



What Bob Farrell might think as 2014 gets under way

Whilst Warren Buffet seems to be the first name that comes to people's minds when we talk about 'great investors', there are a number of other luminaries whose insights we mere mortals can hope to learn from, if not emulate.

Sir John Templeton and Benjamin Graham are also obvious candidates that come to mind, as is the perhaps lesser known Bob Farrell, the legendary Wall Street analyst, who joined Merrill Lynch in 1957 (after studying under Benjamin Graham), and spent the better part of 5 decades in the hot seat, helping to manage money through every major economic cycle witnessed across the period, in a number of roles.

As one might expect, after nearly 50 years of being a part of the ebb and flow of markets on a daily basis, one learns a few tricks, which Farrell condensed into 10 'rules' or principles of investing, which were published in 1992.

I first came across them a few years ago when they were referred to by well-known economist David Rosenberg of Gluskin Sheff, and they are as follows.

1. Markets tend to return to the mean over time
2. Excess in one direction will lead to an opposite excess in the other direction
3. There are no new eras – excesses are never permanent
4. Exponential rapidly rising or falling markets usually go further than you think, but they don't correct by going sideways
5. The public buys most at the top and the least at the bottom
6. Fear and greed are stronger than long term resolve
7. Markets are strongest when they are broad and weakest when they narrow to a handful of blue chip names
8. Bear markets have three stages – sharp down, reflexive rebound and a drawn out fundamental downtrend
9. When all the experts and forecasts agree – something else is going to happen
10. Bull markets are more fun than bear markets

As we enter 2014, and with the appropriate disclaimer that Bob might disagree with every word I'm about to write, I've decided to pen some thoughts as to what Farrell might be thinking about various asset markets and investment opportunities today, based on the 10 principles above which served him so well over his illustrious career.

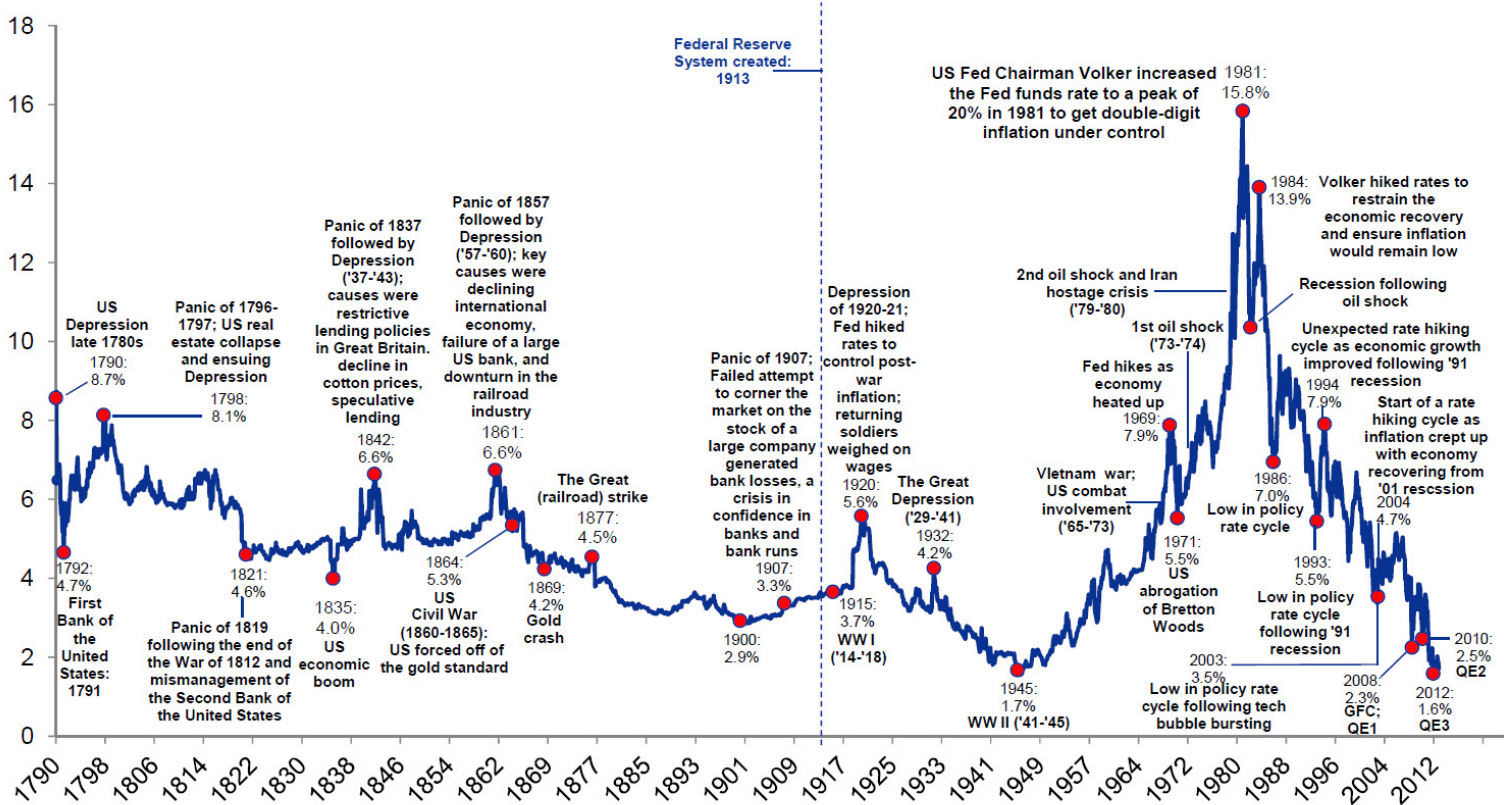
Rule 1. Markets tend to return to the mean over time

It was a toss of the coin as to which market to focus on here, with US equities or the US bond market in the frame, but in the end, with all the focus on the Fed and their current QE program, a long term look at the US 10 year bond yield wins the day.

Consider the following chart, which is about a year old and shows the US 10 year bond yield going all the way back to 1790.

What would the impact of mean reversion be in the US over the next few years, noting that over this period, long term US yields have averaged around 6%? (Note that using the San Francisco Fed's database for which we have data from 1962, the average is 6.56% using monthly data)

The long history of long (10-year US treasuries) yields



Source: Global Financial Database, Goldman Sachs Global ECS Research. Special thanks to Jose Ursua.

Let's start by thinking of an investor in the US bond market, assuming he or she holds a portfolio of both Treasury and mortgage-backed securities.

According to an update given by Australian international equity managers Magellan Asset Management August of this year, a rise in the 10 year Treasury yield from 2.50% to 5.00% would see a 19% reduction in the capital value of that Treasury bond.

An investor in 30-year mortgage backed securities, who would likely see a corresponding increase in yields from 4.50% to 7.00% in this scenario (assuming a 2% spread between Treasuries and Mortgage Backed securities), would see the capital value of their bonds fall by approximately 31%.

