

US at beginning of bear market, Marc Faber says

LOOKING AHEAD: The publisher of the 'Gloom, Boom & Doom Report' said he expected the Dow Jones Industrial Average to fall below 12,000 points

BLOOMBERG AND AFP, NEW YORK
Sunday, Aug 12, 2007, Page 10

US stocks are at the beginning of a bear market in which benchmark indexes may fall more than 30 percent, investor Marc Faber said.

Faber, managing director of Marc Faber Ltd and publisher of the *Gloom, Boom & Doom Report*, said losses in mortgage-backed bonds are not "contained or easily solvable" with interest rate cuts by the Federal Reserve. He predicted in an interview on Friday that the Dow Jones Industrial Average will drop below 12,000.

Faber said investors conditioned to buy stocks on dips helped push the indexes to records after sell-offs in February and June. Emerging markets are particularly vulnerable because investors have bought into them heavily, he said. The Morgan Stanley Capital International Emerging Markets Index has dropped 10 percent since climbing to a record on July 23, cutting its gain for the year to 15 percent.

Other investors said stocks will rebound because of profit growth. Second-quarter earnings for members of the Standard & Poor's 500 Index have climbed an average 10.9 percent among 452 companies that reported results, according to Bloomberg data.

"We are still very positive on the equity market," said Brian Stine, who helps oversee US\$29 billion as investment strategist at Allegiant Asset Management in Cleveland. "The fundamentals haven't changed. Global growth should translate into earnings and higher stock prices."

The US Federal Reserve on Thursday added US\$35 billion in temporary funds to the banking system, the most since at least July 2002, amid an increase in demand for cash from banks roiled by US subprime loan losses. Traders are speculating that the Federal Reserve will cut interest rates at an emergency meeting as soon as next week, according to Merrill Lynch & Co.

"I'm very critical of central banks," Faber said in an interview from Vancouver. "They may bail out the system, but there will be a cost, and the cost will be inflation."

Faber told investors to bail out of US stocks a week before the 1987 Black Monday crash, according to his Web site. He correctly predicted in May 2005 that stocks would make little headway that year. The S&P 500 gained 3 percent. He also told investors to buy gold in 2001, before it more than doubled.

On March 29, Faber said the emergence of home loan concerns meant the stock market was unlikely to benefit from the conditions that supported its rally since last June. The S&P 500 climbed 10 percent between then and July 19, when it reached a record, and has fallen 7.1 percent since then.

The blue-chip Dow gained 0.44 percent for the week to end Friday at 13,239.54, while the broad-market Standard & Poor's 500 rose a more substantial 1.44 percent over the week to 1,453.64.

The tech-rich NASDAQ composite increased 1.34 percent on the week to Friday to finish lower at 2,544.89.