

Hello!

AAII

AKRON

INVESTING IN A GROWTH RECESSION

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*The Peter Dag Portfolio
Strategy and Management*

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peterdag.blogspot.com*

OUTLINE

- **LONG-TERM FORCES**
- **NEAR-TERM OUTLOOK**
- **INVESTMENT STRATEGY**

Peter Dag's **PERFORMANCE**

	<u>S&P 500</u>
2002 +7.4%	-23.4%
2003 +30.4%	+26.4%
2004 +16.9%	+9.0%
2005 + 4.1%	+3.0%
Total <u>+70.4%</u>	<u>+8.7%</u>

(S&P dividends excluded, Source: Hulbert)

LONG-TERM SCENARIO

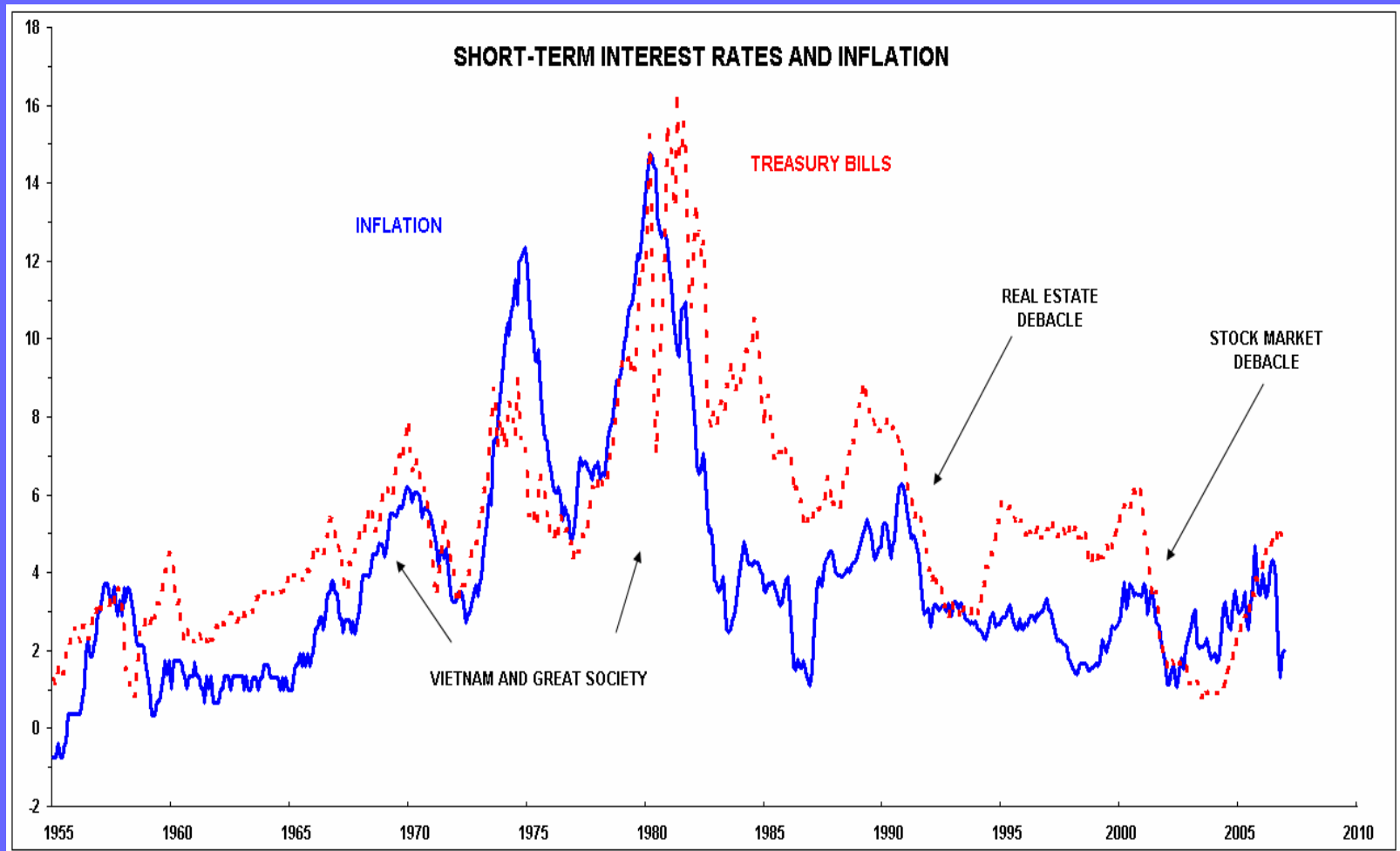
VERY IMPORTANT TO UNDERSTAND CURRENT TIMES!

THE VOLATILITY OF
HARD ASSET PRICES
IS RELATED TO THE LEVEL OF
REAL SHORT-TERM INTEREST RATES

**MONEY HAS BEEN
CHEAP!**

**NOW IS
BECOMING EXPENSIVE
AGAIN**

CHEAP MONEY AND CRISES

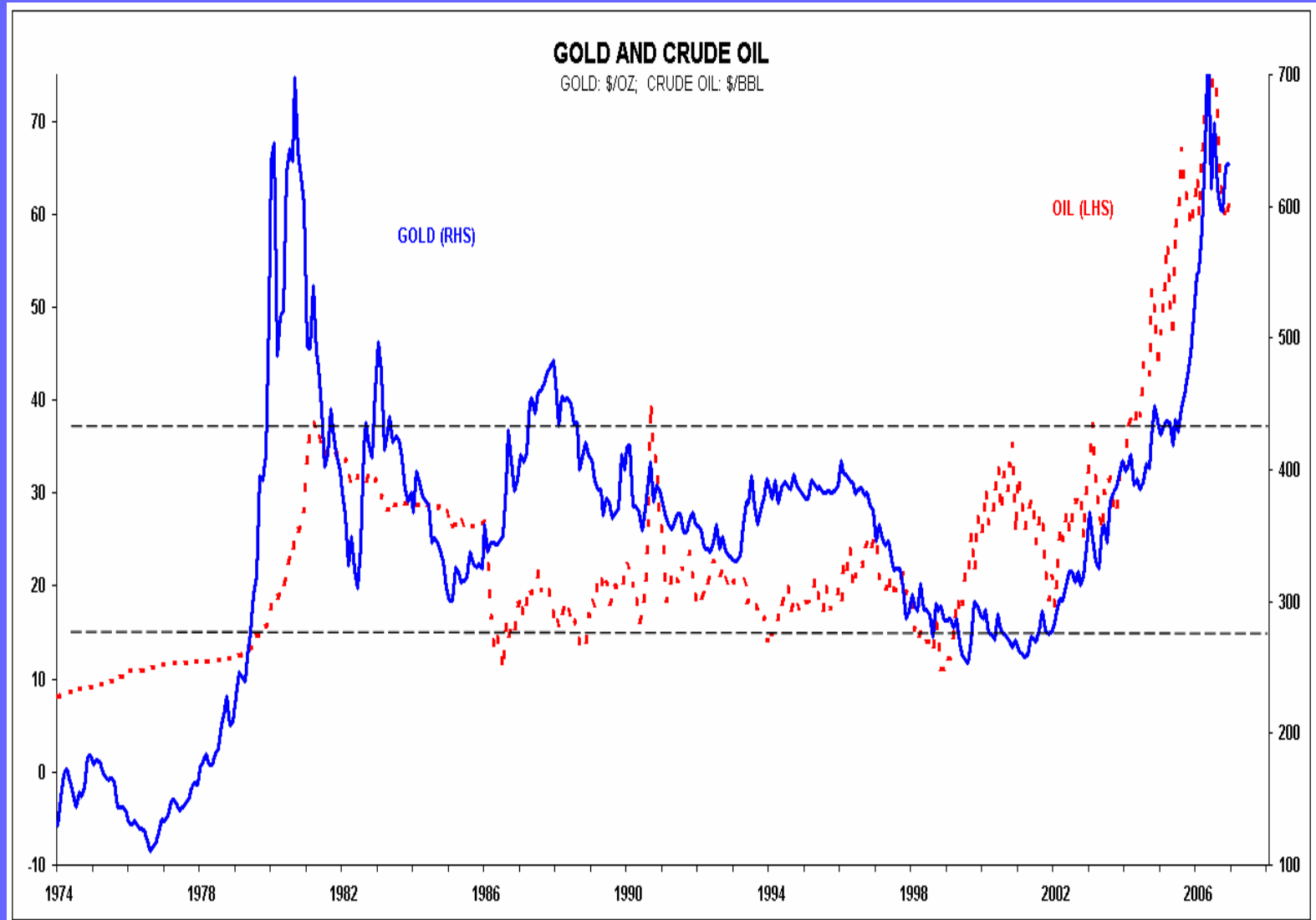


IMPORTANT!!!!!!!!!!