As yields would need to go even higher than this to merely mean revert, it's not unreasonable to suggest that an investor with a 'balanced' portfolio of bonds would or could lose 25% or more of their capital in this scenario, something Marc Dross, regional Chief Investment Office at Wells Fargo Private Bank touched on [the following article](#) where he stated:

"We're really worried about investors in bond funds. They don't realize you're going to lose 20 to 30 percent in those funds when you actually just normalize (interest) rates (from their current levels near zero). That transition won't be easy."

Whilst an investor like Bob Farrell would probably look at the US bond market right now and steer clear, as the potential downside is significant, the implications for the wider economy of mean reversion in US borrowing costs are more profound, and even more troubling.

Consider the US housing market. As we enter 2014, year on year pending home sales are now down 4%, the worst drop since April 2011 and remain in a clear down trend.

Mortgage activity is also down closer to 60% from it's highs this year, as the rise in 10 year yields towards 3% (you can't see that on the 10 year chart above) has led to increased borrowing costs, scaring away investors and those looking to refinance.

Considering how fragile the US housing market already appears, with rates at only 3%, it would appear safe to say that mean reverting bond yields, which would imply a doubling of borrowing costs from today's levels would decimate the US housing market, and remove a key pillar from the 'US economic recovery' story.

Undoubtedly higher borrowing costs would also cause a severe hiccup in the US equity market, as it would put severe deflationary pressure on the rest of the economy as mortgagees are faced with higher monthly repayments to the bank (less money to spend elsewhere), as well as increase the cost of the record amount of US margin debt currently being utilized to purchase stocks.

Most importantly though, mean reversion in US 10 year yields, and in borrowing costs across the maturity spectrum would prove ruinous to US public finances.

In the [Congressional Budget Office's latest September long-term budget](#) outlook update, they estimate that between now and 2017, deficits will average approximately 2.8% of GDP (*it would be worse but for the fact they see*

revenue/tax growth equivalent to more than 1% of GDP in this period alongside a reduction in spending – good luck with that).

This equates to several hundred billion dollars of additional government debt each year (more or less in line with this year's 'much improved' budget deficit of 'only' \$680 billion dollars), and would likely mean that total US government debt would hit [approximately \\$20 trillion](#) by the end of 2017.

Now, of course not all this debt needs to be rolled over in the next few years, so not all of the US \$17 trillion (soon to be USD \$20 trillion) will need to be refinanced at 6% or thereabouts immediately, but a mean reversion of interest rates could well see the US government paying closer to \$1 trillion per annum in interest repayments alone by the end of the decade.

This is hundreds of billions of dollars more per annum than they are currently paying to service debts, and would almost certainly start a 'death spiral' for the US and global economy.

That is all bad news when it comes investing in general.

Rule 2. Excess in one direction will lead to an opposite excess in the other direction

There's perhaps no better market to look at when it comes to excesses today than the US stock market, and the price investors are currently paying to stay invested in stocks.

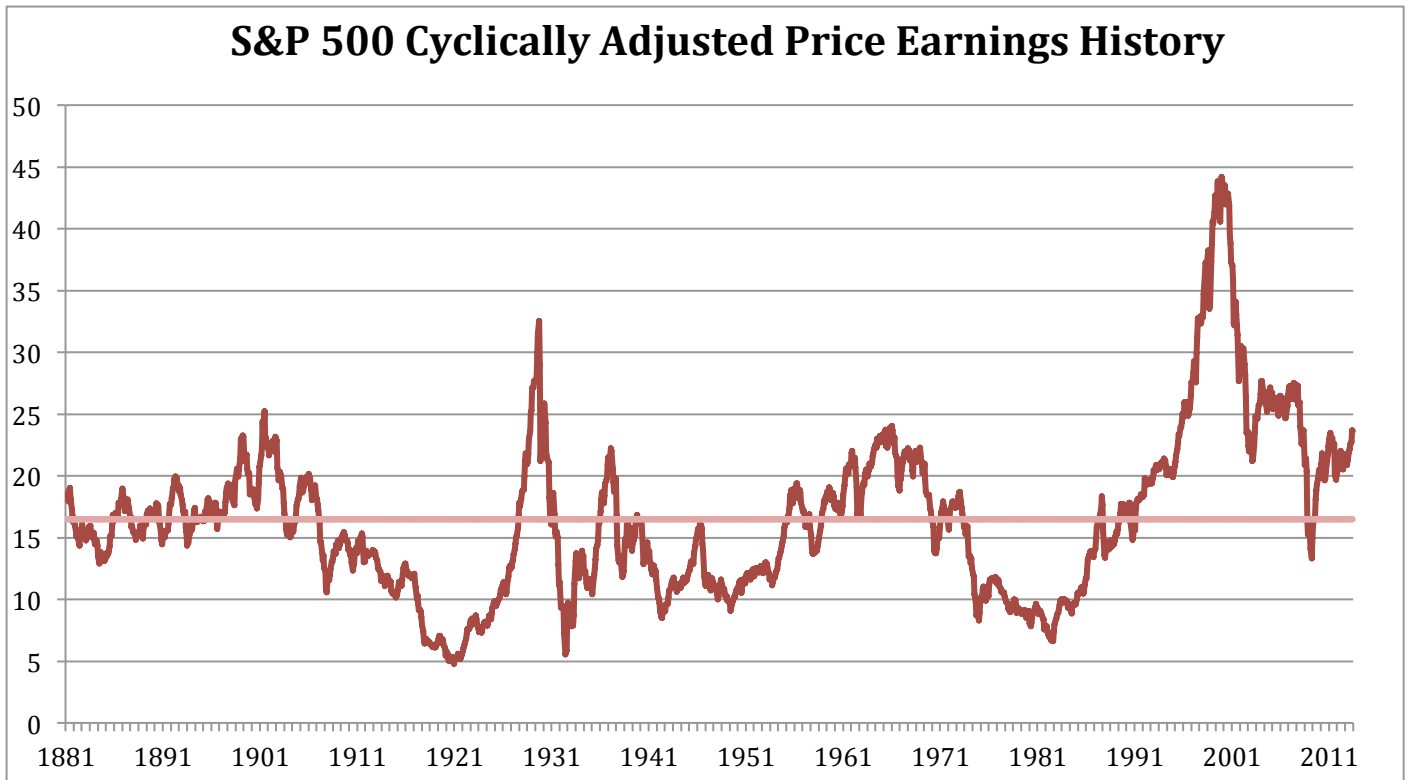
The quality and sustainability of company earnings are something that will come up later, but for now, let's simply look at approximately 130 years of the cyclically adjusted price earnings ratio for the S&P 500.

Note that the measure cyclically adjusted earnings graphically represented below, measure current prices vs. the previous 10 years **actual** earnings (which irons out shorter term fluctuations), a far more tangible measurement in our opinion than measuring prices versus next years **projected** earnings, which are almost always optimistic in their nature and are trotted out by the 'stocks will rise 10% next year' crowd year after year.

