Forbes Magazine's Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher insists that, where governmental budget deficits are concerned, conventional wisdom is wrong – actually we are massively under-indebted

Why debt is no bad thing

On top of last month's many reasons for stockmarket optimism are two surprising positive twists. The US central bank is raising short-term rates while long term rates don't – and won't – budge upwards. That is breathtakingly bullish. Virtually unrecognised is the US experience of periods starting from a steep yield curve that flattens as the Federal Reserve raises short-term rates.

There are 11 instances between 1955 and 2004 when the US's yield curve spread was at least 125 basis points and then Federal Reserve rate hikes closed that spread by 100 points in six months – exactly what we have now. Of those there are no periods where the S&P 500 was lower 18 months later, only two that weren't up double digits while the average return was 25.4%. As goes the US, so will go the world.

Another perverse twist is that almost everyone gets it backwards relative to the governmental budget deficit. The US history of returns following very large budget deficits as a percentage of gross domestic product is overwhelmingly – though not perfectly, positive and by an order of magnitude – and better on average than periods from history with a budget surplus like late-1999 and 2000 were.

Having never feared budget deficits, I now pray the US's stays relatively high long enough to really spurt us forward. The reason people see this backwards is that they think of a national budget as they would their personal checking account. To run a deficit means taking on debt and in western society debt is seen as bad – even immoral – while more debt is seen as worse. It has been that way for 2,000 years.

But in reality the US, the UK and the world are actually massively under-indebted. Yes, you read that right. No one stops to ask what the right amount of debt to have is and then calibrate from there. But, in terms of economics, if your borrowing costs are well below your return on assets you should be borrowing more and that is true nationally, almost globally and certainly in the US and the UK.

We can all carry, collectively, four to five times the debt loads we do now, so we are massively under-indebted. Governments usually spend stupidly but the next guy to get the money doesn't and deficits move us closer to the higher amount of debt we should be collectively carrying. Pray for deficits. And buy stocks such as the following.

Greek-based **Coca Cola Hellenic Bottling** should become increasingly visible as a stock in the next few years. Serving 26 nations with an aggregate population 14 times that of Great Britain – and with much higher average gross domestic product growth rates – this company is a play on the fast-growing eastern European nations where freedom is emerging faster than anywhere else on earth, according to this year's annual freedom rankings by the Heritage Foundation. As its opportunity is more broadly perceived, this stock sells at a premium to its peers instead of average multiples. Right now it is at 15 times trailing earnings and one times annual revenue.

I expect further effort towards the UK's deregulation of gaming, which should help UK-based **Rank Group**. It runs bingo halls, casinos and online gaming. It also owns the Hard Rock Café chain, with 100-plus locations and hotels globally, and it is very strong in the duplication and distribution of DVDs and VHS tapes for film producers.

I'm betting the parts are worth more separately than together and that Rank spins off or sells Hard Rock and the film business and, when they're gone, what is left will get spotlighted and valued upwards. It currently sells at 80% of revenue and has a 4.9% trailing dividend yield.

WFS Financial appeals partly because it sounds so unappealing. It is the used-car loan business in the US, which sounds messy. But the group has it down to a science, lending profitably and efficiently compared to peers and growing quickly by gaining market share. Some 70% of loans are processed via the internet and its loan portfolio is diversified and low-risk. WFS has minimal market share and keeps growing because it can take business away from its many lesser competitors who hold most of the market. Predictable growth with 12 times trailing earnings makes the company very appealing.

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