**COMMODITIES SOAR WHEN
THE ECONOMY IS STRONG
AND MONEY IS CHEAP**

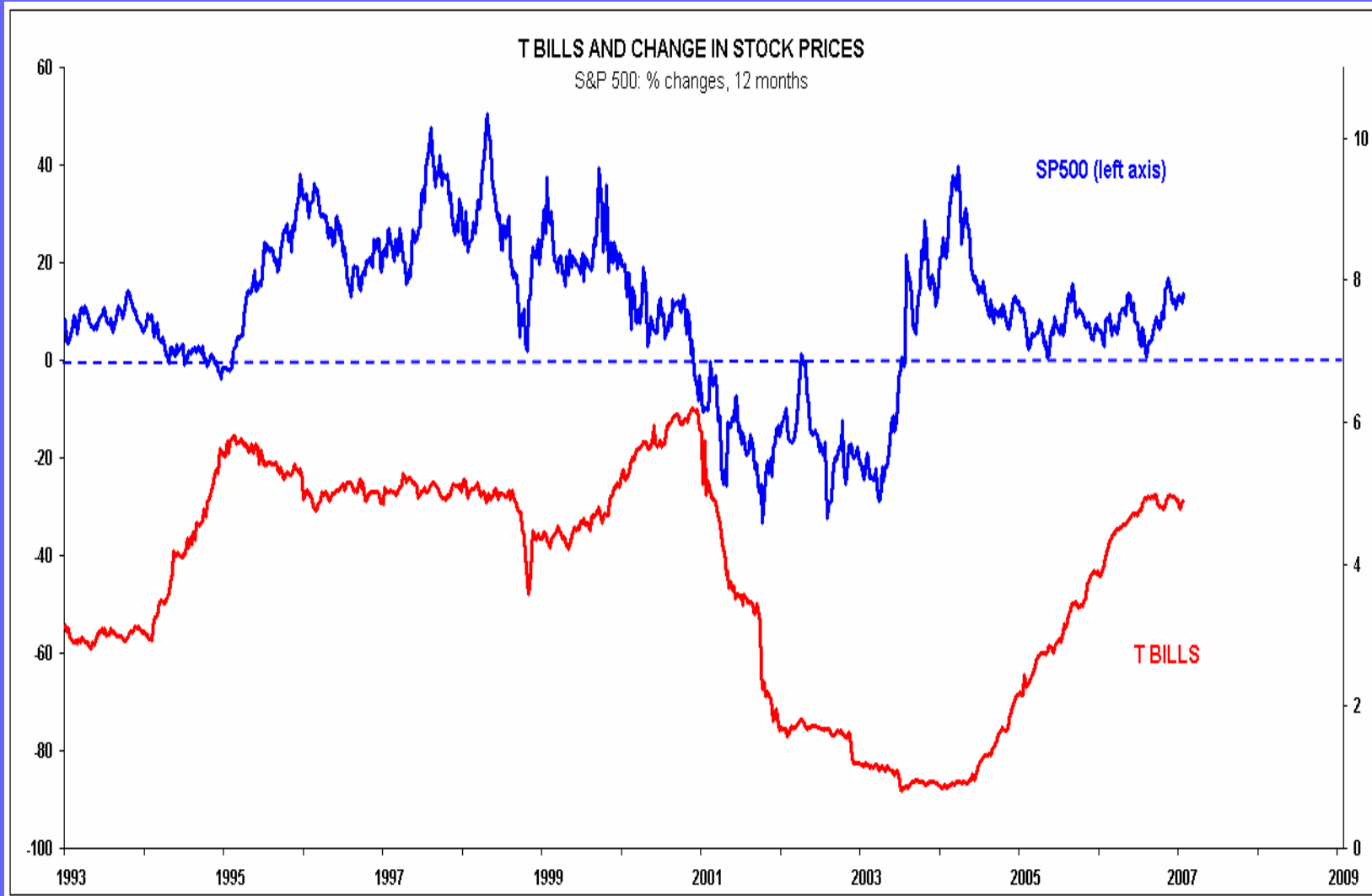
**THEY DECLINE WHEN
THE ECONOMY IS WEAK
AND MONEY IS EXPENSIVE**

COMMODITIES BUBBLES

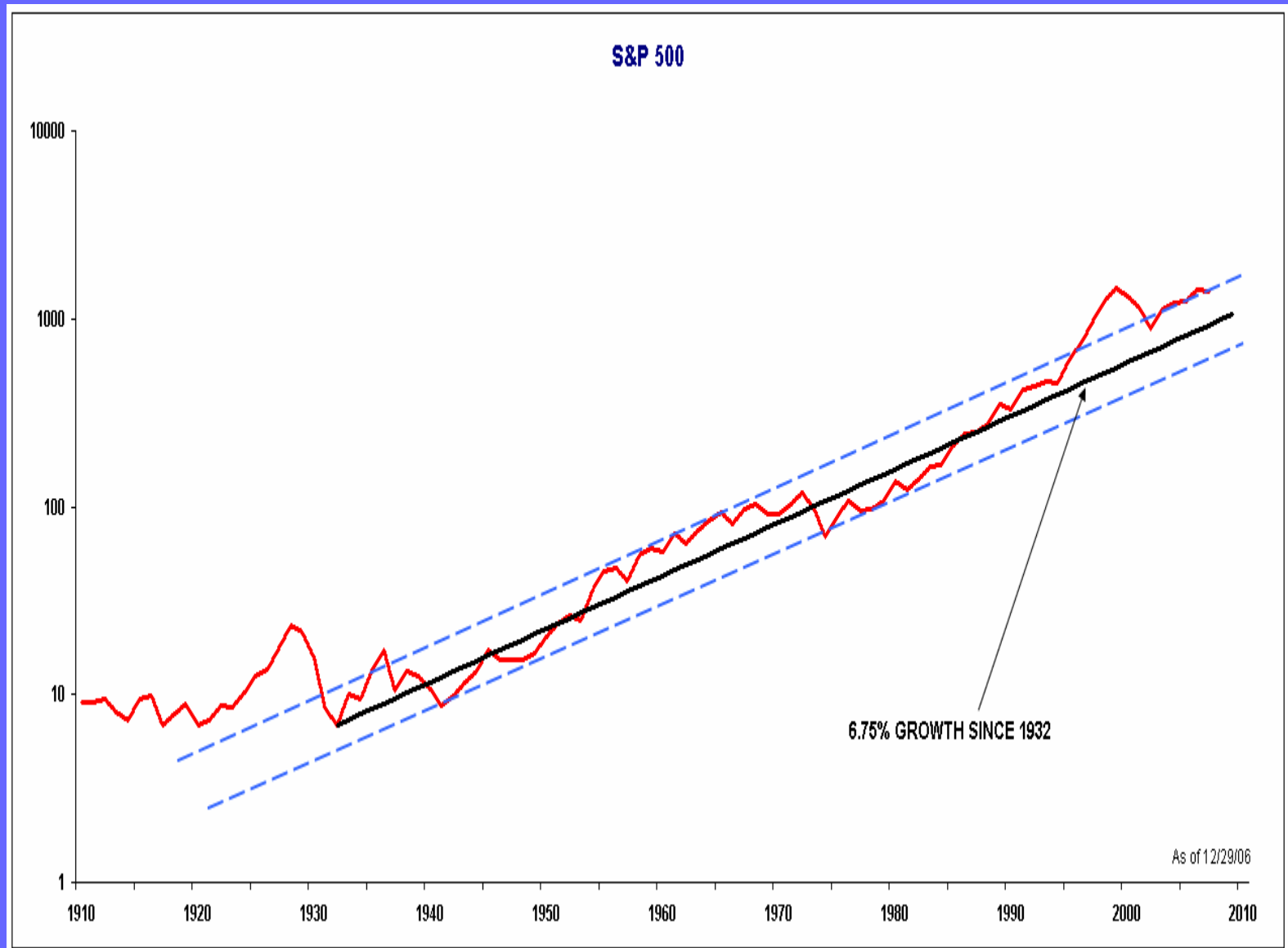


**FINANCIAL RISK
IS STILL
ABOVE AVERAGE**

IS IT DIFFERENT THIS TIME?

