



## **GUILD INVESTMENT MANAGEMENT INC.**

### **Monty Guild's Global Market Commentary**

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#### **THE BAIL OUT BEGINS IN EARNEST...ITS EFFECT WILL BE MORE INFLATION**

##### **THE U.S. DOLLAR**

As we predicted, the drumbeat of PR for the dollar has begun in earnest, and this was and is to be expected.

No governmental financial authority anywhere wants the dollar to fall in a straight line without any rallies and without any slowdown. Now an effort has begun to give the dollar a rally; and it has been successful so far. The battle to slow down the dollar decline will include:

- Intervention by central banks to protect their dollar holdings.
- Jawboning by central bankers and finance ministers in every country to try and give the dollar a further rally.

Long-term, we remain bearish on the U.S. dollar. We should however, remember that even the dollar can rally, and it occasionally does. It rallied for eleven months beginning in December 2004. Then it had a spectacular decline from late 2005 until quite recently.

##### **THE CREDIT CRISIS - A BAIL OUT IS UNDERWAY**

In the last two weeks there have been several capital

#### **About the Authors**



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injections into the weak banks and brokers.

Abu Dhabi has injected money into Citicorp. Ping An, the Chinese insurance company, has injected money into Fortis Bank, Citadel into E-Trade, Bear Stearns has traded investment positions with CITIC, the U.K. Government and the German Government have injected funds into U.K. and German banks. The Chinese Sovereign Wealth Fund announced that some of their money would go to capital infusions in Chinese banks. Today, UBS is getting a capital injection from Singapore and an unnamed mid eastern source.

Many investors, including sovereign wealth funds and major hedge funds are looking at the possibility of buying up assets on the cheap from banks, brokers and funds who are stuck with illiquid paper. To some, buying subprime debt at 20 cents on the dollar may qualify as cheap.

## **ECONOMICS**

Certainly, the U.S. economy is just beginning its profits recession. U.S. corporate profits will be down for at least two quarters, and for even longer in the housing and finance sectors.

Companies will also have to deal with CPA's being much more vigilant about making their clients write off submerged bad debts and accounting for unpriced, or mark to model investments. Therefore, it is an easy call to say that the recession in U.S. profits and U.S. GDP growth is just beginning. We can expect the news media in coming months to be full of negative news about corporate profits.

## **THE EASIEST SOLUTION TO SOLVING THE CURRENT PROBLEMS IN THE NEWS IS TO...CREATE MORE INFLATION**

Most of the problems have to do with the bad debt clogging



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the U.S. financial system and contributing to a situation where credit is not available to some borrowers. This can have long-term economic consequences and should be cured as quickly as possible. The recent government intervention will not be a major part of the clean up.

For this reason, we are happy to see the sovereign wealth funds and hedge funds step up and buy heavily discounted assets at what they think are bargain prices. Will they be followed by other opportunistic investors?

The markets have been trying to determine the following:

- What is the clearing price for the bad paper clogging up the financial system?
- Have we reached a clearing price?
- Are their buyers at this price?

When a clearing price for the hundreds of billions of unpriceable assets is found and when a liquid market has developed, then the blockages in the world financial system will unblock and the world economy will have the wherewithal to begin repairing itself. The recent purchases seem to be the first step in this process and we should have no doubt that the first step is the hardest and requires the most courage.

## **THE MAJOR EVENT IN OUR FUTURE IS MORE INFLATION**

For the major economies of Europe and U.S. with credit problems, the short term question remains, "has a clearing price been found?" If it has, then the markets after a few months of volatility will move higher. If the price has not been found, we will likely see stock market declines until such a clearing price is found and the system can become unblocked.

Bigger economies with more problems have a longer process until the problem is cleared up and they can attract investors in large quantity. It is obvious that the current rally in the

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U.S. and European markets is a short covering rally. It can become a long-term rally when market participants become convinced that a clearing price for problem assets is found and transactions begin to take place.

Outside of Europe and the U.S., in countries with no big damage to their banking system, this repair can begin sooner rather than later.

The question for the fast growing, non impaired economies is how much will growth slow, and how long will it be before growth accelerates? These markets are probably good buys on the 30 to 40% declines they often get, and some of them are already close to a buy point.

We are not yet ready to buy aggressively, but we believe that the best and first opportunity will develop in Hong Kong, India, Brazil and Russia.

## **WE ARE CHANGING OUR VIEW OF RUSSIA**

We have been negative on Russia while President Putin has been consolidating power.

Now he has the power. The country is awash in cash, and the consumer is spending. The market is cheap, and we are embracing Russia now. One big reason is that inflation is going to return to the world and return in an ugly way. Russia has gold, oil and base metals in large amounts.

## **SOLUTIONS TO THE CREDIT CRISIS ARE SOWING THE SEEDS FOR FUTURE COMMODITY PRICE INCREASES**

In the last letter we outlined the four approaches which will probably be used to end the credit crisis. These actions will eventually create inflation and debase the U.S. dollar further, creating a very friendly environment for gold, oil and base metals. If you are a long-term investor, it is a matter of

remaining patient while the normal correction takes place.

There will be more in the next memo on the inflationary consequences of the actions taken to stop the credit crisis. Long-term, all of this is very bullish for base metals, gold and energy prices, Brazil, Canada, Russia and other countries which produce precious metals, base metals and oil. Also, it is bullish for those countries which are growing faster than inflation such as China and India after correction, those two countries are currently overpriced.

Thanks for listening, and we hope you have a wonderful holiday season.

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