What we can see in the chart below is that whenever there are periods of excess where investors find themselves paying too much for stocks, they are invariably followed by periods of excess where investors won't buy stocks no matter how compelling their valuations are, as they are just too pessimistic.

Consider that at the turn of the previous century, in the late 1800's-early 1900's, investors were paying nearly 25 times earnings to be in the markets. This was followed by a long drawn out crash, which saw the price earnings ratio bottom around 5 around about the time the roaring 1920's got underway.

In the course of not much more than 10 years, we saw investor exuberance reach the second highest level on record, with P/E ratio's going well over 30 (a time that Irving Fisher, the Krugman of the day famously stated that *'stock prices have reached what looks like a permanently higher plateau'*).



Almost immediately following that, the Great Stock Market crash of 1929 heralded the onset of the Great Depression, and investor apathy toward stocks came back with a vengeance, with excess negativity sending this ratio back to a nadir around 5 times earnings.

This was a level not seen for another 50 years, until the stagflationary 1970's led to the infamous 'Death of Equities' headline in Business Week.

This was of course the ultimate contrarian indicator (people might be interested to note that the same magazine cover had a bullish gold sub headline, at almost the exact time gold was entering bubble stage) and heralded the beginning of the greatest stock market run in over 100 years, culminating in the largest excess ever witnessed in terms of the multiple of earnings investors were willing to pay in order to be in the markets.

By the late 90's, incredibly, investors were paying over 40 times cyclically adjusted earnings, which is another way of saying they were willing to wait **until 2040** for the companies they were buying to generate earnings commensurate to the prices they were paying at the time.

Of course we know the NASDAQ bubble crashed soon after, September 11 occurred, and the Fed stoked the infamous housing bubble, spurred on by

economists like Krugman who were actively encouraging them along the way ([read here if you want to see his piece](#) agreeing with calls for Greenspan to “create a housing bubble to replace the NASDAQ bubble”).

The onset of the GFC and subsequent equity market crash took P/E ratios back to their long term averages, **but it did not lead to an excess in the opposite direction**, as the ratio only dropped to approximately 13 times earnings even at the markets nadir in 2009, when the S&P was trading around 800 points.

Investors should ask themselves how likely it is that the greatest excess in one direction ever (the bubble in stocks and greatest p/e expansion in history that we witnessed leading into the early 2000's), will be followed by merely a return to a long run average?

What we should instead expect to see, if history is any guide, and if this rule teaches us anything, is an overshoot in the opposite direction, taking p/e multiples down towards 5 times earnings at some point in the next few years.

As we stand today, entering 2014, this metric of measuring the markets based on the price investors are paying for cyclically adjusted earnings shows that we are back at a level that has only been reached a handful of times in over 130 years, and only exceeded twice.

Both of those periods have represented blow off tops in equity markets, and led to huge losses for stock market investors and a subsequent collapse in multiples in the years ahead.

It's fair warning for anyone wanting to stay long broader equity markets in the years to come.

Rule 3. There are no new eras – excesses are never permanent

When thinking of rule number 3, it's hard to go past the whole concept of FIAT money here. Over the course of history we've tried hundreds of times to perfect the art of FIAT money, so that we could avoid the pesky fiscal rectitude and discipline that a hard money system would entail.

We've failed every time. Not most of the time. Every time.

Sir John Templeton's “the four most dangerous words in investing are: **this time it's different**” is one to mull over when thinking about that lamentable track record and it's worth keeping in mind as we enter 2014 and you work out where your investments are, and if you have any protection against the potential failure of this current batch of FIAT currencies.

If you're struggling with it, filling in the table below might help as you work through this process:

| Do I believe the following excess is permanent? | Yes | No |
|--|-----|----|
| I believe governments can run deficits forever without defaulting on their debt through either contractual abrogation or accelerated inflation | | |
| I think that on aggregate, as a society we can constantly go further into debt relative to what we are producing | | |
| I think that printing money, which has failed every time it's been tried in history, will work this time and lead to a sustainable economic recovery | | |
| My portfolio is well structured to deal with any economic troubles we may witness in the years ahead as result of this | | |

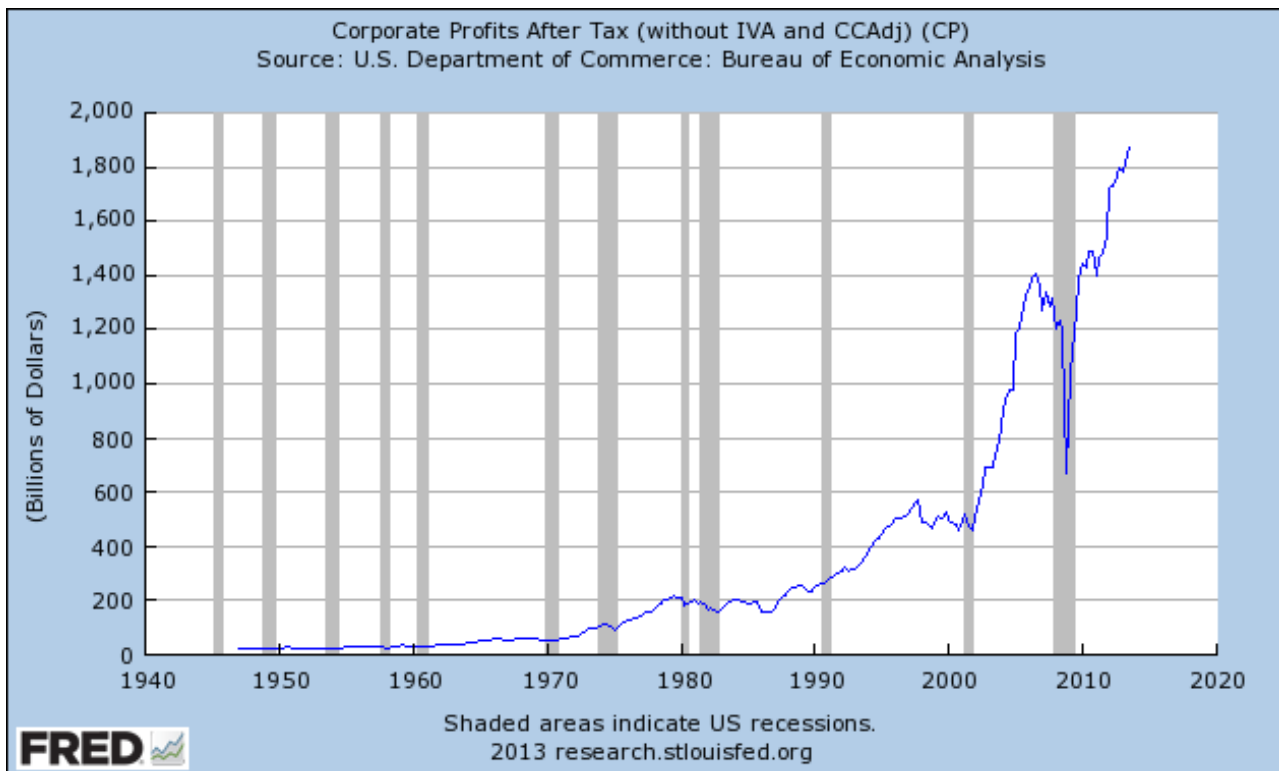
But this article is not intended to focus on the merits and drawbacks of various monetary systems, and one must also acknowledge the debate about the sustainability or otherwise of a FIAT monetary system is a long-term one, and the current round of it began in the early 1970's.