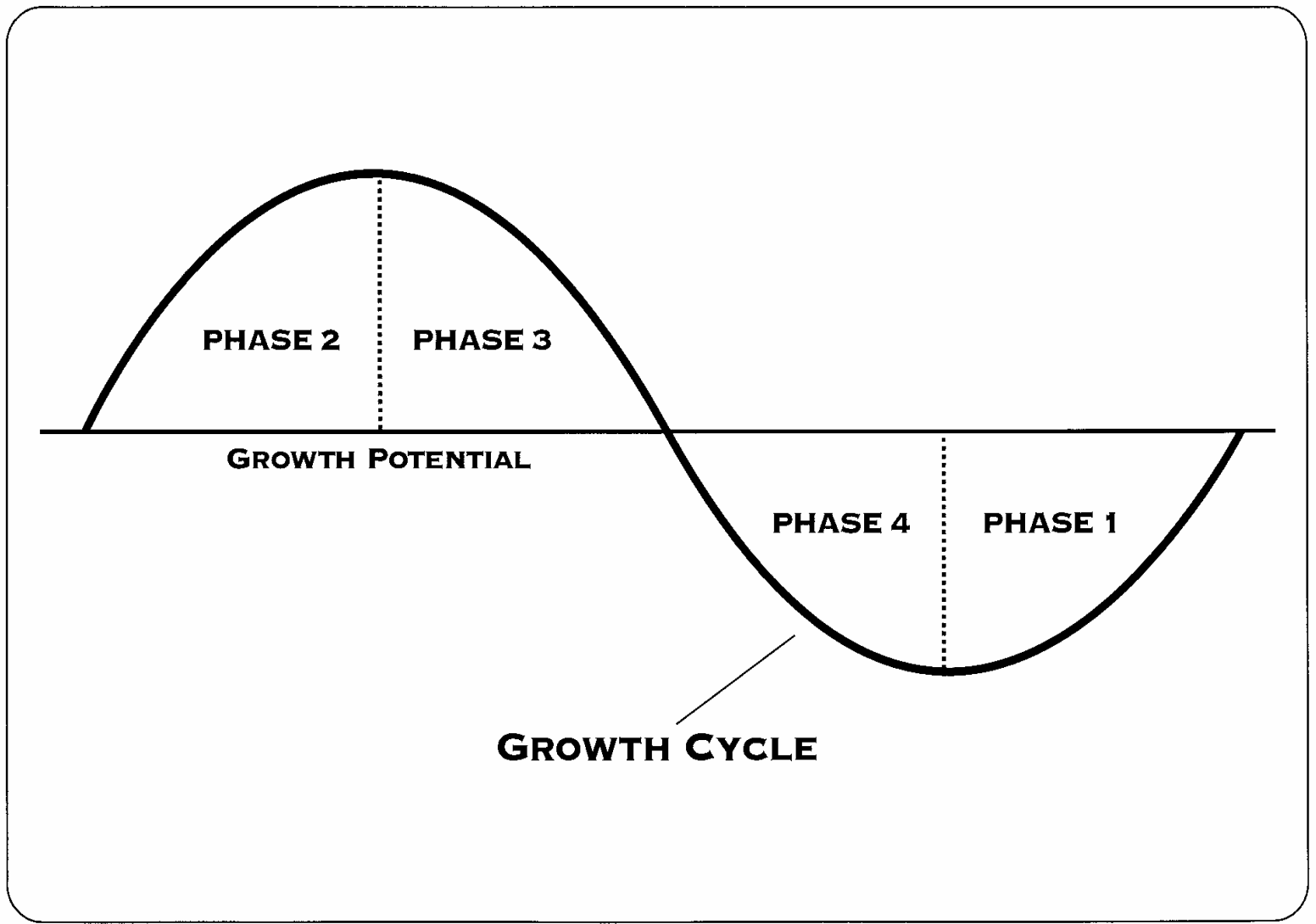


CAN IT GROW FASTER?

