

# ASPERA BULLETIN

Intelligent, Independent Investment Management

## Curse Of The Contrarian

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Aspera Financial, LLC is an independent registered investment advisor.

Aspera offers independent fee-only investment management and advisory services throughout the Triangle area and nationwide.

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Every client portfolio is separately managed.

The securities and strategies discussed in this Bulletin may not apply to every client portfolio.

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It's so ugly out there, it's hard not to be a little bullish. My contrarian sympathies have certainly been helpful in avoiding complete disasters over the years and have been instrumental in all of my most profitable investments. But everything has a cost. The curse of the contrarian is often being early in your calls, sometimes quite a bit early. That has always struck me as a very fair trade.

With the global economy now in tatters, stock markets hitting fresh multi-year lows, and journalists jockeying to see who can use the word "depression" most often in their articles, the contrarian in me is starting to feel a little frisky. Perhaps the stars are aligning for a nice rally. For today's exercise, we'll temporarily set aside all of the doom and gloom (of which I've contributed my share over the years), and we'll take a look at a few positive developments.

1. We can argue about the merits of the stimulus (and I've been against it from the start), but there's a good deal of monetary and fiscal stimulus on the way. The authorities have made it clear that they will stop at nothing to "fix" the economy. Ignoring the potential longer-term negative consequences of their prescription, the current and future stimulus (yes, there will be more) will show up in the economy.
2. Stocks in the U.S. are now off about 48% from their highs. Much bad news has been discounted.
3. Bearish sentiment has been climbing again. The herd of bulls is thinning and those remaining are far less vocal.
4. The Leading Economic Indicators rose for 2 straight months. Yes, it can be explained away, but at least it rose.
5. The money supply has been rising at a healthy clip. True, it isn't making it's way into the economy -- yet. That could change sooner than expected.
6. On a related note, there is a great deal of cash sitting on the sidelines, waiting for a little more clarity and confidence to move back into risky assets.
7. On a related note, the fixed income markets have been showing some signs of life recently.

8. Once again, a number of pundits are questioning Buffett's investment acumen. That's usually a good contrary signal.
9. New housing starts are plummeting. This will help with the excess housing inventory problem. It will still take more time, but it's happening.
10. Companies have been fairly quick to reduce costs in this downturn, and corporate balance sheets were in pretty good shape going into it. Once business finally does pick up, we could see some rapid margin expansion.
11. Based on a number of different metrics, equity valuation looks much more reasonable. We're hardly at bear market lows, but some metrics are at levels not seen in a couple of decades.
12. The market has fallen 14% since February 9th. It sure feels like we're oversold near-term.

That was refreshing. Again, this is not a bottom call. In the near-term, we are oversold. Markets don't go straight down. It would be more surprising to me if we didn't experience a rally imminently.

In recent days, I've added a little more market exposure, reduced our already small short position, and reduced our gold position (still one of our larger holdings). Gold is due for a healthy pullback after its recent rise, and I suspect a rally in the market may result in a decline in gold as safe haven buying temporarily wanes. Should this occur, I'll be rebuilding the gold position again.

The odds favor any rally being a trading opportunity. In the meantime, I'll enjoy basking in my relative bullishness.

Best,

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President  
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