Moving onto something more immediate than the fate of the US Dollar and it's monetary cousins the Euro, YEN and GBP to name but a few, and I think that when it comes to realizing that there are no new eras, and that excesses are never permanent, old Bob might cast an eye on the current level of US corporate earnings.

Now we know that the stock market is already expensive when viewed through the historical lens of the cyclically adjusted price earnings ratio, but how about the earnings themselves?

The chart below, last updated in Q3 of 2013 shows that Corporate Profits After Tax have not only recovered from the pull back witnessed during the GFC (they peaked at about \$1.4 trillion), but have gone substantially higher, and look on track to nudge the \$2 trillion barrier soon at some point in the next year or so.

But is this sustainable?



I think the answer is no, as corporate profits are cyclical in nature, and more importantly, as [per the following article which appeared in Zerohedge](#) (research by JP Morgan) in late May 2013, fully 60% of S&P500 earnings growth between Q3 2011 and Q1 2013 was a result of stock buy-backs alone, largely divorced from any underlying operational improvements by companies, or as a result of headline sales growth.

The [following article, which appeared in the middle of September 2013](#), and again utilized research from JP Morgan, extrapolated further on this unprecedented buy-back activity.

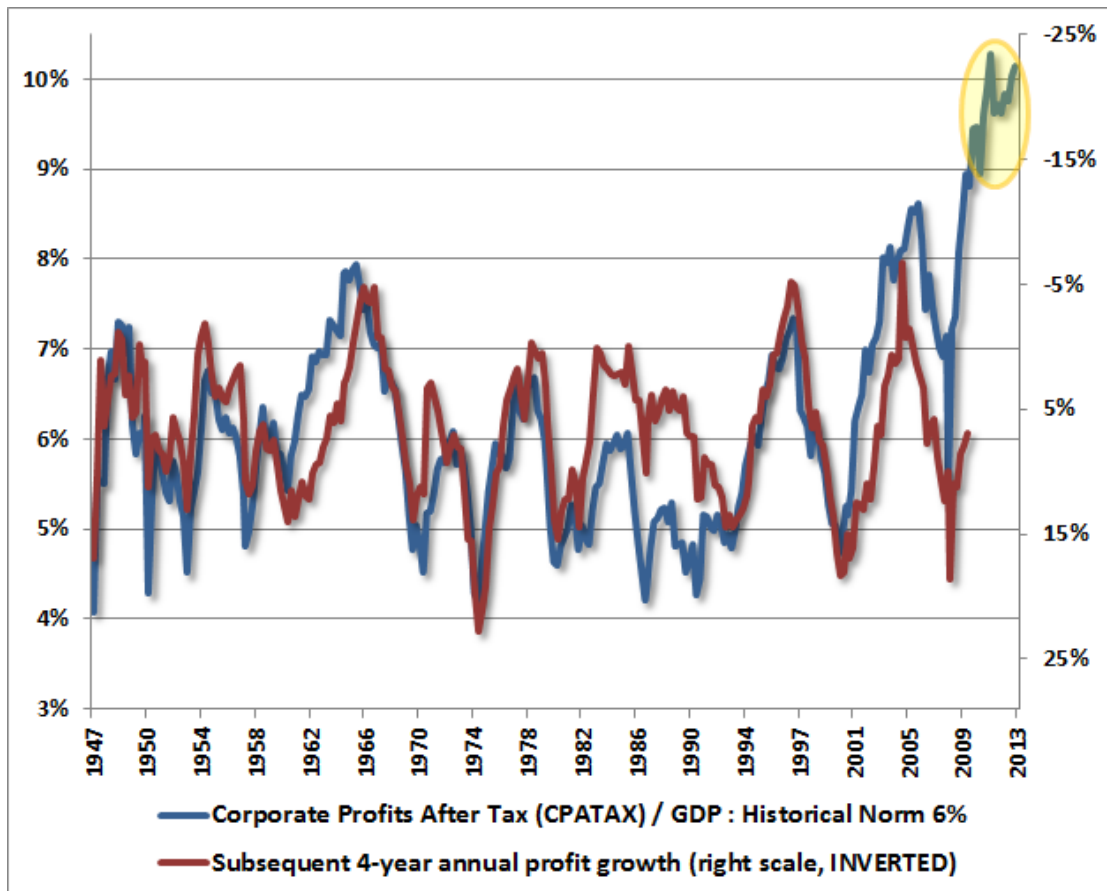
Indeed, so extreme have earnings levels reached relative to the broader economy that according to well known US fund manager John Hussman, US corporate earnings are some 80% above their historical norm, which he calculates by measuring corporate profits after tax divided by GDP.

The blue line in the chart below shows this represented graphically going all the way back to the mid 1940's, and as you can see, corporate profits after tax relative to GDP are 'off the charts' at present.

More concerning though is the implications for future profit growth, which as you can see, tends to fall following periods like the one we're in today (the red line is inverted). As Hussman himself has said,

"At present, the extreme profit/GDP ratio we observe here is consistent with expectations of a 22% annual contraction in profits over the coming 4-year period. – which would imply a roughly 63% cumulative contraction in profits from present levels. My impression is that's probably too aggressive an expectation except as a

temporary trough. A more reasonable expectation, in my view, would put corporate profits down about 10% annually over the next few years.



You can read more into John Hussman's analysis [here](#) and [here](#).

These record high profits have also caught the eye of Byron Wien, Vice Chairman of Blackstone Group, who, when asked to discuss what he considered the most important chart as we enter 2014 highlighted US profit margins.

He stated: *"profit margins are at a peak and they appear to be rolling over. This could mean trouble for 2014 earnings."*

A market that is already expensive by historical standards, and that looks 'fair value' only when extrapolating forward into eternity today's historically unsustainable earnings is one I would be extremely cautious of, especially when said earnings have been propped up by stock buy backs.

If corporate profits were to 'normalize', and investor appetite for said stocks also reverted to a more historical average, we would see stock prices substantially lower in real terms in the years ahead.

