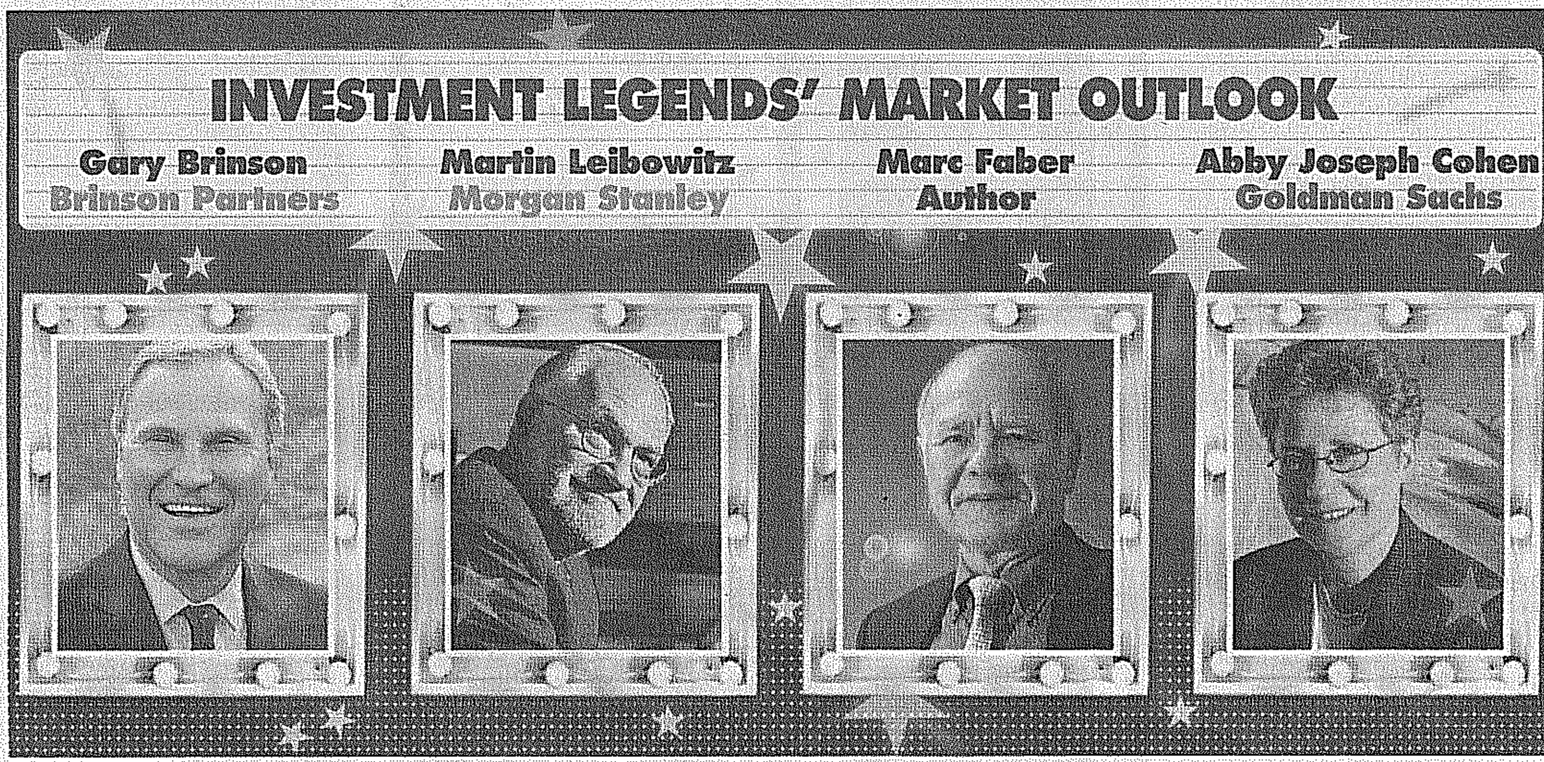
DAVE

View from inside the belly of the beast

The world's most respected investment gurus tell **Barrie Dunstan** and **Tanya Powley** their outlook on the world's sharemarkets.

'I don't know why we are here, but I'm pretty sure that it is not in order to enjoy ourselves.'
– Ludwig Wittgenstein



Investors around the world should tighten their seat belts for a bumpy ride and, if they are expecting any sustained recovery in stockmarkets, they should be looking to 2010 and perhaps beyond.

That's the pessimistic view from some of the world's best investment thinkers recently surveyed by *The Australian Financial Review*.

The investment leaders were initially profiled in *Investment Legends*, a 2008 book based on an earlier *AFR* series of interviews. In several cases in 2006 and early 2007 they were warning about the corrosive effect of overborrowing and the potential damage from a collapse of sub-prime home loans, well ahead of last year's crisis.

Several of them now pinpoint the need to resolve the long-term problem of the debts outside the traditional banking system before embracing any recovery in confidence and the supply of credit. They also highlight the difficulty of deciding whether to invest for deflationary or inflationary times.

Of those who are prepared to give forecasts, only Goldman Sachs's senior investment strategist, economist and renowned optimist, Abby Joseph Cohen, can see any silver lining in the markets.

She suggests the major US index, the S&P 500, is below its likely end-2009 fair value of about 1100 points.

Others are much more pessimistic.

Ray Dalio, of major hedge fund and economic analyst Bridgewater Associates, thinks the sharemarket will be lower than it is today in five years' time.

So, is he a bull over the long term? "I'd have to go out to 10 to 15 years," Dalio says bluntly.

Marc Faber, editor and publisher of the *Gloom, Boom and Doom Report*, thinks the S&P could rally to about 1100 to 1150 points (in an unspecified time period) — but thinks it could sink again to new lows.

Gary Brinson, a former major fund manager at Brinson Partners and a leading finance academic, isn't feeling too optimistic either.

He says that "this will be the worst world economic environment that anyone alive today has experienced".

Jeremy Grantham of GMO, who correctly called the crisis well ahead of time, thinks investment conditions suggest better returns over the next seven years — but warns the sharemarket could hit new lows this year or in 2010, perhaps to below 600 points on the S&P index.

This will be the worst world economic environment that anyone alive today has experienced.
GARY BRINSON

The pessimism extends even to mild-mannered Morgan Stanley Investment's Martin Leibowitz, a former bond market wizard and investment thinker.

Invited to give his views on the markets, Leibowitz says: "I've made a career out of analysing rather than forecasting.

"But, I can't resist responding to your . . . question: If you give me five years for it all to work out, I can't help but be bullish !"

Several legends publicly differ from the more encouraging views of Warren Buffett who said, at what appeared to be the nadir on October 16 last year, that he personally was buying US shares because they were cheap and because prices reflected widespread fear among investors.

Faber, for instance, argued late last year that Buffett's approach of "buy and hold" was dead. Instead, it would be a trader's, not an investor's, market, he said.

In a recent quarterly letter, GMO's Grantham said of Buffett's views that he knows it might be helpful to show confidence in stockmarkets but "it seems likely that, in terms of economic pain, 2009 will be the worst year in the lives of the majority of Americans, Brits and others".

He thinks Buffett was trying to perform a civic duty in October and says "animal spirits are a critical component of any recovery so encouragement to take risk from an authoritative source makes perfect sense".

But Grantham last month differed from Buffett's apparent view that the stockmarket could never plumb the levels of cheapness of 1974. "We would disagree. We suspect that cheaper prices are not just possible but probable — although admittedly far from certain."

His potentially unpopular views are anathema to many in the investment world who are, by nature, bullish.

Continued next page