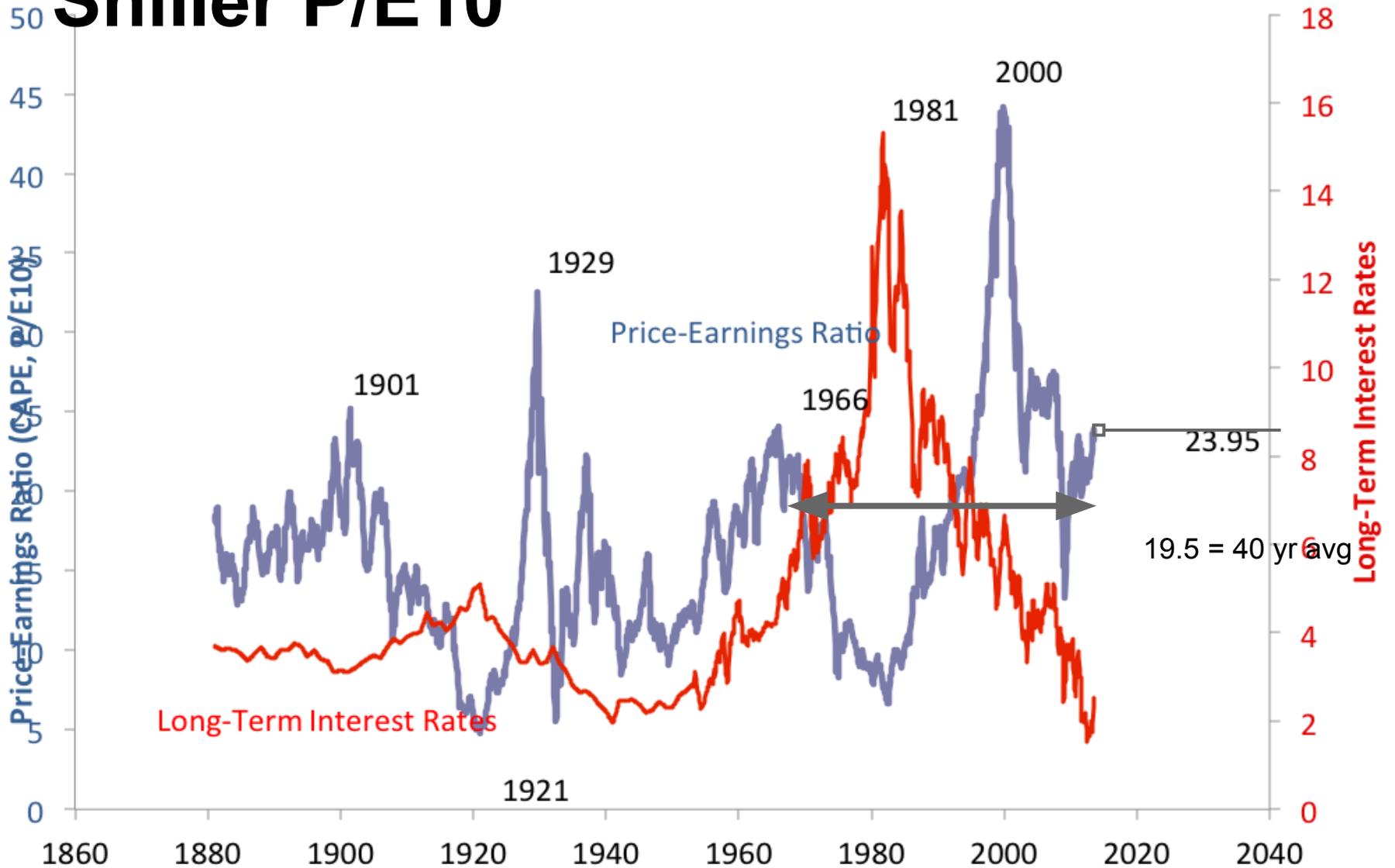
Morningstar Outlook. July 7

- Based on "bottom up" analysis, stocks at 94% of "fair value"
- outlook for equity markets is reasonably good over a longer time horizon
- higher volatility in the short term
- U.S. is most overvalued market
- Cheapest valuations in energy (82%) and basic materials (86%)
- The risk/reward ratio does not favor bond investors
- Shiller P/E10 overstates valuation because of earnings collapse in financial crisis

