

# NEW MINERVA REPORT

"By the time you read this, you will know who the next president will be", is what we wrote last month. Who would have thought that, as we write a month later, we still do not know the outcome. It is said that US markets love government to be in "gridlock". This stops politicians from meddling in markets, and allows the Federal Reserve to keep its hand on the economic tiller, without having to compensate for government actions. Well, you can't get more gridlocked than not knowing who the next president will be! **The election is really just an excuse for pushing the market down.** It's often the way. When markets ought to be going down, they often need an external event to help them on their way. However, it is not all doom and gloom. The problem has been that the media have been concentrating on the technology indices and sectors. You would have thought that the NASDAQ Index was now the official index for US Inc. Whilst the NASDAQ may be down 36% since the start of the year, the Dow Jones and S&P 500 Indices are down 10%. If you take the technology stocks out, many of them are up!

It's official, **the US economy is slowing down.** By that we do not just mean that the GDP figures for the third quarter have been revised down, from 2.7% growth to 2.4% growth, we mean that Alan Greenspan has acknowledged it. As the markets were reeling from the list of companies announcing that their earnings for the fourth quarter would not meet expectations, and from the presidential debacle, **Santa Greenspan** came along to sooth their nerves.

Greenspan told markets, (via a talk to a gathering of New York bankers), that inflation was no longer the main worry for the central bank. He told the markets that, in an economy that has already lost momentum, one must remain alert to the possibility that greater caution, and weakening asset values in financial markets, could signal, or precipitate an excessive softening in household and business spending.

Last month we said that Greenspan must be alert to the possibility of the US economy repeating the mistakes that Japan made at the end of the 1980s. What Greenspan is doing by speaking in this way, is giving the markets the hope that he will bring interest rates down. This is the opposite action he carried out earlier in the year, when he threatened higher rates, (bias towards tightening), if the economy did not slow down. By talking, he is buying time to assess what is really going on in the economy.

You may recall earlier in the year that we said that Greenspan was not going to let markets go any higher, because he did not want to allow the "feel good factor" of higher portfolio values to feed into greater consumer demand. Now, particularly after so many geared up their portfolios into the "growth" funds, he does not want the opposite to happen. He does not want the lower markets to turn the economy into a recession. This is good news. It means that Greenspan will do all in his powers to ensure that we do not go into the deflationary spiral that caught Japan. Only time will tell

whether he succeeds. We must all hope he does. Whilst we are not out of the woods, at least now the odds are that markets will not crash, just yet!

## GETTING INTO PERSPECTIVE

One thing, it is important to do when markets are behaving badly, is to get events into perspective. Readers will know that we were very concerned about the prices in the TMT stocks at the beginning of the year. We warned that the index could get to 5200, but that this was a "blow-off", and should not be trusted. Many investors piled into technology funds at the end of the ISA season, and our hearts go out to them. Naturally we assume that none of our readers were so imprudent. Do you remember the crash of 1987? Any investor that invested in January 1987 would have been very shocked by October's crash, but they would still have ended up pretty much where they had started at the beginning of the year. So it is with TMT stocks. If you had bought the NASDAQ 18 months ago, you would still, as a sterling investor, be sitting on a gain of 19%.

It is quite informative to go back 18 months, because this is before the big jump started. Looking at our indices and indicators, top of the list is Brent Oil, which has risen 155%. Second is the NASDAQ bio-technology index up 142%. Third is Finland (read Nokia), which was up 84%. At the bottom end of the table is the Philippines down 49%, closely matched by Thailand down 41%. The poor old FTSE has just managed to keep its head above water, with a gain of 1.8%. Most of the main markets have managed double digit gains over the last 18 months.

There are still considerable anomalies in share prices. Bill Mott, who took back the management of the Credit Suisse income fund, (& how well he has done!) says, "*using my valuation parameters I can find between 10 and 15 FTSE-100 stocks which need to fall by 50% before they approach fair value. Equally I can find many FTSE 250 and smaller companies which could rise by 50% without becoming dear.*" After several years of "growth" and "momentum" investing we are now witnessing markets moving back to fundamental analysis. That is why good fund managers will continue to produce positive returns.

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