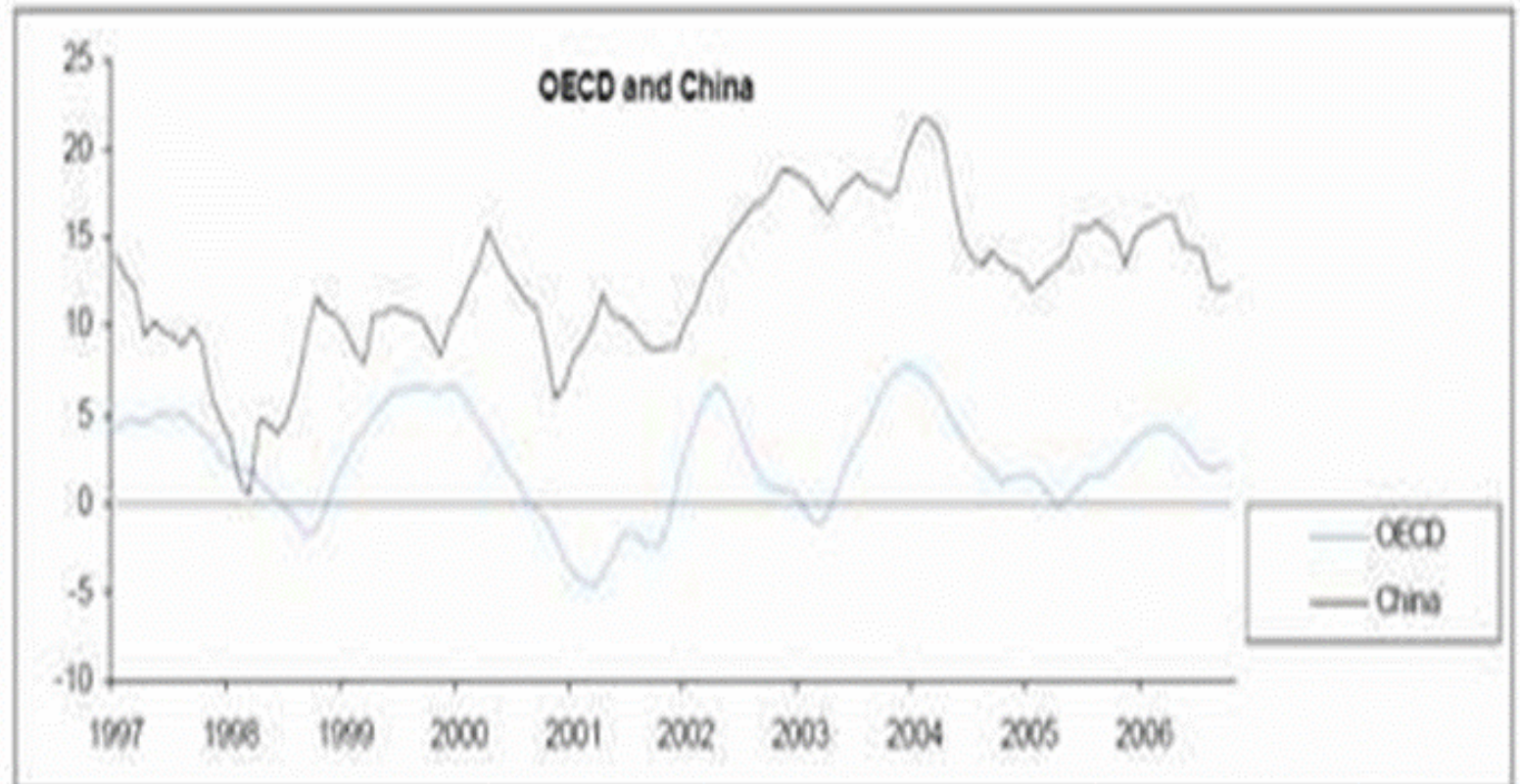


THE DRIVING FORCE OF ASSET PRICES

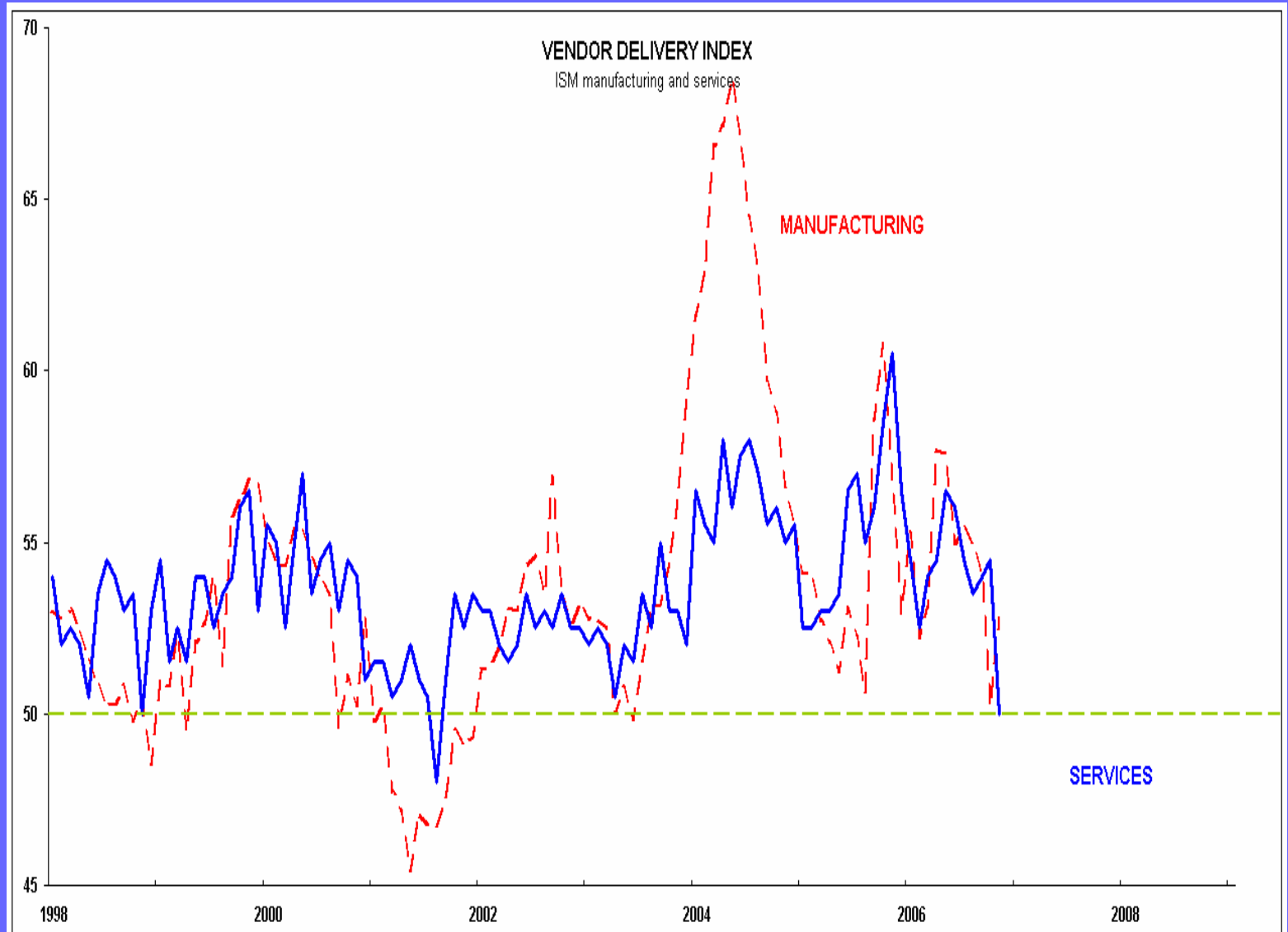
BUSINESS CYCLE



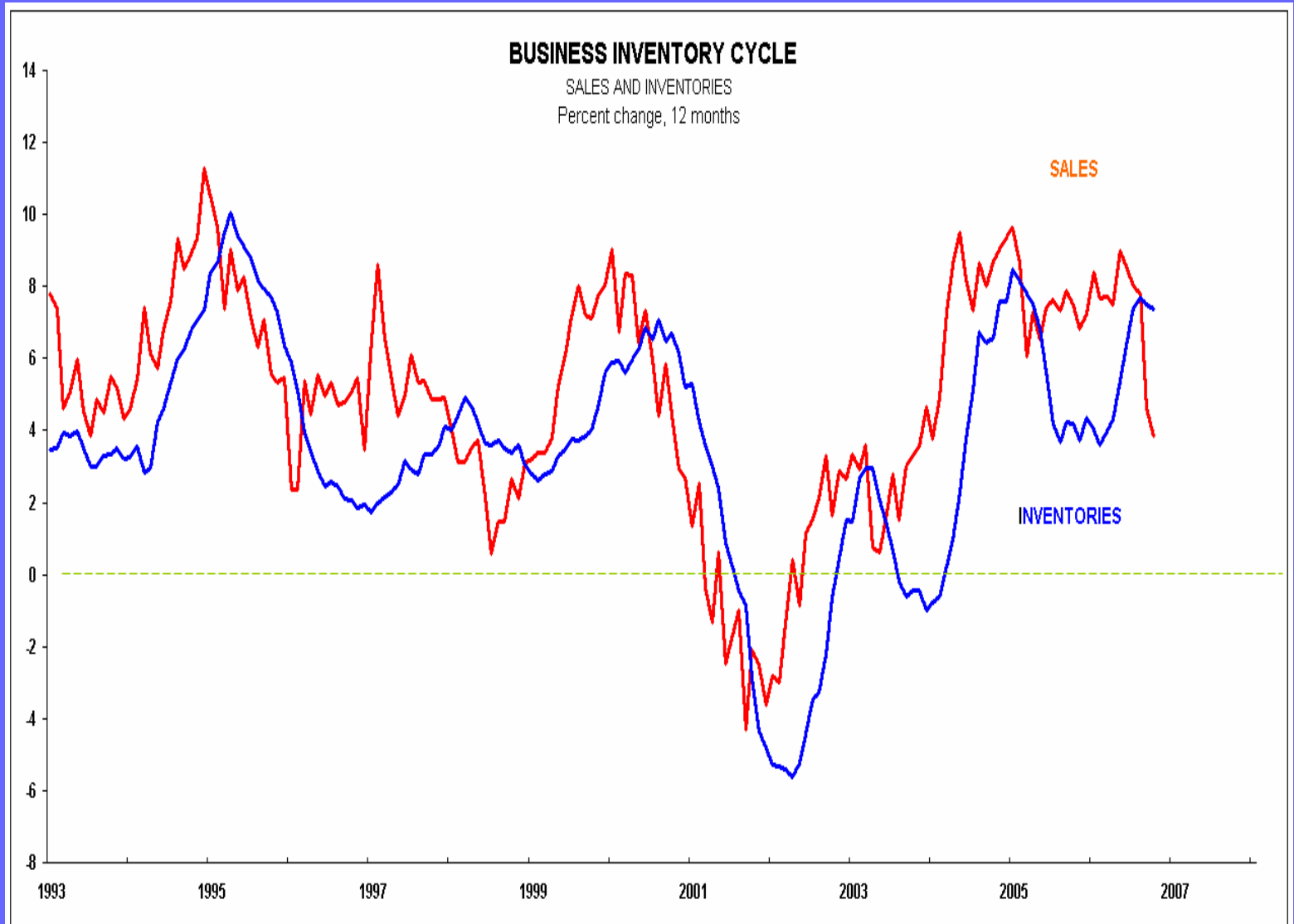
GLOBAL BUSINESS CYCLE



THE US BUSINESS CYCLE



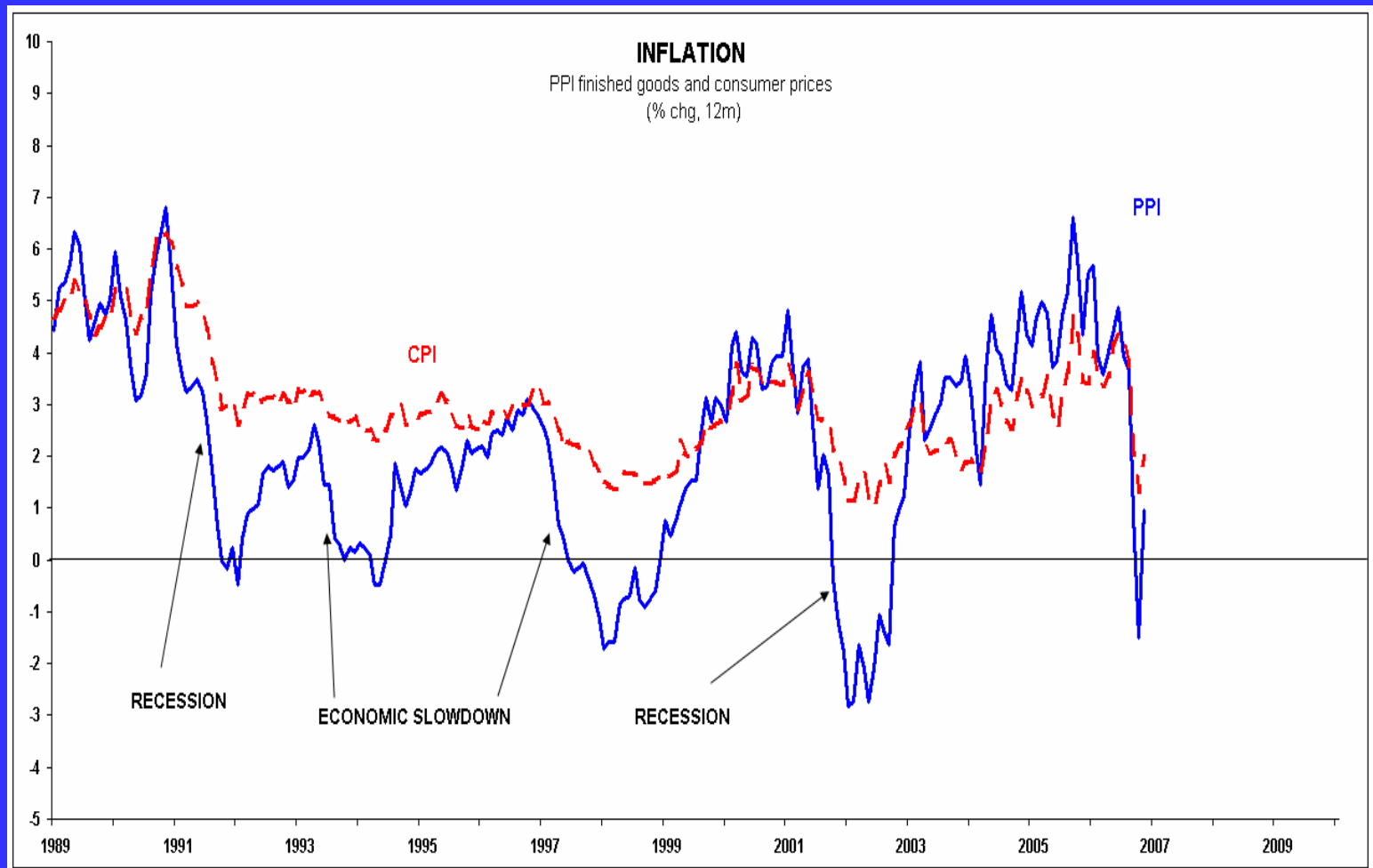