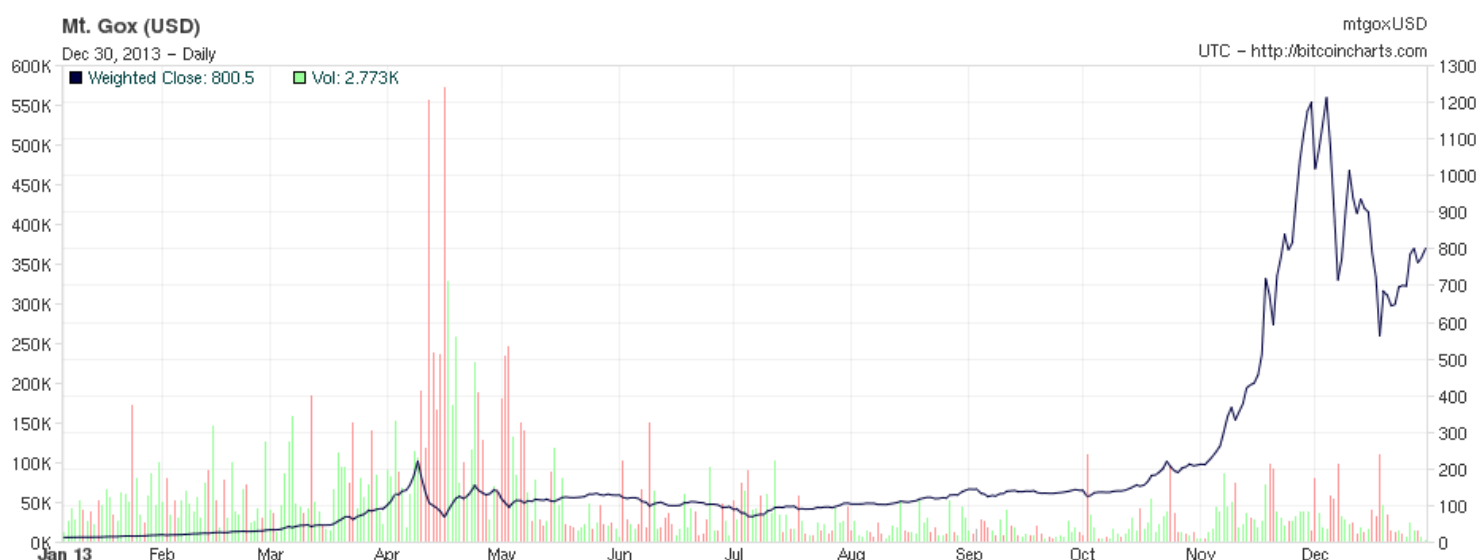
With that in mind, I think Bob would be a little worried about what's taking place in US equity markets today.

Rule 4. Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways

There are a few markets I can think of that this rule is pertinent for, including Bitcoin, which was one of the truly fascinating stories of 2013, and a concept I philosophically support.

I think the below chart captures rule 4 fairly appropriately. 'Investors' in Bitcoin earlier in the year must have been very tempted to sell for USD \$200 per coin, especially after prices corrected down toward the USD \$100 mark. Had they done so, they would have missed out on the potential super spike which occurred later in the year, where prices rose over USD \$1200 at one point, before crashing back later in the year toward the USD \$600 range

Apart from philosophically liking Bitcoin, and acknowledging that it has proved a terrific speculation in 2013 (provided you got in and out at the right time), I have no idea whether or not it's a 'good' investment, but I think potential 'investors' would do well to acknowledge that the price could fall from here just as quickly as it could rise.

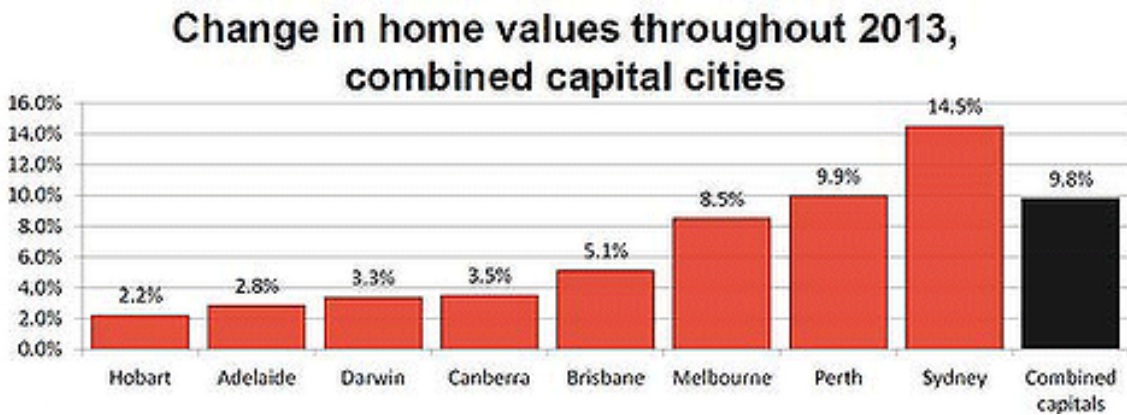
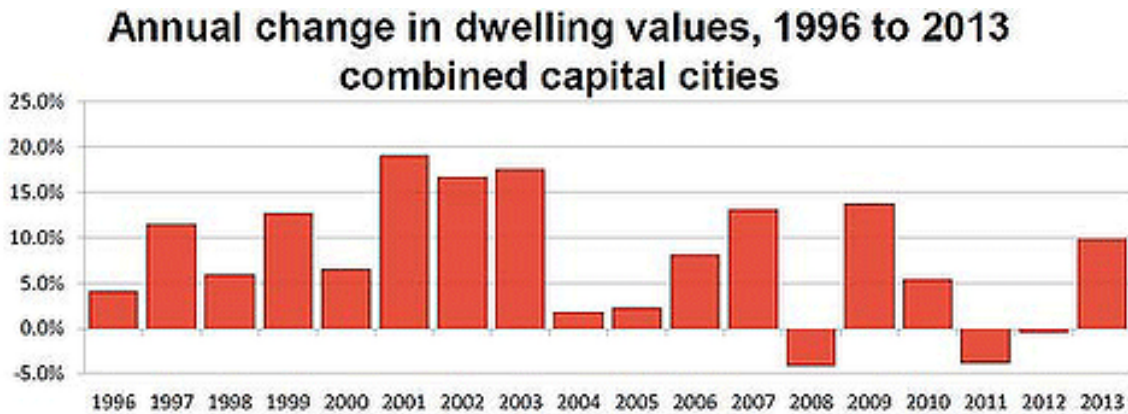


Of particular relevance to Australian's though when it comes to rule 4 though would be our housing market. There are many views out there as we enter 2014 as to whether or not our housing market is in a bubble already, but what can't be denied is that prices are rising fast, well beyond growth in disposable incomes, especially in Sydney, where prices rose a staggering 14.5% in 2013 according to the RP Data-Rismark monthly home value index which was released on January 2nd 2014.

This in an economy which, according to the latest set of national accounts showed that over 90% of our latest GDP growth came from one sector (net exports), and where cash rates have had to be cut to all time lows.

