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THE SHORT VIEW MARKET COMMENT BY STEPHEN SCHURR.
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Sid Klein has built a career on calling the turning points in the US and Japanese markets. He proclaimed in late 1989 that the world should short Japan.

In January 2000 he said the US bull market was over and stock prices would halve. In October 2002, he called the US market's bottom almost to the day.

Now, the investment adviser and publisher of the Japan Asia Investments newsletter says he is "pounding the table" once again, and investors in the US and Japan should prick up their ears.

Mr Klein tells the Financial Times that the Dow Jones Industrial Average "has the potential for 6,500 in 2006", nearly 40 per cent below current levels.

Based on this, he suggests the easiest way to hedge or profit is to buy 18-month puts on the Dow, a bearish options trade similar to the call he made on Japan in 1989. Even more interesting is his recommendation as the port in the storm for investors: Japan. Or, more specifically, Japanese value stocks that are focused on the domestic economy.

To back up his bearish call, Mr Klein points to many of the same signs he relied on in 1989.

The principal one is valuation. The US stock market, Mr Klein maintains, sports a price-to-earnings multiple that has become unmoored from the underlying earnings growth.

He says a p/e of 18 makes no sense in the post new-paradigm era of declining interest rates. If stocks stopped trading at a premium to the forecast growth rate, the Dow would easily fall to between 7,000 and 8,000.

Valuation rarely serves as a catalyst for a major downturn, but Mr Klein sees other candidates. The price of oil is one. Since this spring, he notes, US equities have not followed their usual pattern of moving in the opposite direction to oil.

Unless crude prices suddenly collapse, a correction should be forthcoming. Another possible trigger is slowing growth in China, which could translate into more muted purchases of Treasuries; this could spell higher interest rates and a slowing economy in the US.

(Speaking of China, Mr Klein construes Beijing's tip to its citizens to buy gold as another ominous sign.)

Mr Klein says investors should be less concerned with identifying the trigger than with positioning themselves for the correction.