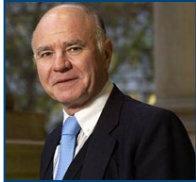




Dr. Doom's Global Investing Outlook Featuring Dr. Marc Faber



Dr. Marc Faber
Editor and Publisher of "The
Gloom, Boom & Doom" Report

If you have ever listened to Dr. Marc Faber, you know that he never pulls his punches, no matter who is on the receiving end, and that he backs up his viewpoints with rigorous intellect and insightful analysis.

Dr. Faber, a.k.a. Dr. Doom, has long been a vocal critic of what he has called the "American school of economics": the government's readiness to print more money as a default response when the economy and its participants are in trouble as a result of their own excesses.

This flawed approach, he says, creates a "survival of the weakest" environment, encourages inflation and only serves to postpone and intensify an inevitable day of reckoning.

Based in Hong Kong, Dr. Faber is a prominent international investor and a member of the influential Barron's Roundtable. He also publishes the monthly investment newsletter "The Gloom Boom & Doom Report" and he wrote the foreword for the book "The Goldwatcher: Demystifying Gold Investing," co-authored by U.S. Global Investors CEO Frank Holmes.

Dr. Faber was recently a special guest of U.S. Global for the exclusive webcast Global Investing Outlook, from which this article is adapted.

The Fed's Misguided Monetary Policy

The monetary policy being pursued by the Federal Reserve, which is aiming at boosting asset prices, actually leads to more economic and financial volatility. I'd also like to mention that the easy monetary policies of the Fed also lead to colossal debt growth.

You can print money and you can increase your debt and you can put everything on the balance sheet of the government, but it is unlikely to help the typical household in the United States. It may help Wall Street and it may help some asset markets, but not the standard of living. Otherwise, if money printing would make countries rich Zimbabwe would be the richest country at the present time.

Even under a gold standard, where money and credit is relatively tightly controlled, you can get bubbles in one sector of the economy

or another. In this case, everything went up — equity prices, real estate prices, commodity prices — and not just in the U.S., but everywhere in the world. During this period of time, the only thing that went down was the U.S. dollar.

In my opinion, the government in the U.S. will continue to print money, with all the negative consequences that go along with it. And so, I think that looking forward, investors have to be very clear that if the dollar is very weak, there is a chance that equity prices around the world could rally quite substantially.

It's not so evident that the dollar will totally implode against the euro and other paper currencies because the other central bankers are also money printers. But it is my opinion that it will continue to implode against commodities. Some more than others, but commodities where there are shortages will perform okay. And, in particular, when interest rates are at zero, then obviously gold, silver, platinum and palladium become currency of choice.

I don't see why someone would hold dollars and not hold some physical gold. There's no cost associated with holding the gold, compared to dollars that have no return. I think that, gradually more and more people will come to the realization that they have to own some resources, some commodities and some mining companies and obviously some physical precious metal.



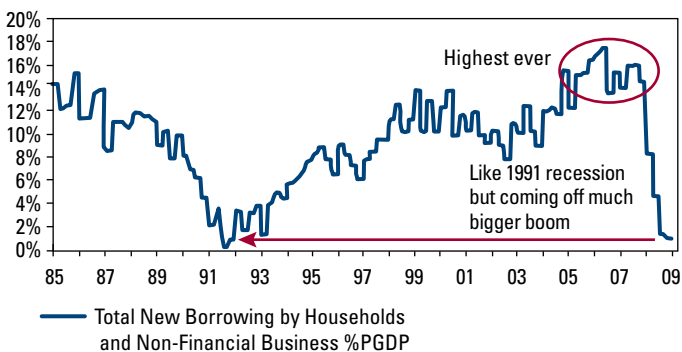
How Did Economists Miss the Problem?

There was recently an article by Paul Krugman in the New York Times titled “How Did Economists Get It So Wrong?” Well, first of all, I think the title should have been “How Did I Get It So Wrong?”

I'd also like to point out that not every economist got it so wrong. The economists at the Federal Reserve and the economists at the Treasury and the economists at universities got it so wrong. But private economists have been warning about this excessive debt growth for quite some time, and were very concerned about it.

The real problem of the housing market was not that home prices went down, but rather the excessive leverage of homeowners. Partly encouraged by artificially low interest rates and partly encouraged verbally by the Federal Reserve, homeowners borrowed more and more against their homes. That's why I find the Fed essentially mistaken in its belief that the problems were not foreseeable.

Total New Borrowings by Households and Non-Financial Business % PGDP



PGDP = Implicit Price Deflator for GDP

Source: Bridgewater Associates, Goldman Sachs

The chart above shows total new borrowings by households and non-financial businesses. Credit growth accelerated to a peak annual rate of 18 percent at the end of 2006. It slowed down following the rate cut in September 2007, then accelerated once again a little bit. Then in 2008, it totally collapsed. And, of course, for an economy that is driven by credit, such as the U.S., a total credit growth collapse is a disaster.