Over the course of 2013, most mainstream economists denied the existence of a housing bubble, although some did suggest Australia could enter one bubble in a

year or two, whilst others suggested the bubble was back in the early 2000's, after housing prices across the nation had been rising at +15% p.a. more for a number of years in a row, as the following chart shows:



What I do know is that following that incredible period of house price growth in the late 1990's and early 2000's, there was no correction of any significance, just a moderation of price increases.

History would suggest that's an anomaly.

As it stands today, especially after the nationwide 10% rally in house prices witnessed in 2013, across the country house prices are well out of whack compared to average incomes and rental yields. This is a subject the Economist touched on in 2013 when they stated Australian house prices were 44% overvalued relative to rents, and 24% overvalued relative to incomes, making us the fourth most expensive housing market in the world by their reckoning.

The Economist also has [this great interactive chart](#), as you can see, no matter which other country you compare Australian home prices with, they've had an incredible run since the 1970s, with no major correction along the way.

Rule 3 taught us that excesses are never permanent, and that nothing lasts forever.

I'm not sure that the bubble in Australian housing will end in 2014, but when it does, it's unlikely it will end in a benign fashion, with house prices stagnant in nominal terms whilst income's and broader inflation catch up.

It ought to be of particular concern to anyone whose used excessive leverage to get into the housing market in the last year or so.

Rule 5. The public buys the most at the top and the least at the bottom

This is hardly surprising, as the investing public love to back last year's winner, as they seem like such sure things, whilst shunning last year's loser's, for fear of catching a falling knife (and sounding like an idiot at the BBQ).

Consider [the following article, from January 4th 2013](#), which had Japanese stocks as one of the 5 most hated assets entering the year. Since the middle of 2012 the Nikkei has essentially doubled.

Margin debt is one way of measuring the phenomenon that is rule 5 more broadly. Unsurprisingly, the amount of margin debt utilized to buy stocks tends to be at all time highs alongside all time highs in the stock markets themselves, as the chart below shows.

This is because people are both more willing to borrow and invest, as they feel more confident to buy into equities after they've already rallied strongly, as well as being more able to as they've got unrealized gains they can leverage further.

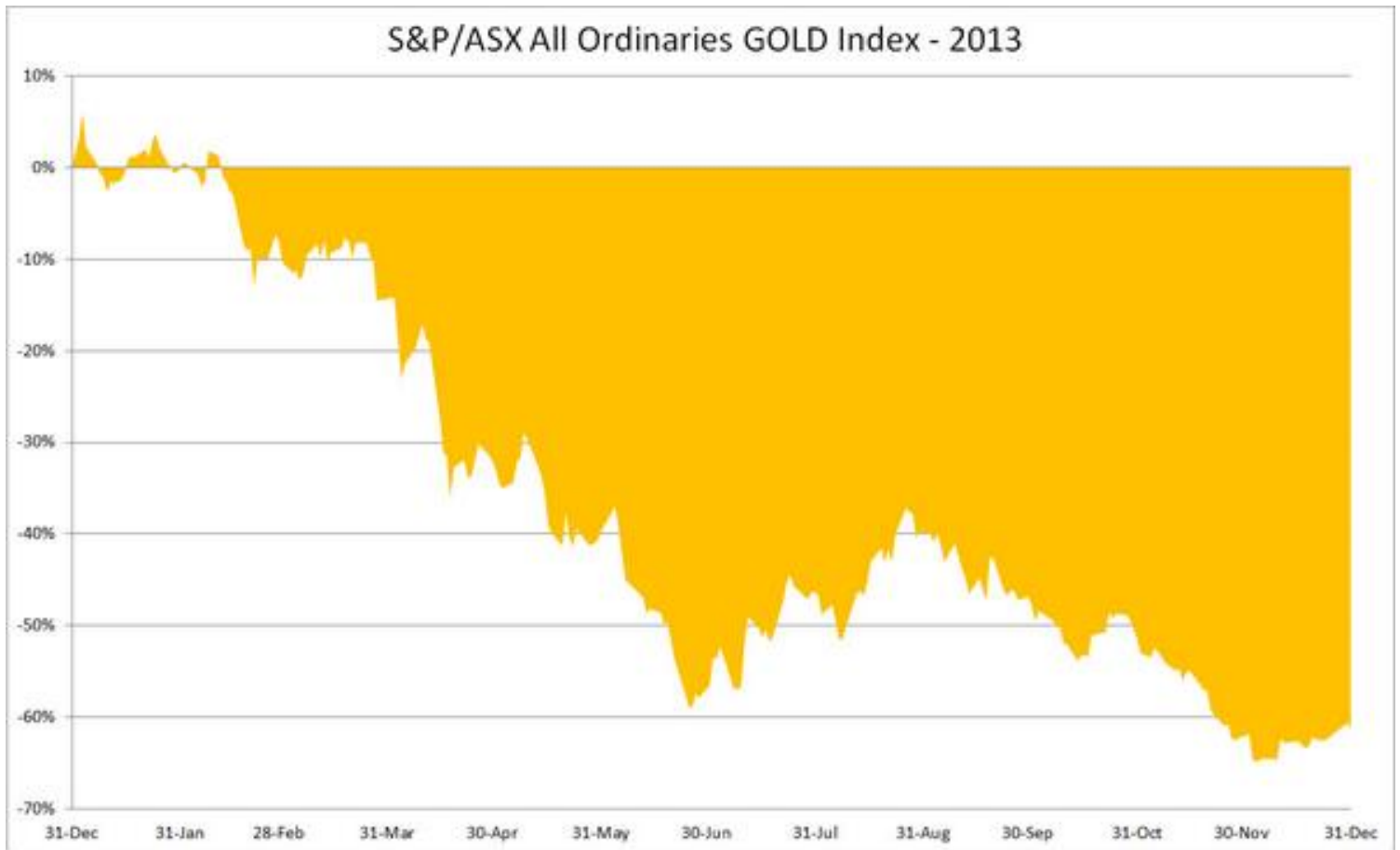
The smarter thing to do would be to leverage up when assets are on the cheap and unloved by the market, and sell after markets have had a great run. As Warren Buffet suggested "buy when people are fearful and sell when they are greedy". Good advice, but it's rarely followed by the investing public or indeed many institutional investors who repeat the same mistakes over & over again.



With that in mind, as we approach 2014, I think it's safe to say that the one area of the market no one will want to go near is the gold miners and explorers,

As the following chart, helpfully provided on December 31st 2013 by David Scutt of Arab Bank (@David_Scutt for those of you on Twitter) shows, the ASX 200 gold sector has fallen just over 60% across the course of 2013, by far the worst performer.

Not surprisingly, it's also by far the most unloved part of the equity market, with sentiment showing essentially no one is bullish towards this part of the market.



Meanwhile, financials, which have rallied strongly as investors have scrambled for yield and better returns than the paltry 3% or so on offer through term deposits, are the market darlings once again.

Rule 6. Fear and greed are stronger than long term resolve

Truer words have never been spoken when it comes to investing. As much as we might read about the secrets of investing success that great investors practice (buying great businesses at even greater prices), the reality is that the majority of the investing public love to back a winner, and almost always shun last year's loser.

