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## FINANCIAL MANAGEMENT, INC.



### **The Best (Investors) Prepare For The Worst**

With all that is happening in the U.S. and the world today, I thought I'd share the views of noted economist, A. Gary Shilling.

Shilling's known for calling it as he sees it. In his most recent *INSIGHT* newsletter Shilling sounds a note of strong pessimism, but thankfully also gives us some direction on how to position our portfolio for what he sees as a sluggish economy ahead.

#### Economic View

Shilling believes the economy is going to get much worse from here on out. In fact, he is pretty sure we're headed for another recession in 2012 and perhaps another decade of flat GDP growth. The reasons he cites are high unemployment and federal deficits here at home, regional conflicts abroad, and increasing global unrest.

Shilling also lists nine well-formulated reasons to support his pessimism, but we won't go into that here. Suffice it to say that his reasons do hold some merit.

#### Shilling's List - What To Sell

1. **Sell U.S. Home Builders.** Shilling believes this sector has over-binged, that home prices could still drop another 20%, and recommends selling home builder stocks if you own any.
2. **Sell Realty Investments.** He urges real-estate investors (*Steve: such as some of my listeners that have second homes and investment properties*) to get out now before prices drop further and you're stuck in a market with no liquidity.
3. **Sell U.S. Bank Stocks.** Shilling thinks regulatory uncertainty, gridlock in Congress, and underwater mortgage loans will weigh heavily on bank stocks.
4. **Sell Commodities.** He believes commodity prices are bubbles that will soon pop because of sharply reduced demand in the weakened global economy he's predicting.

He also believes there's far too much speculation in commodity prices that is removed from reality, and this cannot continue when fundamental demand drops.

5. **Sell Emerging Markets' Stocks.** With low returns at home, U.S. and European money has driven up emerging markets' stocks to unsustainable levels. He sees a correction coming as weak demand from U.S. and Europe grinds emerging economies to a stop, with China most at risk.

Okay – good to know and imbibe into our investment decision-making subconscious mind. Now let's see what he wants us to buy.

### Shilling's List - What To Buy

1. **Rental Apartments.** Okay... so he's negative on housing and thinks the American dream of homeownership has temporarily gone awry (*Steve: remember - his thoughts, not mine*) so he suggests investing in rental apartments because more Americans will be renting, on tighter budgets that favor apartments. (*Steve: in the rest of the world, more people rent and live in apartments than own single-family homes.*)
2. **North American Energy.** Very simply, with increasing conflicts in oil producing nations (many run by oppressive dictators or monarchs), America plans to reduce its dependence on foreign oil. And since America has a voracious appetite for energy, U.S. energy producers will do well over the long run.
3. **Income-Producing Stocks.** According to Shilling, the stock market's gone nowhere over the past 12 years. So he recommends income stocks – utilities, drugs, telecom, preferred shares and the like. (*Steve: [I agree](#) in that it's important to have dividend stocks in your portfolio.*)
4. **Treasury Bonds.** Despite all the naysayers, Shilling lays his trust in America. He thinks Treasuries will offer a safe-haven in what he sees as a coming deflationary storm.
5. **The American Dollar.** And he believes the American dollar will hold its value way better than most other currencies.

So, the good news here is that Shilling isn't asking us to get out of stocks altogether. He's just asking us to rebalance our portfolio to play it safe, should his forecast become reality.

Now remember, the list above only reflects one man's views. So after you read this, please do not rush off to call your broker and execute these trades. Heed Shilling's advice, talk to your financial advisor, and let your collective best judgment prevail.

If you want to act on nuggets of his advice that make sense for your portfolio then I suggest you use ETFs, futures or indexes that give you the upside while minimizing your downside.

Shilling paints a kind of worst-case scenario. In response, the best investors do not bury their heads in the sand but analyze such points of view – so they can ready themselves should calamity strike. The best also know that no one can predict with certainty what lies ahead. So they keep themselves informed but don't get overly alarmed or influenced by any one.

So keep a balanced view and a cool head, and invest for the long run.