PRODUCTION MUST SLOW DOWN



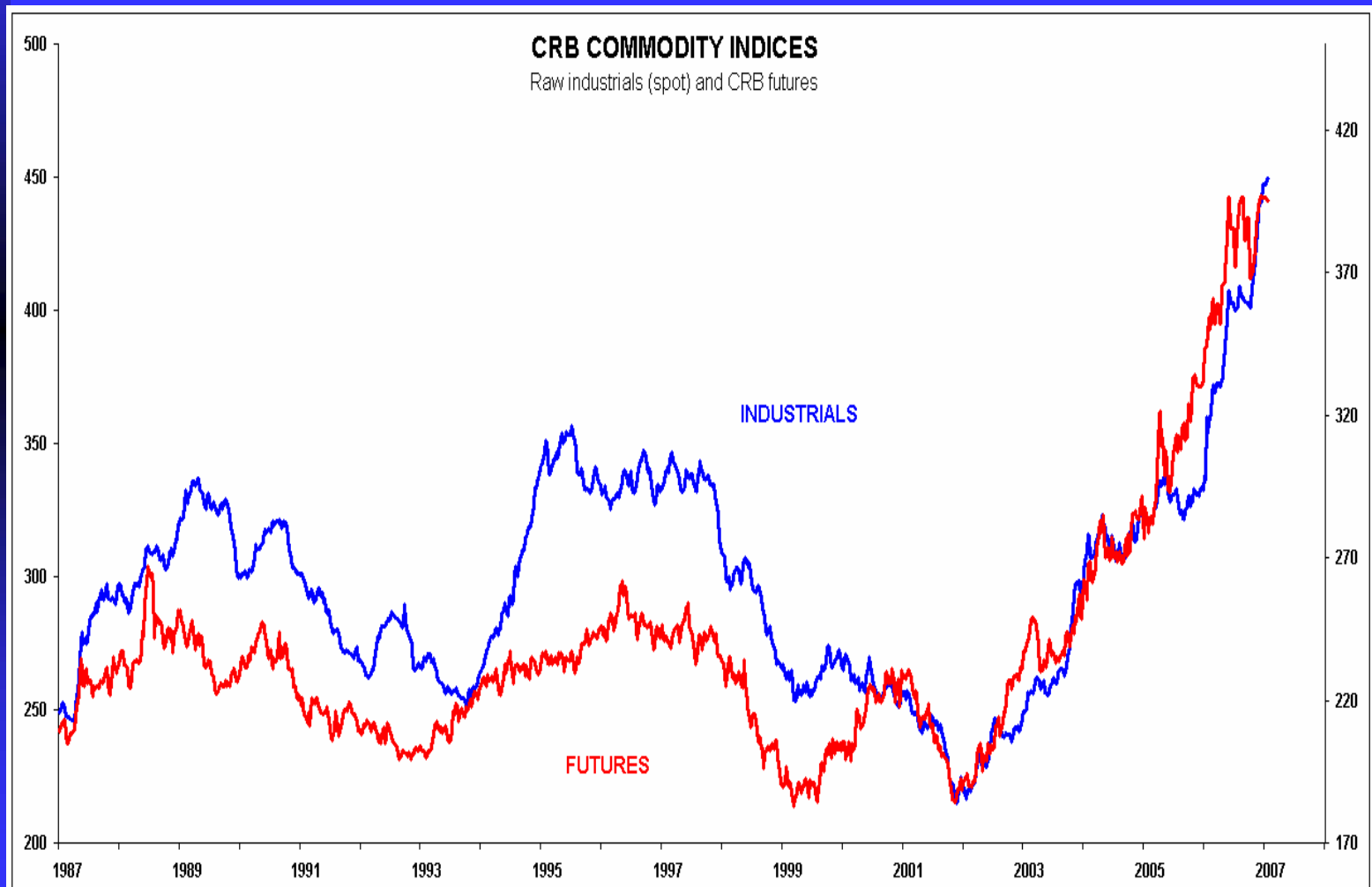
**ANY ECONOMIC
SLOWDOWN
IS CAUSED BY RISING:**

**COMMODITIES
INTEREST RATES
INFLATION**

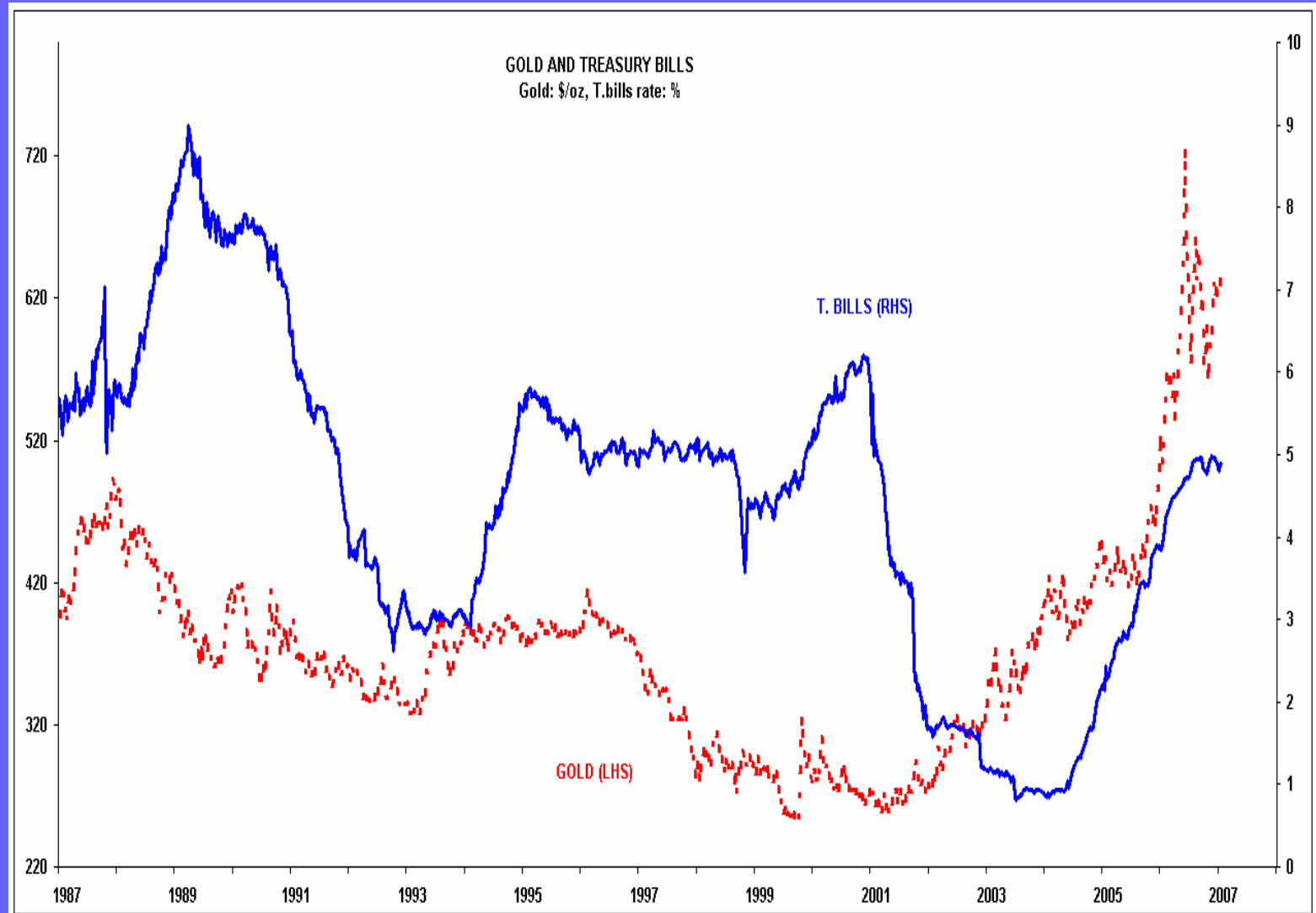
HIGH INFLATION = HIGH CHANCES OF (GROWTH) RECESSION