Furthermore, it's why over the long run so many people don't make much money out of the markets, as they lack the discipline to take profits when the going is good (greed taking over), only to panic and sell when the market has knocked down the value of their investments, even if the fundamentals underpinning the businesses they own stock in are still strong (the fear factor).

Rule 7. Markets are strongest when they are broad based and weakest when they narrow to a handful of blue chip names

This one is particularly relevant for equity bulls, and on balance, you'd have to say the news isn't good for those who think markets will continue to head higher in 2014 and beyond. For whilst market indices either at or near all time highs around the world (including in Australia if you include dividends) give the impression of broad based strength in equities, the reality is anything but.

Consider Australia. Our market, which as I mentioned before is now back at all time highs, has always been dominated by its exposure to our 4 largest banks, Telstra, Woolworths and Wesfarmers and of course our 2 big miners, BHP and RIO.

Never before though has [the role of our banks been more important](#) in masking the true state of the rest of the market, for whilst our banks are now 40% higher than they were pre GFC, the rest of the market is still some 25% lower.

No wonder leading Australian fund managers are defining the current search for yield 'indiscriminate', because whilst the banks might be great businesses, you have to wonder if they're great investments when they're trading at all time highs relative to earnings (according to UBS), and the main driver of their earnings have been reductions in provisions.

This theme was also mentioned in [an article by Peter Esho and Vito Henjoto](#) of Invast, who pointed out that the ASX 20 was up by 10.9% this year, whereas the ASX200 was up only 8.3% (excluding dividends), indicating that nearly all the gains in the market this year have been in the largest stocks by market capitalization

Consider also the comments made by Carl Swenlin, President of decision point who stated in [an article just before Christmas time](#) that fewer and fewer stocks

were participating in the US stock rally and that the rally was being concentrated in larger companies.

Whilst none of this is 'proof' equities are set to crash in 2014, it's a troubling sign that I have little doubt someone paying attention to Bob Farrell's 10 rules would be paying close attention to.

Rule 8. Bear markets have three stages – sharp down, reflexive rebound and a drawn out fundamental downtrend

Rule 8 is another one for equity bulls to ruminate on as we enter 2014. The GFC was a very sharp down-leg. The past few years have been the reflexive rebound, and I suspect the drawn out fundamental downtrend is ahead of us.

Whilst I sympathize with the bullish case for equities, including implicit central bank support, healthier corporate balance sheets, and of course the '*there is nowhere else for investors to go*' argument, and think a balanced investor needs quality stocks in their portfolio, I simply don't believe secular bull markets begin with cyclically adjusted PE ratio's of 25 times earnings, or when profits are at all time highs.

Remember rule 3: "There are no new era's – excesses are never permanent"

Proper bull markets are born of absolute despair, with investor 'enthusiasm' essentially an oxymoron as no one wants to invest in said asset class.

When another 'Death of Equities' is the cover story of a prominent investment magazine that will in all likelihood correspond with a set of economic and market fundamentals which compel value investors to get back into the markets more broadly.

At present though, I believe that as we enter 2014 the third stage of this great equity bear market is still ahead of us.

This is something that the excellent Lance Roberts of STA Wealth Management alluded to in [an article published at the end of 2013](#) titled "Correcting some Misconceptions about a new secular bull market", in which he stated that, when it comes to the US equity market "*the current secular cycle still has roughly four more years, and one more nasty decline to come.*"

Note that we may well see continued nominal gains if central banks continue their race to the bottom with their respective currencies (the Venezuelan stock market led all comes in 2013, up by nearly 500% despite the fact you can't get a roll of toilet paper in the country), but money velocity will eventually pick up, and inflation will emerge. Therefore, either way you look at it, in real terms, there seems little opportunity in developed market equities, whilst there is the potential for much wealth destruction in this space in the years ahead.

Rule 9. When all experts agree and forecasts agree – something else is going to happen

I hope you'll forgive me, but I had to discuss gold here. Apart from the little foray into FIAT money discussed in Rule number 4, I had managed to avoid talking about gold up until now, but as a precious metals bull, and as an economist working for Australia's largest independent bullion dealer, it just wasn't possible to look at Bob Farrell's 10 rules without thinking of gold, and where his rules might be relevant for the yellow metal as we enter 2014.

Rule number 9 is relevant for precious metals, and for gold in particular as we head into 2014 as nearly the entire street is bearish towards precious metals, sentiment is at rock bottom lows, and futures positioning is extremely short.

Consider the following negative headlines regarding gold, which we were treated to in the final quarter of 2013.

Here's hoping that you'll forgive me if I labor the point.

In [an article appearing in Bloomberg](#) on October 8th, Goldman Sachs Jeffrey Currie called gold a 'slam dunk' sell, with the bank targeting a price fall to USD \$1050 per ounce at the time

In early December 2013, [UBS AG downgraded their 2014 gold price forecast](#) to only USD \$1200 per ounce, a roughly 10% reduction on their previous target of USD \$1325 per ounce.

On December 5th it was Macquarie Bank's turn, stating that they "think the gold price will continue to decline", although [they didn't give a specific target](#) or timeline for this price action.

A couple of weeks later [and it was HSBC's turn](#), and on December 13th they didn't disappoint, stating that, when it comes to gold: "We're now in a very clear bear market." predicting a USD \$1000 target by late 2014

Whilst it was a little earlier in the year, Credit Suisse also firmly placed themselves [in the bear camp when it comes to bullion](#), stating on May 17th 2013 that gold would hit USD \$1,100 an ounce within a year, and USD \$1,000 within five years, with their head of commodities research stating

"Gold is going to get crushed. The need to buy gold for wealth preservation fell down and the probability of inflation on a one- to three-year horizon is significantly diminished."

