LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

"What the wise man does in the beginning, the fool does in the end."
—Spanish Proverb

Broadly speaking, there are two disciplines utilized to evaluate the stock market and its components. Technical analysis is the monitoring and evaluation of the forces of supply and demand for stocks. Those who utilize technical analysis maintain that the market's or a stock's historical trading pattern can foretell its future direction. Fundamental analysis, on the other hand, concerns the study of factors such as earnings growth, balance sheet strength, business outlook and such valuation metrics as price-to-earnings, price-to-book value, and price-to-cash flow. Both disciplines were well represented at the recent Contrary Opinion Forum held at Basin Harbor, Vermont.

The speakers, whether they practiced a fundamental or technical discipline, were in surprising agreement on many issues. There was a strong bullish consensus on the economy and the stock market. The positive outlook for the economy led to a feeling that inflation will become a concern at some point. A stronger economy coupled with some inflation suggested to many that cyclical companies—those whose fortunes rise and fall as the economy advances and declines—and commodity producers had become the new leadership groups. A declining dollar was also a theme universally expressed. All of these positions reinforce one another. For example, a stronger economy usually leads to pricing power for cyclical companies and commodity producers, and a lower dollar increases the odds of inflation as it pushes up the price of imported goods, allowing domestic producers some pricing freedom.

Specifically, David Hale, a global economist and founder of Hale Advisors, LLC, pointed out that with the lowest interest rates since the 1950s, a stimulative fiscal policy, and nearly every country cutting interest rates, we are likely to experience a global economic recovery. In view of his outlook for worldwide recovery, he favored Europe, Japan, and emerging markets, in addition to U.S. equities. Based on a favorable supply/demand situation, he was also bullish on the price of gold. His concern was that should we not get employment growth soon, we will lose steam by next spring. Should that situation develop, there will be political pressure on the Bush administration which could result in a protectionist trade policy that would be very negative for the markets and the global economy.

Kurt Wulff, energy research analyst and founder of McDep Associates, forecasted that the price of oil will rise 8–10% per year for the foreseeable future, with natural gas prices rising even faster. Obviously, he was bullish on the energy sector and many individual securities.

Walter Deemer and John Mendelson, both of whom are technical analysts, seemed to be in general agreement. Both were quite bullish and favored small capitalization stocks over the big caps and were biased toward basic industrials, metals, and cyclical industries in general.

The President and Director of Research at H.C. Wainwright & Co., R. David Ranson, expressed considerable concern about inflation. In his view, the U.S. is moving into an inflationary—not a deflationary—period, and that the inflation threat is very serious. He felt one should move away from fixed income as much as possible and toward commodities.

While it is somewhat disconcerting to see so much agreement among speakers with such varied backgrounds, it appears that the views expressed at the Forum may be leading edge and not generally accepted among investment managers. As John Mendelson stated, "Most people in the business today have not seen the cyclicals go up." It is only when an idea is obvious to the majority that it is fully discounted. Hence, this year's Contrary Opinion Forum may well turn out to have been very contrary.

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