



Akber Zaidi
Chief Investment Officer

Ask Akber

“The markets love gridlock. Gridlock ensures that the status quo remains and not too many dramatic changes will take place in policy.” – Cmdgt"\ckfk."Ejkgk"Kpxguv o gpv"QhLegt

The Global Environment

Editor: The market has come 180 degrees from last quarter in terms of sentiment. What do you make of the market?

Akber: Sentiment measures crowd psychology. The crowd is always right for the duration of the move and is always wrong at the extremes. The question to ask is if the crowd is extremely bullish right now. The answer is not yet and that is why the market has climbed this wall of worry in almost a straight line up. There will come a point when the crowd will be wrong and herd mentality will lead to the masses suffering losses. We believe the point is getting nearer. One sentiment indicator we follow is news stories on the cover of major publications. Recently, Barrons printed a Dow 13,000 story. When they printed a Dow 12,000 story over 6 months ago the market topped out a few weeks later. Another important factor being overlooked is yield inversion which is short term rates being higher than long term rates. Historically such a situation has led to recession and a tough environment for stocks.

Editor: How long do you think low oil prices will last?

Akber: Oil prices are in a long term uptrend. In the future there will be less oil and unless the world reduces its dependence on oil and its related products the laws of supply and demand will push the price of oil ever higher. Lately there have not been any oil shocks such as pipeline bombings, freighter crashes or OPEC production cuts. Oil companies stock prices are probably at levels where one should be accumulating shares.

Editor: Are you surprised the Fed took a “time out” in raising rates?

Akber: "Yg"ctg"uwtrtkugf"vjcv"vjg"Hgf"rcwugf0"kpfcvkqp"ku"pqv"nqy"cu"ogcuwtgf"d{"ocp{"kpfkcevqtu"kpenwfkpi"tkukpi"ycigu."tgpvu."jgcnvjectg."itckp"rtkegu"cpf"eqpuwogt"fwtdng"kvgo u0"Wphqtwvpcvgn{"qwt"vtcfkvpqpcn"ogcuwtgu"qh"kpfcvkqp"the consumer price index (CPI) and producer price index (PPI) count increases in technology as a reduction in price. C"oqtg"tgenkuvke"kpfcvkqp"kpfgz"ku"dgkpi"rtqrqugf"vjcv"yqwnf"cuuguu"rtkegu"dgvgvt"vjcp"vjg"vtcfkvpqpcn"kpfkcevqtu0"Vjku"icwig"ku"ukipcnkpi"vjcv"kpfcvkqp"ku"owej"jki jgt"vjcp"ku"dgkpi"tgrqtvgf0"

Editor: Do you see the Fed resume tightening any time soon?

Akber: The economy is slowing down and the full impact of the housing industry's decline has not yet hit the market. If the economy continues to cool then the next Fed move would be an interest rate cut rather than make a move.

Editor: How do you see the Democrats taking control of the Senate and the House affect the markets?

Akber: Changes will take place in policy. Historically the markets have done better when one party controls the executive branch and the other party controls the legislature.

Editor: What is your current view of the dollar?

Akber: Fundamentals dictate that the dollar should be declining against the major world currencies. The Fed is on hold and on the verge of cutting interest rates while the European Union and Japanese Central Bank are still raising their rates. The dollar's fundamentals are further hampered by the slowing growth of the US environment.

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