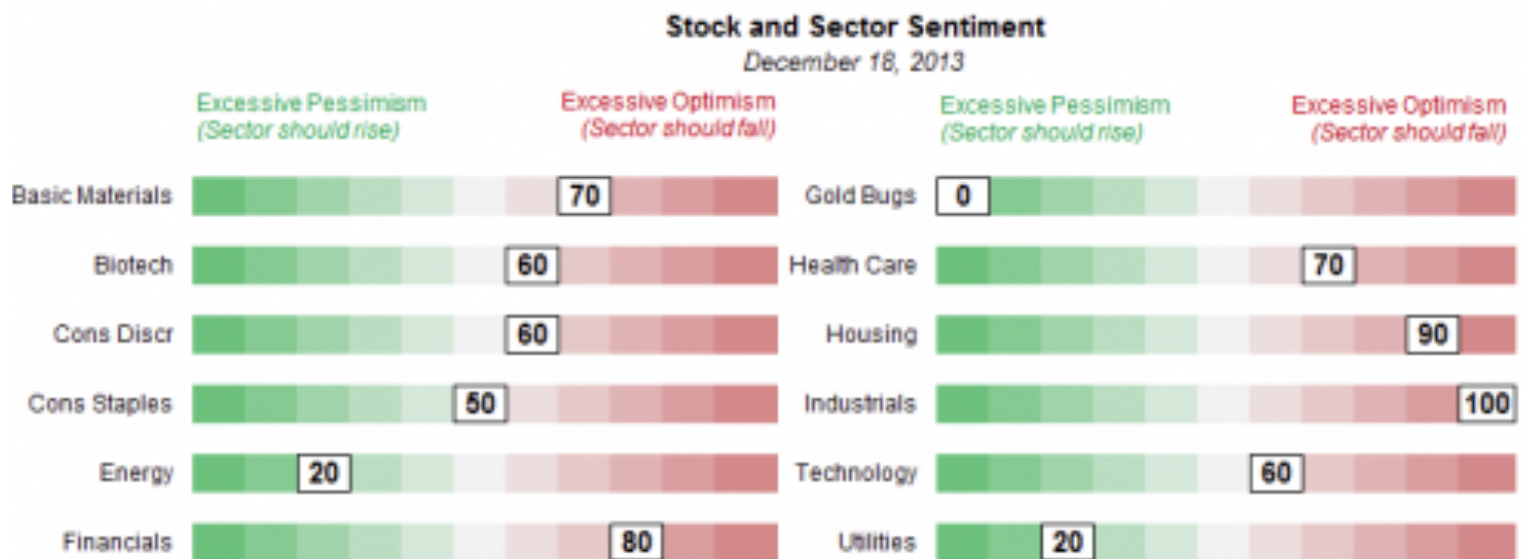
Just before Christmas, [Societe Generale joined the chorus](#), with Patrick Legland claiming that "over the long run, however, gold still looks overvalued." although he didn't state relative to what, or how low he saw prices going.

In mid December, we also saw [market strategists in Australia state](#) that “on a medium to longer-term point of view gold is heading in one direction – and that is lower.”

There was even a suggestion that Simon Weeks of Scotia Mocatta, who is also the chairman of the LBMA, predicted that the gold price will fall to USD \$800 in 2014, although this is more of a market rumour / hearsay than anything that’s been documented officially.

And it’s not just the ‘market professionals’ and investment banks. The investing public currently loathe precious metals, with a recent stock and sector sentiment survey having almost no gold bulls (slightly higher than June when it literally hit 0% bullishness), and other surveys putting investor optimism as low as it’s been at any point in the past 10 years.

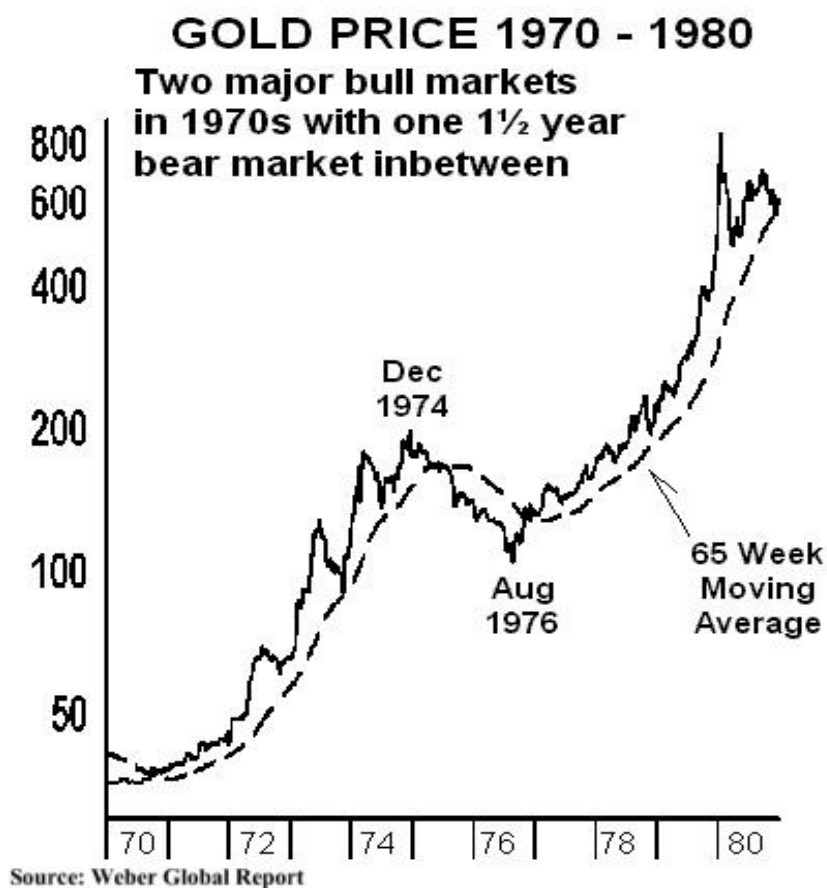
On top of that, you’ve got inflation expectations at their lowest in well over a decade, as [this short article covers](#). It’s truly no wonder gold is so out of favor, with the percentage of people bullish toward gold stocks (a good proxy for sentiment toward the overall sector but not a substitute for the real physical metal), hitting 0% in late December 2013. That’s not a misprint. Literally no one is bullish, [according to a Sentiment Trader survey](#).



Indeed, from a contrarian perspective, gold looks as hated at the start of 2014 as banking stocks did at the start of 2009. We all know what’s happened since to share prices in the financial sector.

I remain convinced the primary bull market for precious metals is still in place, and that we are witnessing a mid-cycle correction similar to that which took place between 1974 and 1976 during the last great bull market for gold.

As you can see from the chart below, returns following that correction were explosive, with prices rising from USD \$100 to over USD \$800. That’s real money.



And whilst all this bearish sentiment from investment banks and the general public doesn't guarantee this correction in metals is over, history would suggest almost blanket bearishness indicates that the correction has reached, or has almost reached exhaustion point, with a change of trend not too far away.

As Sam Stovall, investment strategist for Standard and Poor's once stated: "If everybody's optimistic, whose left to buy? If everybody's pessimistic, whose left to sell?"

With this in mind, I think Bob might look at all this bearish sentiment toward precious metals, and all the widespread 'certainty' of lower gold prices into the future, and he'd consider picking up a few ounces of gold and silver as 2014 gets under way.

Considering how beaten down the miners are at present, both in absolute terms and relative to the price of gold itself, he might put some capital to work in that sector to.

Rule 10. Bull markets are more fun than bear markets

This is one we can all sympathize and agree with, no matter what part of the market we specialize in, or wherever our investments are targeted.

As someone who has been a precious metal bull since 2003, and who's had the lion's share of my own wealth in physical gold, physical silver and resource companies linked to this space, the majority of the past 10 years has been fun, although 2013 is a year I'm happy to see the back of.

With that, here's wishing you all the best and every investing success as you enter 2014, and I hope you have a lot of fun along the way.

Warm regards,



Jordan Eliseo
CHIEF ECONOMIST

ABC Bullion

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