Forbes Magazine's Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher says the US's huge federal budget deficit is actually good news for investors as historically this has meant US stockmarkets perform well

An unlikely source of optimism

Still another reason I'm so bullish is because of the US's huge federal budget deficit – and I bet you've never heard that before. Still, it's a fact. When budget deficits have been huge, the US stockmarket has subsequently always been positive and, on average, done phenomenally well. When the US has had surpluses stocks have stunk. If US stocks do well, so will most of the world's equities.

Depending on who's counting, 2004's budget deficit should be something shy of 4% of gross domestic product. At similar times in modern history – for example, 1949, 1958, 1971, 1975, 1982 and 1992 – the market has been followed by very nice subsequent 12 and 24-month returns. The granddaddy of all budget deficits was in 1942/43, exceeding 25% of gross domestic product, and was followed by the biggest and longest bull market of all time. Counting that isn't fair because of the entangling of the effects of winning the war but the others are largely apples to apples comparisons.

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It makes sense. Originally deficits were conceived as a tool to motivate money to change hands faster. In economic theory, the marginal velocity of money on a new loan is higher than the average velocity of money – pulling up the average as new money is created through borrowing. If consumers and business wouldn't borrow, the government could, increasing the turnover of money. When that happens some of it ripples to stocks, pushing up prices and, looking to that happy outcome, you might want to ripple to stocks such as the following.

Pediatric Medial is the US's largest provider of healthcare services for kids, covering 31 states and more than 200 affiliated hospitals via 690 physician specialists. It pushes superior clinical information systems relative to smaller peers. One risk is an over-concentration in Texas, with 30% of its revenue. One benefit is that it could build similar market share to what it has in Texas all across the US and then would be five times its size. At 16 times trailing earnings (a forward earnings yield of 6.4%) this is a cheap way to find growth.

Norway's **Telenor** is a cheap play on a resurgent telecom sector. Beefing up its mobile phone business at home, it is also growing by successfully entering cell phone markets in Hungary, the Ukraine, Malaysia and Bangladesh. These are places where people are jumping direct to wireless and expect more to come. One weakness and risk is that Norway's government still owns half the stock. But at 10 times trailing earnings, lots of potential problems have already been forgiven.

Premcor is one of the US's largest independent refiners. It is rare in its ability to process cheap high-sulphur crude oil. Most peers are geared to scarcer, low-sulphur crude and I expect this firm to be acquired by a major international oil giant. Premcor's new incoming chief executive previously ran Tosco when it was a similar independent and oversaw its acquisition by ConocoPhilips and he should do something similar here too. The market doesn't like independents but that gets taken care of by acquisition. Meanwhile, at less than 40% of annual revenue, it is cheap and 10 times trailing earnings.

Wolseley may be British but it is the largest distributor of plumbing and heating products to professional contractors in the US, UK, France and Austria, with the bulk of business in North America. It has strong

but less dominant positions in various other countries, but North America comprises about 60% of revenues.

In the US and UK folks fear that housing is a bubble but I don't buy it. Housing may or may not fall in price and construction may or may not fall some. But it isn't bubblicious. Bubbles are never called bubbles until after they've blown – but never before that happens.

Before that they are seen as having unique reasons to defy common economic principles – the way tech was five years ago. Housing has been labelled a bubble for several years so I expect it isn't and will do fine as long as long-term interest rates remain relatively low. At the same time, the fear of it being a bubble must already be priced into the market. Of course, Wolseley also benefits from non-residential construction and the stock is adequately cheap by almost any standard.

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