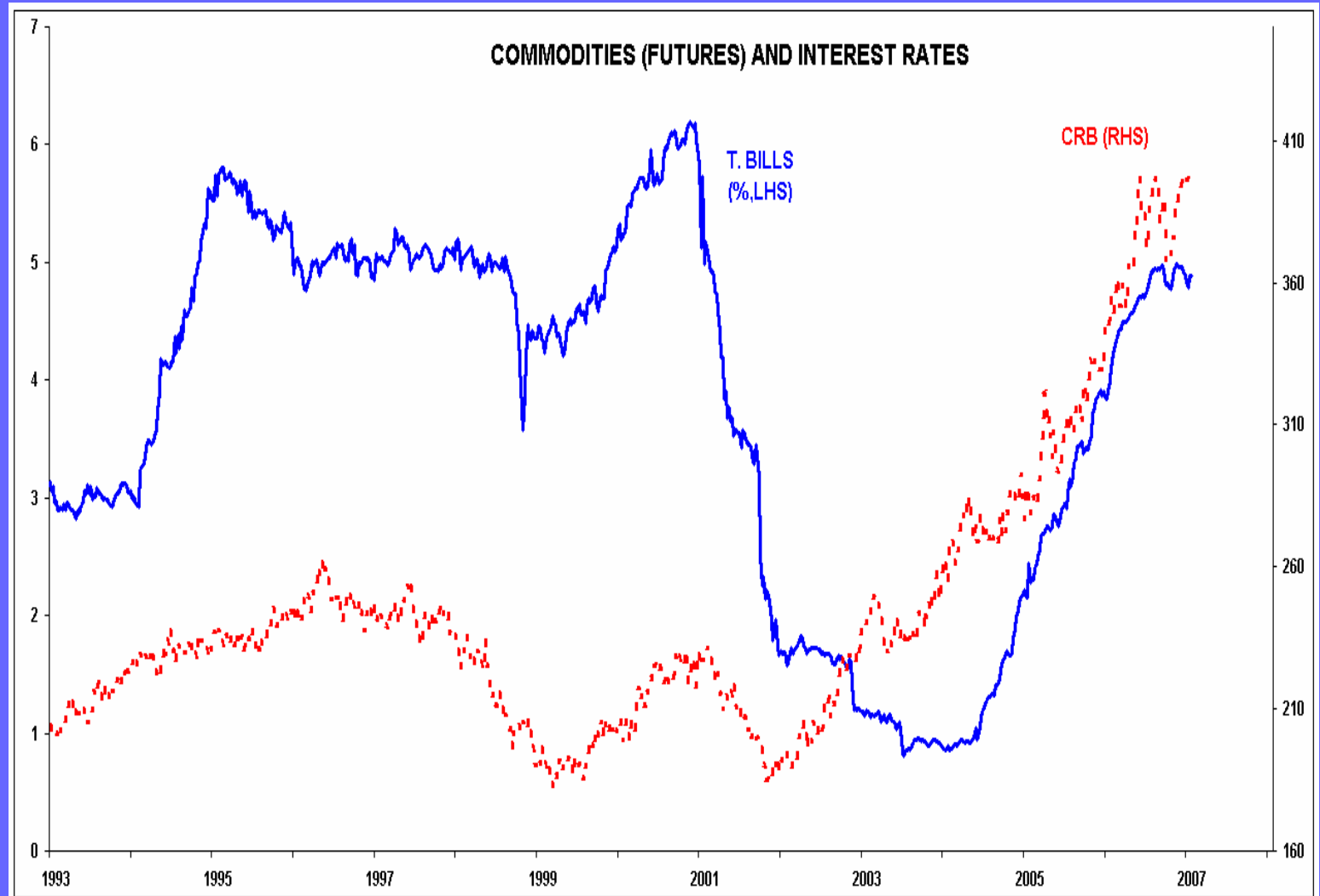
STRONG ECONOMY & CHEAP MONEY= STRONG COMMODITIES