The private sector is now de-leveraging. Households and businesses are behaving rationally – they are saving more, they are paying down their debts. That's a rational action to take in a recession such as we have. At the same time, the government has come in and built up – the U.S. Treasury as a percent of the economy has expanded very rapidly. The fiscal benefits this year will probably be around \$2 trillion.

The problem with all this is, in my opinion, is that the government's role can't really come down significantly because the moment you reduced your fiscal deficit, you would again have a negative impact on the economy. So I think that as far as the eye can see, we will have artificially low interest rates, near zero percent, because unemployment in the U.S. is not going to go away overnight. And at the same time, the deficit will stay very high and that will lead, in my opinion, sometime down the road to more inflation, which will then necessitate more money-printing, in order to keep short-term rates artificially low.

Bright Future for Resources

I think that gold is a desirable asset, but for my taste there was a little bit too much euphoria just recently, when gold went over \$1,000. And so what we could get is kind of a correction in gold, and then a little bit of a rebound in dollars.

The exploration companies were decimated in 2008 and they have recovered, but in my opinion, they still offer very good value. What has to be clearly understood is that exploration companies don't really have a cash flow, and they have to discover something to make it work. Many exploration companies will not survive and others will be taken over by the majors. There will be a lot of volatility in the sector, but it's an exciting sector.

I feel that the demand for resources overall is actually well-supported, and there's another factor that's important to understand. The bull market in commodities that began in essentially 2001 and lasted to 2008 was, in my opinion, too short to really trigger a supply response. Once the market collapsed in 2008, a lot of projects were canceled and a lot of exploration companies didn't get the money they needed to carry on with their exploration work.

In the case of oil, the peak for new discoveries came in the 1950s and 1960s. Since then new oil reserves continue to be found but in smaller and smaller quantities, and also at higher and higher costs in areas that are inhospitable or very deep at sea.

When I look at the oil demand pattern of China and India and then I look at the supply pattern, I think that oil prices will have a rising trend. And here, leaving out the money-printing function of Mr. Bernanke, the more money you print, the more oil and other commodities go up.

Growing Clout of Emerging Markets

I have to say that, probably in our whole lifetime, we will never again have this kind of synchronized boom that we experienced in the period 2005 to 2007. It is most unusual economically that the whole world was in boom condition, and in the future, I would rather expect that some countries will do well and others will do less well.

For 200 years it was the rich countries of the West that essentially became richer and richer, and for the first 150 of those 200 years, what are now called “emerging economies” were colonies and thereafter they had regimes that were not particularly desirable. But now these countries have been unleashed. In the past, the rich countries of the West financed economic development in poor, emerging countries. But now the foreign exchange reserves are in emerging economies.

