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# My 2007 portfolio: cash, farm land and precious metals

## The last few weeks have been characterized by a weak dollar and rising equity, bond and commodity prices. As we move into 2007, the pattern will be the same. Either the Fed finally decides to implement tight monetary policies which would strengthen the US dollar and weaken all asset prices except bonds, or the Fed continues with its expansionary bias.

In that case asset prices (except bonds) will continue to rise and the dollar will continue to weaken. However, it should be understood that under easy monetary polices, dollar assets (US equities, bonds and real estate) will, as has been the case for the last few years, under-perform foreign assets and commodities.

Since Mr. Bernanke was appointed Fed chairman the S&P 500 is up in dollars by 14.6% but only by 7% in Euro terms. Over the same time frame (November 1, 2005 to November 27, 2006) gold is up 40%, silver 80%, and copper 68%.

Year to date, the S&P is up 11% in dollars but only up 0.2% in Euros and of course down against gold and silver. The worst investments were US dollar cash and bonds, both of which declined in value in Euro terms, and in gold terms.

### Selling during euphoria

From a contrary point of view, reducing exposure to asset markets over the period directly ahead will likely prove to be the correct strategy. If buying during panics makes sense, selling during euphoric buying binges might also be the right strategy.

Stock markets may shortly top out amidst rapid group rotation taking place. Because of the Euro strength, European markets may top out first. Also, about 70% of financial institutions are now positive about high tech stocks.

My inclination would be for equity investors to shift out of high tech shares back into energy (oil, coal, drilling companies) and mining shares.

I am mentioning this shift back into energy shares because, a few months ago, we felt that sentiment toward high tech shares was overly negative. The opposite seems to be now the case. Moreover, short positions in high tech shares have been reduced significantly.

### Asian equities

For investors who wish or need to have an equity exposure I suggest to continue to over-weight foreign markets, especially the Asian stock markets (Malaysia and Taiwan) and to significantly underweight US assets.

What investors should, however, clearly understand is that, since 2002, all asset markets have risen in tandem and have become very closely correlated. So, when for whatever reason liquidity shrinks, all asset markets could be vulnerable to massive liquidation! (Certainly liquidity will evaporate when markets sell off - but what will be the catalyst?)

The investment, which is least correlated to asset markets would appear to be a diversified portfolio of cash, farm land, and precious metals. In particular precious metals could benefit from financial turmoil!

As Robert Prechter recently showed, gold will at least maintain its purchasing power, both in a period of high inflation and also if asset markets implode.

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