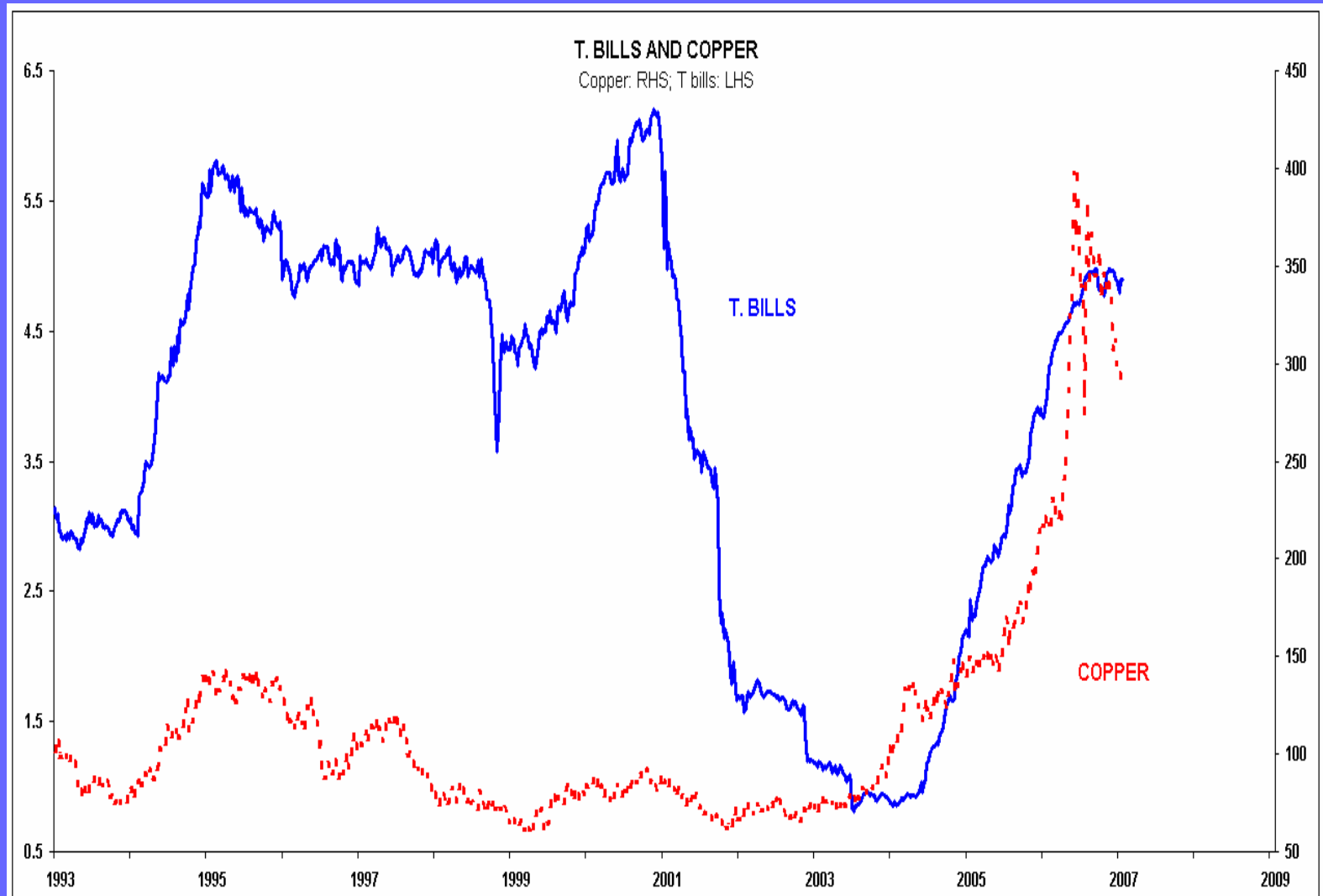
SAME CYCLICAL TURNING POINTS



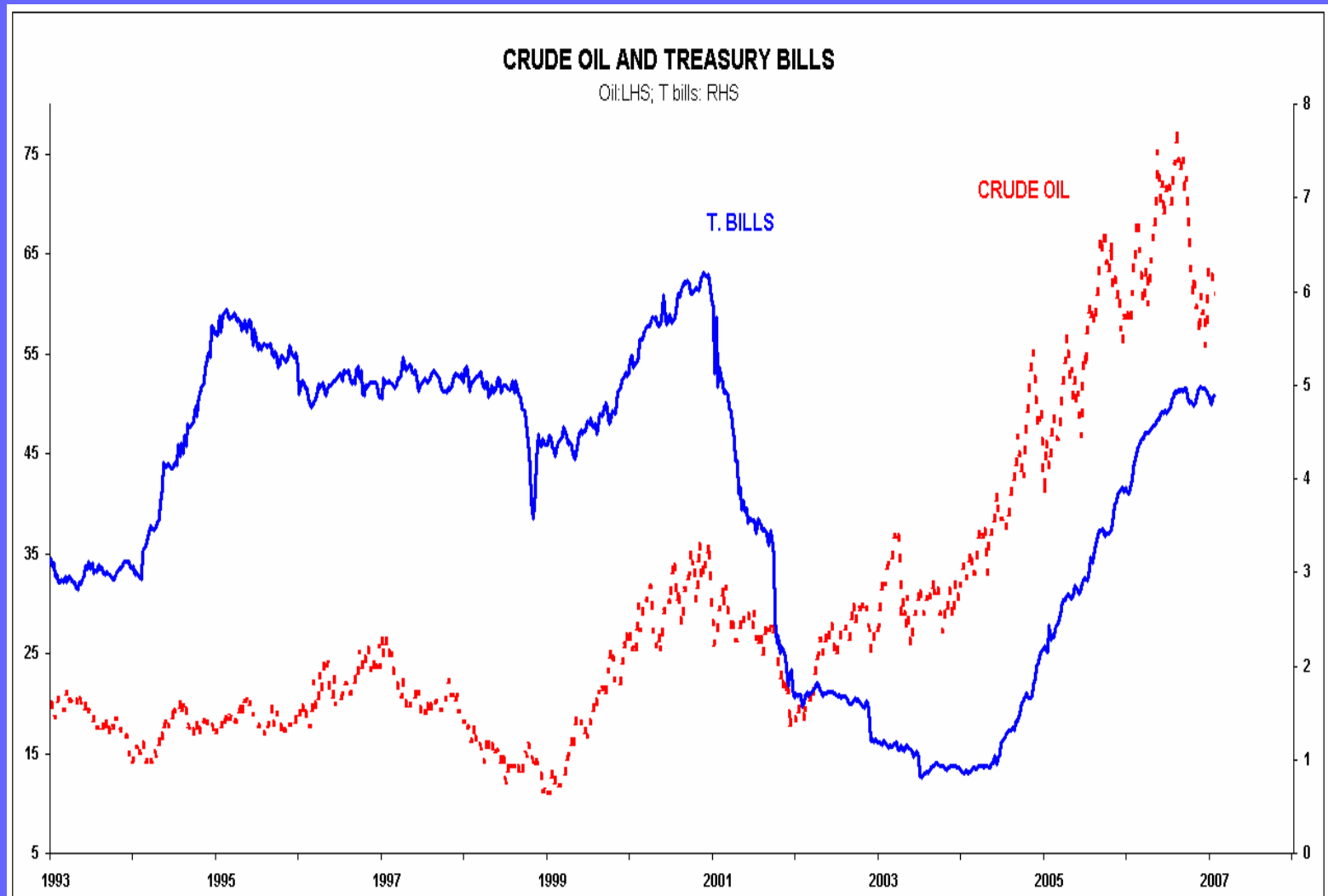
SAME CYCLICAL TURNING POINTS



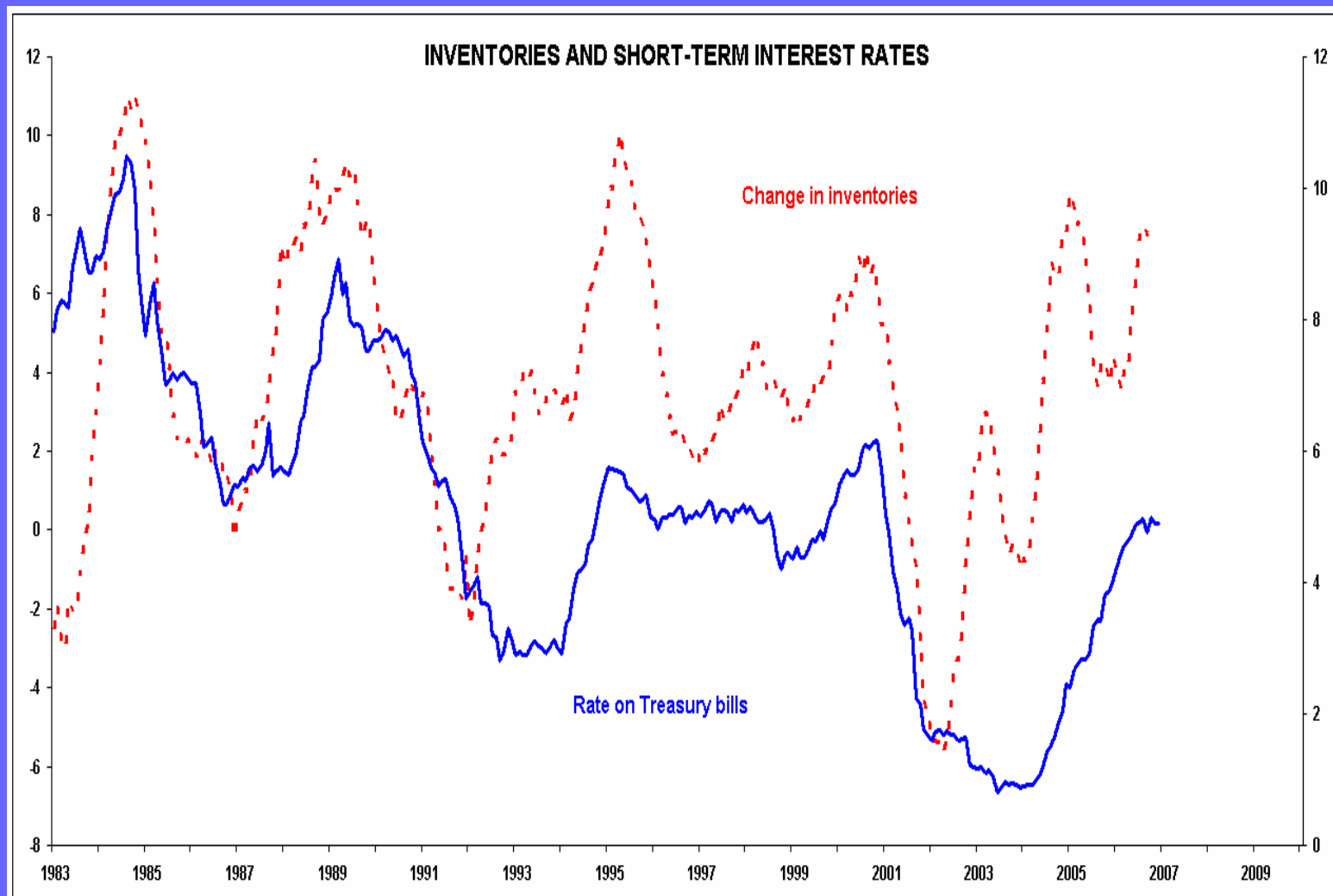
SAME CYCLICAL TURNING POINTS



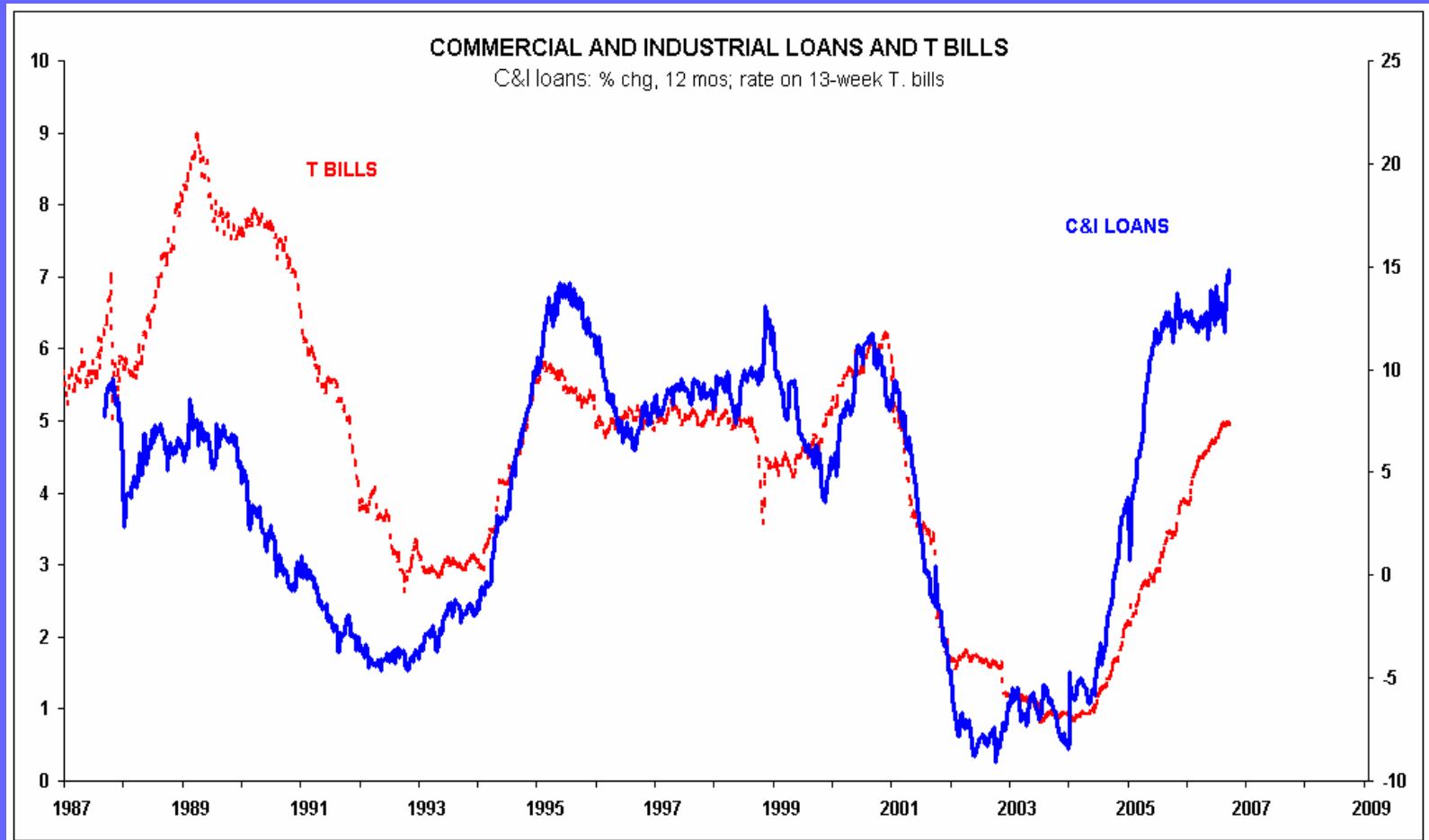
SAME CYCLICAL TURNING POINTS



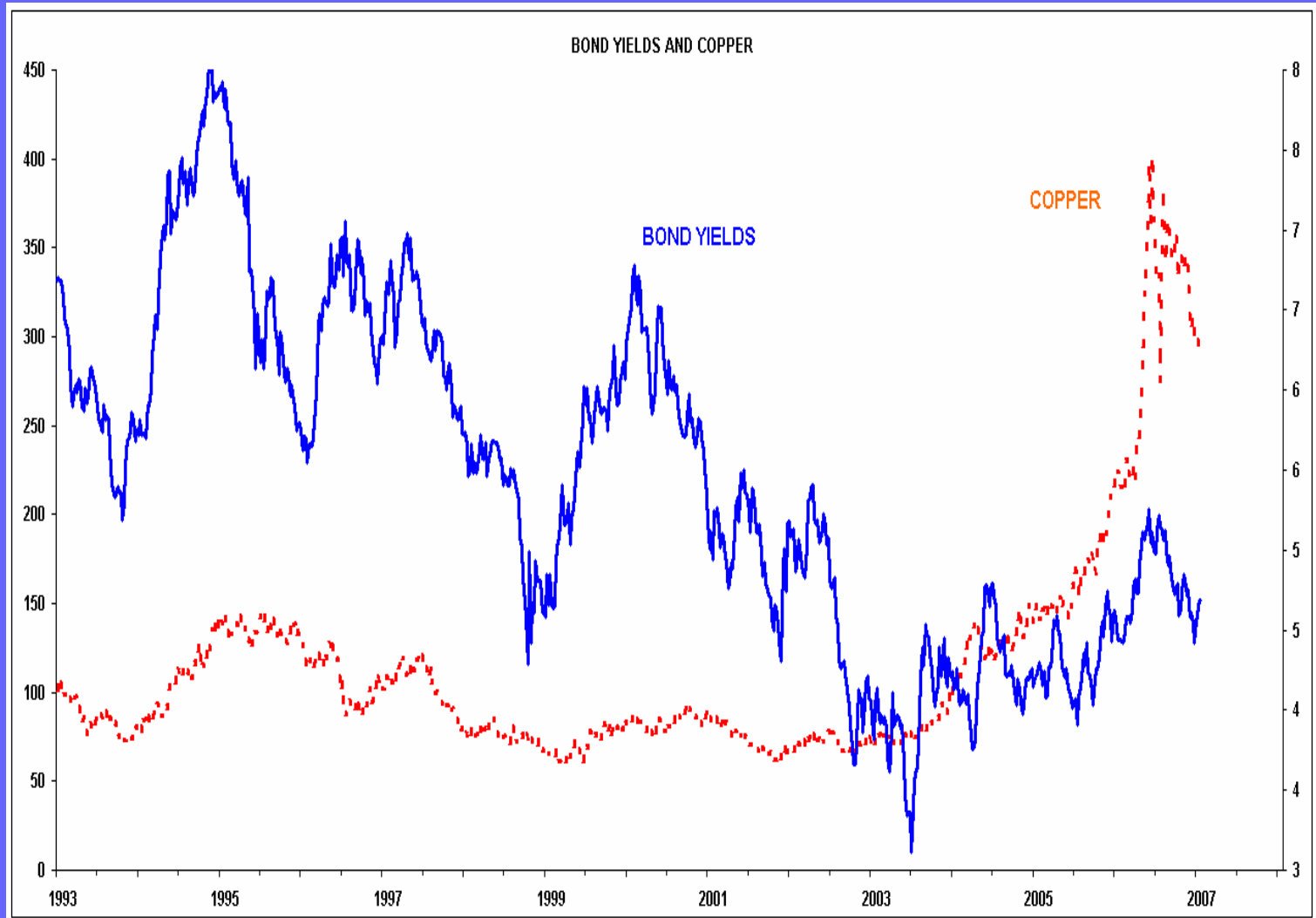
INVENTORIES DRIVE INT. RATES



BUSINESS DEMAND FOR MONEY DRIVES INT. RATES



SAME CYCLICAL TURNING POINTS



THE POINT

- **THE PRICE OF MONEY AND ALL OTHER COMMODITIES ARE DRIVEN BY THE BUSINESS CYCLE (BUSINESS DEMAND).**
- **EXPECT SLOWER ECONOMIC GROWTH FOLLOWING A RISE IN COMMODITIES, INFLATION, AND S-T INTEREST RATES.**
- **S-T INTEREST RATES , INFLATION, AND COMMODITIES HAVE THE SAME CYCLICAL TURNING POINTS.**

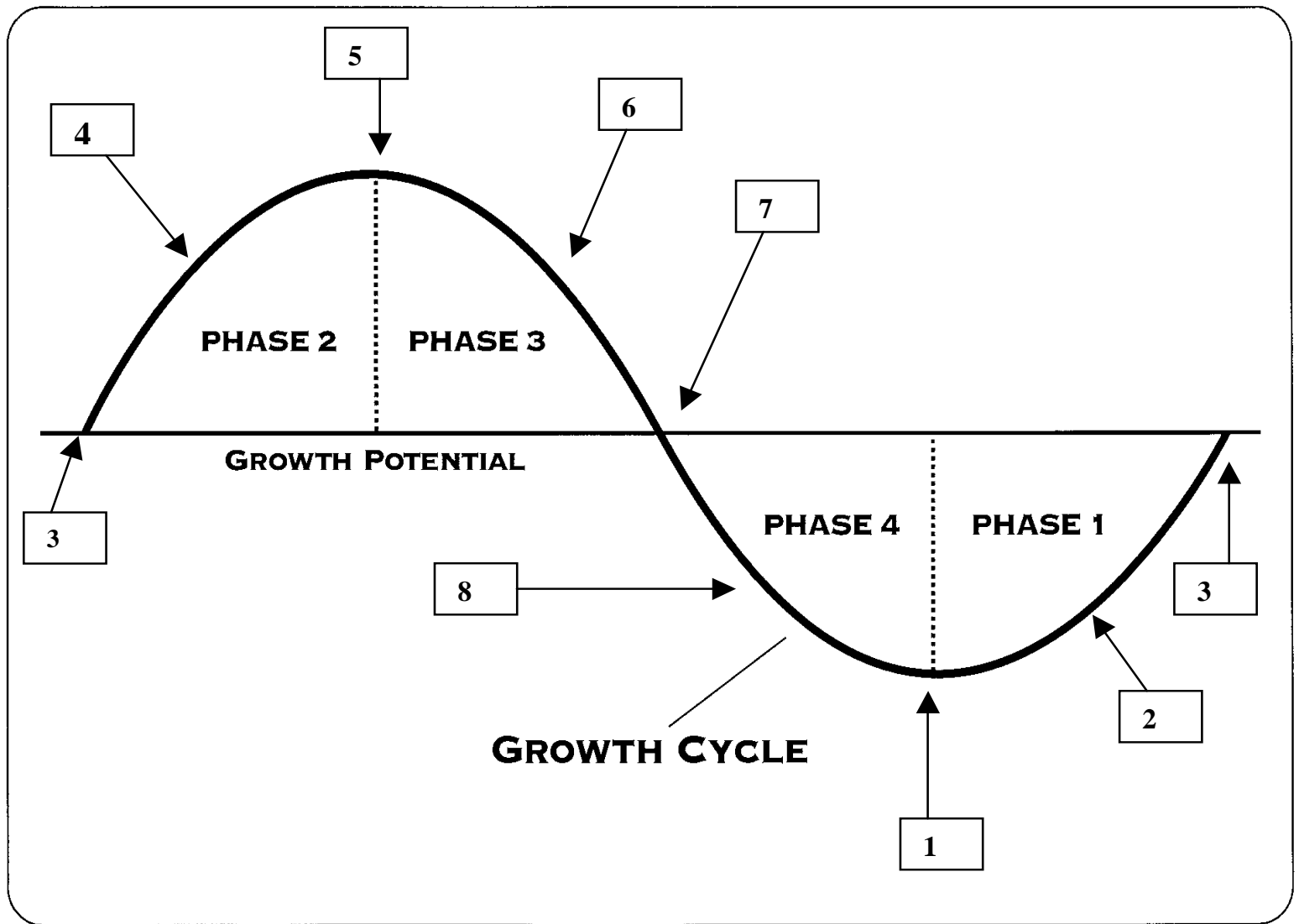
PROFITING IN BULL OR BEAR MARKETS

- Inflationary times
- Disinflationary times

ASSET CLASSES

- STOCK MARKET – LONG
- STOCK MARKET – SHORT
- COMMODITY DRIVEN STOCKS
- FINANCIAL (OTHER) STOCKS
- BONDS – LONG
- BONDS – SHORT

BUSINESS CYCLE



