



Due to the fact that the US and UK stockmarkets usually correlate about 90%, *Forbes Magazine's* Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher says the US can be used as a laboratory where Britain can experiment with itself

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One big economic laboratory

One advantage the US gives Britain is a well-defined laboratory where Britain can experiment with itself. Usually the two countries' stockmarkets correlate about 90%, if adjusted for currency shifts, so if you can learn something unexpected that tends to drive US markets you know a largely causal surprise factor for Britain too.

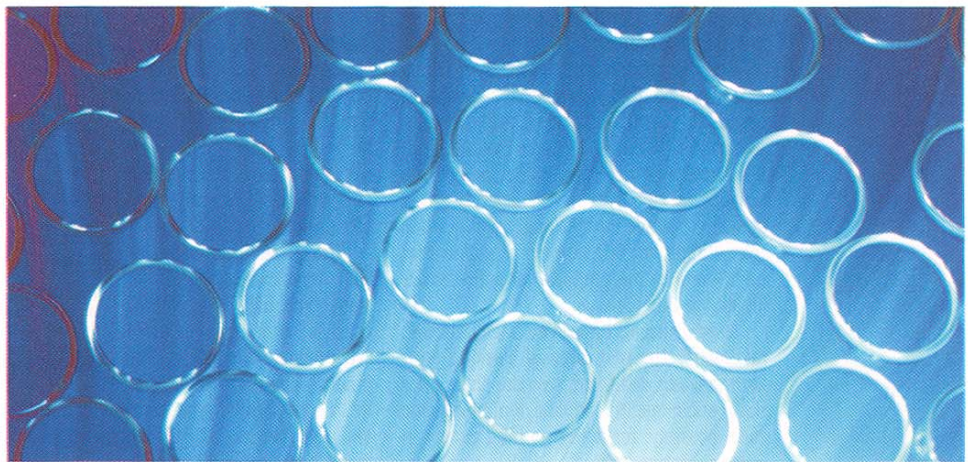
Example? Since 1955 there have been only five big extremes in British Government deficits or surpluses as a percentage of gross domestic product or "GDP". Big surpluses peaked in 1970 at 8% of GDP, 1989 at 2% and 2000 at 2%. Big deficits occurred in 1981 at 3% and 1994 at 6%. Now it's deficits again with 2% of GDP.

But we don't have a big enough historical sample to know the subsequent effect of deficits on British stocks. Common sense might argue that deficits would be bad for stocks as associated burgeoning debt might force up interest rates, dragging down stocks. Recent shifts here have largely coincided with those in the US.

Fortunately, we Yanks are always anxious to help – and are also a bit more volatile in our fiscal behaviour. By contrast, since 1947 the US has had six comparably sized budget surplus peaks and an amazing nine comparably sized budget deficit peaks as a percent of GDP. So, with so many more surpluses and deficits, it is simply a matter of racking up post-peak results in each subsequent 12, 24, and 36-month period to see the stockmarket aftermath.

From that we learn that deficits have been followed by consistently much better stockmarkets than surpluses any way you play it. For example, the subsequent 12-month returns have averaged 22% and never been negative for deficits (although once just breaking even) while the surpluses 12 months out have been negative half the time and had annual returns averaging just 3.5%.

Whether 12, 24, or 36 months out, average annual returns following deficits have been double-digit and after surpluses have been small single digits. So, if you've



feared current deficits, think again because the US's history proves the case for good stockmarkets. Now you have one less thing to fear and one more thing to think of differently than before.

It's the same with currency and current account and trade deficits. Forever you've read that the US's large trade deficit and current account deficit would cause the dollar to be weak and in 2002, 2003 and 2004 the dollar was weak – so it seemingly fitted.

But when you compare the US to Britain you see that the two countries over the last 20 years have consistently maintained almost identically-sized such deficits as a percentage of their comparable GDP. You can't argue the one would cause the dollar to weaken while the other, almost identical in size, would cause sterling to be strong. Hence you know the argument is wrong and you learn not to fear these as causal to currency movements, which they aren't. Think of the US as a way to learn more about Britain.

If you've read my columns this year, you will know I'm bullish and recommend you maximise owning good stocks – such as the US's **Stillwater Mining**. It is a largely unrecognised precious metals play because it principally mines Palladium (used in

emission controls and electronics) and not so much conventional metals such as platinum, copper, silver and gold. Stillwater struggles for profitability but is cheap as a multiple of revenue or book value and has big operating leverage. Its price could easily double in the next few years if precious metals prices hold.

I remain very keen on wireless and two such stocks with discounted potential are **Telekom Austria**, obviously Austrian, and **US Cellular**, which is particularly strong in America's mid-west where growth opportunities are big. Both sell in line with industry multiples but have big operating leverage and rapid growth potential, which will bring big profits and make these shares relatively cheap now.

Jones Lang Lasalle was created in 1999 via the merger of the US's Lasalle Partners with London's Jones Lang Wootton. Think of it as part vast commercial real estate play and part money manager with 800 million square feet spanning 35 nations. If the asset management part was sold off, the real estate remaining would be worth much more than the market value of the stock – more than the sum of the parts. At 18 times earnings it is cheap.

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