

## **State of the Economy and Markets: Per Warren Buffet and Sir John Templeton**

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Many of the analysts you see and hear everyday on MSNBC speak of improved earnings, GDP growth of near 6.0% for the third quarter, new applications for jobless benefits falling slightly in October and so on and so on. The common thread? Most are bullish and believe monetary policy (i.e. the Federal Reserve) has saved the day. But what do two highly successful businessmen and investors think about the economy, housing and the stock market? Read on...

Warren Buffett sees very few attractive investments at the moment, and is sitting tight on a \$24 billion war chest. The billionaire investor and chief executive of Berkshire Hathaway said in an interview with Barron's that he is not impressed with the current opportunities in stocks, Treasury bonds or junk debt. "We've got more cash than ideas. The question is whether that will prevail for an unduly long time," he told Barron's. In fact, Berkshire sold \$9 billion of long-term Treasury bonds this year, and Buffett said buying at current levels is not a wise move, according to the report, which appeared in the Oct. 27 edition of the newspaper.

And what about Templeton? Templeton's take: The stock market is broken. During previous interviews with Equities magazine in 1999 and 2000, Sir John said investors should expect a 1929-style crash in stocks. In his current interview, Sir John, who is now 90, devotes most of his thoughts to the housing market. What he tells the article's author, Flaherty, comes as surprise to the downside, since the writer had been expecting to hear more encouraging words: "Because I was hoping for good news," Flaherty writes, "I was personally taken aback and depressed by Sir John's short-term pessimism." In that vein, Sir John offers this observation about Wall Street at large: "The stock market is broken, and it will take some time, maybe years, to repair it. Mass media, especially TV (read: Bubble vision) today is so short-term that few in its audience grasp the lasting damage and corrective impact which will continue to linger from the greatest financial crash in world history." He continues: "It would be unlikely that the bear market is over when the American stock market is only down about 30%, when in the biggest boom ever, it had been up 10 times over where it had been years earlier...Following such a large increase, a 30% decrease is small."

Moving on to housing prices, Sir John comments: "Every previous major bear market has been accompanied by a bear market in home prices...This time, home prices have gone up 20%, and this represents a very dangerous situation. When home prices do start down, they will fall remarkably far. In Japan, home prices are down to less than half what they were at the stock market peak." Sir John adds, "A home price decline of as little as 20% would put a lot of people in bankruptcy."

Sir John also had a few words about debt -- a four-letter word that folks seem not to care about: "Emphasize in your magazine how big the debt is...The total debt of America is now \$31 trillion. That is three times the GNP of the U.S. That is unprecedented in a major nation. No nation has ever had such a big debt as America has, and it's bigger than it was at the peak of the stock market boom. Think of the dangers involved. Almost everyone has a home mortgage, and some are 89% of the value of the home (and yes, some are more). If home prices start down, there will be bankruptcies, and in bankruptcy, houses are sold at lower prices, pushing home prices down further." On that note, he has a word of advice: "After home prices go down to one-tenth of the highest price homeowners paid, then buy."



Well, that's a pretty extreme view, but I guess it shows you how bearish Sir John is. I'm sure his latest comments will elicit the same kind of response as when he shared his bearish views during the bubble -- that he just doesn't get it. While both of these views of the economy and the markets may be new to many of you, they are very real and worth taking into consideration.

*Paul Palmer, Jr. and Kurt L. Box are Investment Advisor Representatives with Cypress Advisory Services, Ltd., LLP, a Securities and Exchange Commission (SEC) Registered Investment Advisor*

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