LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

> The existence of a bull or bear market never can be established beyond reasonable doubt until the trend is far progressed.
>
> \- Lucern O. Hooper, 1953

This year was the 50th annual Contrary Opinion Forum. The organizers, Fraser Management Associates, arranged for a well-qualified, thought-provoking list of speakers which resulted in the best Forum in years.

The first evening and day of speakers were generally in agreement concerning the primary issues of today. Most felt the uncertainty of the U.S. election, the Japanese election, the European monetary union, the fiscal cliff, and the future growth in the developing world would result in subdued economic growth in the U.S. of 2.0-2.2% for the next few years. One observer, Mark Vitner of Wells Fargo, placed the odds of a recession in 2013 as one in three, while Steve Leuthold of the Leuthold Group suggested those odds are 50/50.

Generally speaking, the presenters felt the lame duck congress will extend all or at least most of the Bush tax cuts three to six months and *do what it takes* to avoid the across-the-board spending cuts scheduled to take effect in January. For the most part, the speakers were in the *muddle through* camp.

In terms of investment strategy, there was general agreement that the 30+ year bull market in bonds will soon come to an end. It was pointed out by Eoin Treacy of Fuller Money that bull markets end, not because demand ends but because supply increases and governments and corporations are increasing the supply of bonds at unprecedented rates, while investors are falling all over themselves to buy.

There was also general agreement that inflation would eventually become a problem, and as a result gold prices will continue to advance. In fact, the cyclical side of the economy continued to receive favor by several observers. The one change in the outlook for cyclical industries seemed to be oil. With technology allowing for the recovery of shale oil in the U.S., major oil discoveries in Brazil and Africa, and the return of production in Iraq—along with conservation—there was a general feeling that oil prices will weaken if and when middle-east tension subsides.

The final speaker was Michael Aronstein of Marketfield Asset Management. He started his presentation by stating that we are four years into a new secular (long-term) bull market. Now that is contrary thinking. He then asked the audience for a show of hands by those who felt the U.S. economy would experience at least one quarter of 5.0% growth during the next twelve months. Out of an audience of approximately seventy people, three hands went up.

Mr. Aronstein feels we are in a secular bull market for stocks because the bear market of 2008-09 was so devastating to investor psychology that it produced a generational low. The severity of that market decline resulted in a *get-me-out-I-cannot-accept-the-risk-of-stocks-anymore* mentality. The 5.0% growth in a quarter, according to Aronstein, will come from a 15mm auto sales rate (we are currently at 14mm) acceleration in new housing construction (he feels certain markets will experience a shortage in new housing within a couple of months), and an increase in business investment which is now suppressed by political uncertainty.

Both Mr. Aronstein and the other speakers could be correct. Secular bull markets are characterized by a general upward trend broken by relatively short (12-18 month) bear markets. The important thing in secular bull markets is that the bear markets do not go to new lows. As Lucern O. Hooper, a long-time columnist in *Forbes* magazine, stated so many years ago, “We will not know the trend until it is far progressed.”

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