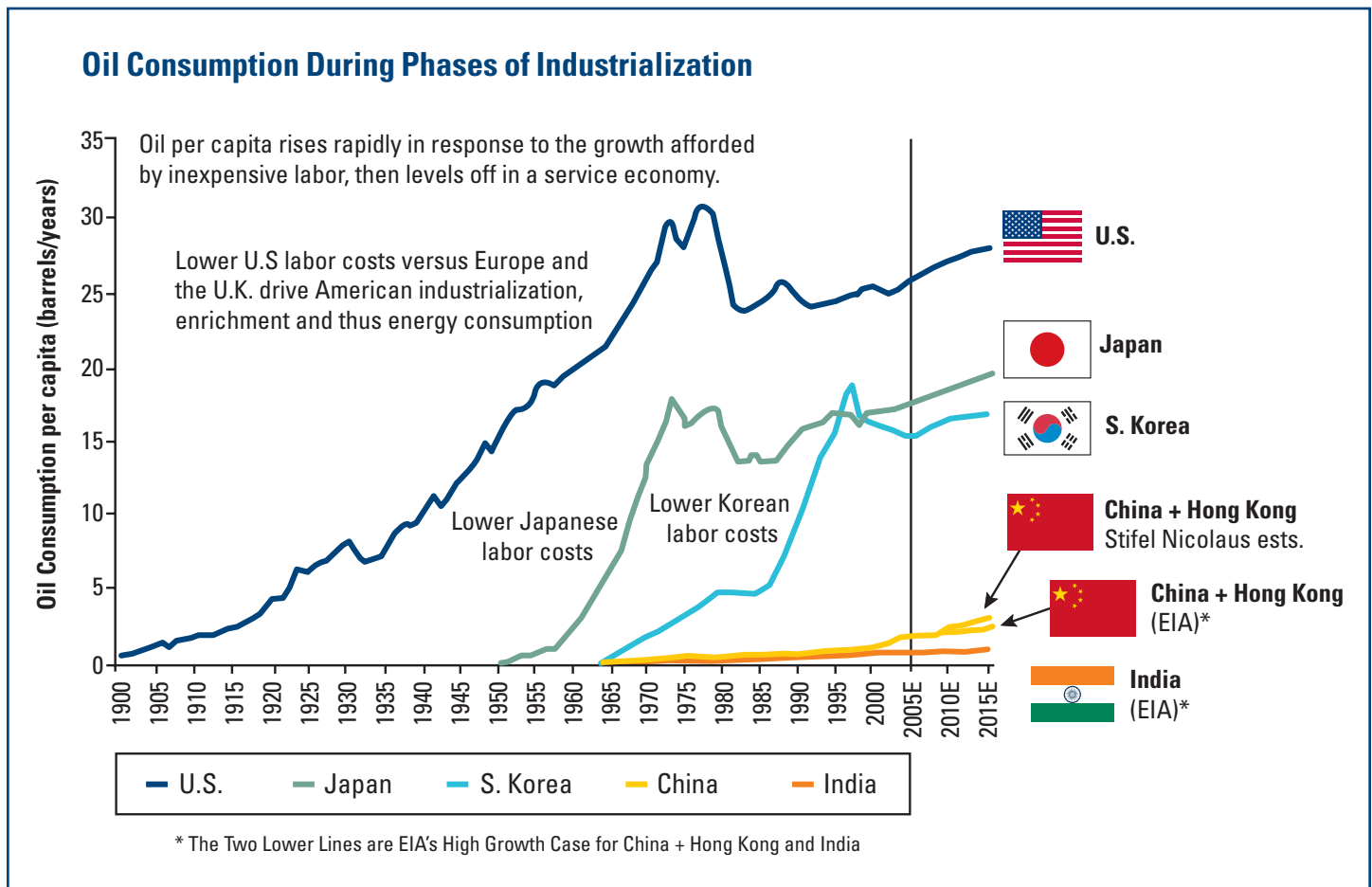
I mention this because sometimes people still think that emerging economies are poor, or that the emerging economies depend very much on the West. That is no longer the case. They are a very, very powerful economic bloc, and they will become a very, very powerful political bloc as well, and a military bloc. And that is something that will create a lot of tension in the world

The strong economic development in Asia has obviously slowed down because we have a recession and exports collapsed. But Asia is not going to stop buying commodities. The Chinese have very little natural gas, they have little crude oil, they have very

little iron/ore and copper. They may buy less in any given year, but there is not going to be a situation where they won't buy anything at all.

Chinese steel production went from 10 percent of the world's total in 1990 to more than 40 percent now. For aluminum, production in China went from 10 percent of the world's total in the year 2000 to now more than 30 percent. That isn't going to go away because a lot of this production is actually not for export, but rather for domestic consumption.

The per-capita consumption of oil and other resources in China and India is still extremely low compared to say more advanced economies, such as Japan, South Korea and, of course, the energy-wasting United States. That is shown on the chart below. I would argue that actually oil demand in China will have trend-line growth of between 6 percent and 9 percent annually for the next 10 to 20 years, and in India, trend line growth, in my opinion, will be between 5 percent and 7 percent annually.



Source: Barry Bannister, Stifel, Nicolaus & Company, Inc.

Rise of the Asian Consumer

In China and in the whole of Asia and the emerging world, we still have a lot of poverty and we have a lot of people who can't afford to live a very free life. In other words, they can't afford to travel and they can't afford to make many choices in their lives.

But at the same time, in both India and China, you have the emergence of a hardworking urban class — these are people who work for companies in clerical positions and also in management positions and they do relatively well. So if you have 1.3 billion people, all you need is essentially 200 million people that live a reasonable lifestyle and you have a huge market.

Over time, starting from a low level, these countries move up the scale in terms of standard of living. Their GDP per capita improves and the middle class expands. Now is everything perfect? No. And is the stimulus package in China working? Probably not very well. It leads to a lot of speculation and further reallocation of resources, bubbles in property and so on.

But I take the view that, if you look at the next 10 to 20 years, I don't see how the lifestyle of the average person in Western Europe and in the U.S. will improve meaningfully. I just don't see it. On the other hand, if I look at a country like Vietnam, it has GDP per capita annually of \$800, which may go to \$3,000 over the next 15 to 20 years. The same idea holds for China and India.

You will have in India a middle class of maybe 200 million or 300 million people. They will not all buy Mercedes Benz cars, but they will buy a Nano for \$2,500. And that will require resources and it will eventually also be an incentive for people to work very hard.

When a family moves from the bicycle to the motorcycle, it's an improvement in their standard of living. But then when you move to the car and you drive your children in a car to school, it's a huge increase in your standard of living, and also in your social class. In the Western world, I think that they will be at war and they will have civil unrest and their standard of living will not be as good.



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