CXO Ratio Trends



Shiller P/E10

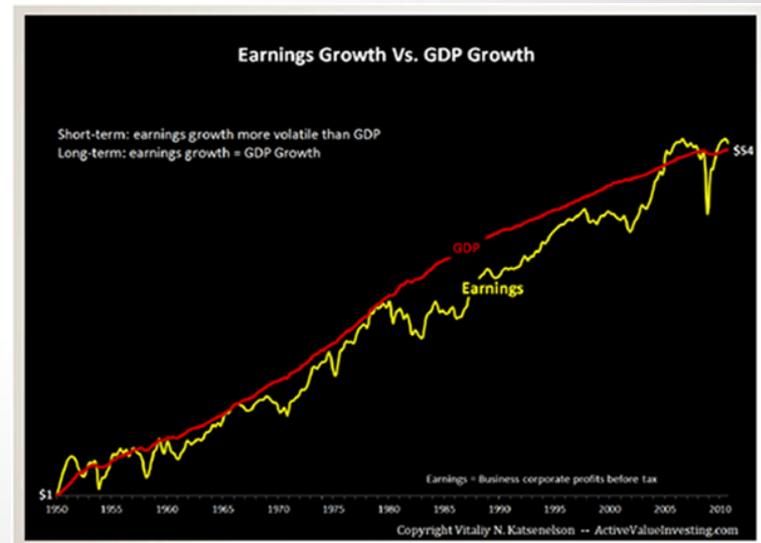


Are We There Yet? by Vitaliy Katsenelson

$E + \text{Change in P/E} + \text{Dividends} = \text{Total Return}$

- Profit margins at a high
- GDP growth slow (?)
- So what can drive stock prices higher?

Charlie Munger (Berkshire Hathaway): “If you are not confused about the economy, you don’t understand it very well.”



Louis and Charles Gave

- China slowing markedly.
- World trade now flirting with recession.
- OECD industrial production in negative territory YoY.
- Southern Europe showing renewed signs of political tensions
- Short-term interest rates almost everywhere around the world that are unable to go any lower, even as real rates start to creep higher.
- Rich Valuations on most equity markets (except perhaps for the BRICS?).
- A World MSCI that has now just dipped below its six month moving average.
- Margins in the US at record highs and likely to come under pressure

- <http://www.mauldineconomics.com/outsidethebox/bad-omens>

Sam Zell, CNBC April 2013

- "We're debasing our currencies around the world.. which ultimately translates into a lot of inflation."
- "... a giant tsunami of liquidity."
- "The level of uncertainty has reached a point where people are just throwing money [at risky assets] because they don't know what else to do with it."
- "I would not be adding money to the stock market. This is a very treacherous market."
- "The current stock market feels like the housing market of 2006. Everybody can't afford to miss it."
- "Every single day it goes up. What were the headlines in 2006 - housing prices going up every day. What are you talking about every day now - new high in stocks every day!"
- "We are suffering through another irrational exuberance."

My Forecast

Will the stock market go up, or down?

Yes, but not right away.

Morningstar Dividendinvestor

| "HARVEST" | "BUILDER" |
|-------------------------------------|---|
| Altria Group Inc. | Chevron Corp |
| American Electric Power Co Inc | Clorox Company |
| AmeriGas Partners LP | Emerson Electric Co. |
| AT&T Inc | General Electric Co |
| Energy Transfer Equity LP | General Mills, Inc. |
| GlaxoSmithKline PLC ADR | Intel Corp |
| Health Care REIT, Inc. | Johnson & Johnson |
| Kinder Morgan Energy Partners LP | Kinder Morgan, Inc. |
| Kraft Foods Group Inc | McDonald's Corporation |
| Magellan Midstream Partners, L.P. | Paychex, Inc. |
| National Grid PLC ADR | Philip Morris International, Inc. |
| People's United Financial, Inc. | Procter & Gamble Co |
| Public Service Enterprise Group Inc | Rogers Communications, Inc. Class B |
| Realty Income Corporation | Spectra Energy Corp |
| Royal Dutch Shell PLC ADR Class B | Sysco Corporation |
| Southern Co | U.S. Bancorp |
| Spectra Energy Partners, LP | United Parcel Service Inc (UPS) Class B |
| Vodafone Group PLC ADR | Wells Fargo & Co |