



Although *Forbes Magazine's* Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher remains upbeat about the US economy, many believe a slowdown is on the cards. In which case, what's the best plan of attack?

# The weakest link

Continental European consensus views fear a US economic slowdown. Many do in America too. Maybe you do as well. For years now the two "great uniteds", the UK and US, have been doing better economically than the rest of the developed world. Actually Britain and America look amazingly alike in terms of basic economic conditions, including comparable yield curves relative to the world, trade, current account and budget deficits as a percentage of GDP, basic GDP growth and most other major economic features. Yet the world right now fears the US economy will be flattish or recessionary and maybe simply running out of steam.

As per previous columns, I'm optimistic for 2007 in the US, and everywhere else for that matter. I believe consensus views will be proven quite wrong. And ironically, in the last four months, as this view has increasingly emerged, US stockmarkets have started performing better relative to non-US shares after lagging badly for the prior three years.

Still, suppose I'm wrong and the US economy turns weak. What to do? First, ask the most basic question: should you be globally bullish or bearish? Because stocks are very cheap – cheaper than they've been in a quarter-century, when you compare earnings yields (the inverse of the P/E) to corporate and government bond yields all around the world – I think stocks are much too cheap for a major bear market. Hence, without a major bear market, the question is what type of stocks to own.

If the US is to turn weak economically you should continue to overweight non-US stocks. Fortunately, that is easy to do since, by the aforementioned valuation measure, stocks are cheaper outside America than within it. The US spread between the E/P and the 10-year US government bond yield is 2.5%. In Britain, France, Germany and

Japan the comparable data averages just above 4%.

Cheap, high-quality, basic non-US stocks is one way to go. I've recommended many of these here over the last year. But owning no US stocks is a big, risky bet for a global investor relative to the world market, where the US comprises almost half the global market by any measure. So, while underweighting America might make sense, within that underweight you might want to include US stocks that do well when the economy is weak.

Most typically the non-economically sensitive stocks include utilities, consumer durable stocks and retailers that sell consumer durables. Below, I've given a few of these and two good German financial stocks. That said, I still expect 2007 to be a fun year.

Twice as big as it was then, and still less than half its 2000 peak – just when the non-US market is hitting all-time highs – Germany's **Allianz AG** is too cheap by half. Its peers average fully twice Allianz's price to sales multiple of 0.60. Yet its broad-based insurance revenue, spanning 60 nations, is also mostly

outside America. Its 10 times earnings is simply too cheap for a firm of this quality.

Also German, **Deutsche Bank** is an investment and institutional (non-retail) bank and a money management firm. It is cheap enough at current prices that you can justify the entire stock price on the money management firm alone, based on industry comparables. At 10 times earnings you get a cheap stock in a firm that will grow moderately.

If you fear a US slowdown, try consumer staples stocks such as **Kraft Foods**, a classic recession-resistant stock. It's the US's largest food manufacturer with a long list of premium brand names that won't quit. It sells at multiple discounts to its peers such as Hershey or Groupe Danone.

A smaller one is **Smithfield Foods**, which is the world's largest pork processor. For its demand to dry up, the US would have to stop eating lunch. With no controlling position, this one could be easily taken over and have the acquirer's earnings per share rise because of it – selling at 30% of annual turnover and 15 times earnings.

America's **Dollar General** sells consumer staples to the low-end market. As the economy weakens, its customer base actually grows. At a market multiple of 15 times earnings, I think it could be bid up to premium prices.

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