INFLATIONARY TIMES

- **ECONOMY - ABOVE AVERAGE PACE**
- **COMMODITIES/INFLATION RISING**
- **SHORT-TERM INTEREST RATES RISING**
- **BROAD STOCK MARKET WEAK**
- **ASSET CLASSES** (Mining, energy, pipelines, marine transport, propane, containers, packaging, REITs, TIPs)

DISINFLATIONARY TIMES

- **ECONOMY - BELOW AVERAGE PACE**
- **COMMODITIES/INFLATION DOWN**
- **SHORT-TERM INT. RATES DOWN/FLAT**
- **BROAD STOCK MARKET UP**
- **ASSET CLASSES** (Banks, Savings & Loan, insurance, household products (non durable), utilities, technology, high-grade and low-grade bonds, real estate, health services)

STRATEGIES FOR A GROWTH RECESSION

**LISTEN TO THE MARKET
MOVE AWAY FROM HARD
ASSETS ...THEY HAVE BEEN
WEAK FOR MANY MONTHS**

COMMODITY CYCLE

1. ECONOMY STRENGTHENS
2. COMMODITIES RISE
3. INTEREST RATES RISE
4. CAPACITY IS ADDED
5. ECONOMY SLOWS DOWN
6. COMMODITIES DECLINE
7. NEW CAPACITY = BIG DECLINE
8. INTEREST RATES DECLINE (SIZE DEPENDS ON PREVIOUS CRISIS)
9. GO TO 1.

INVESTMENT CYCLE OF COMMODITY SECTORS

- THEY BOTTOM WHEN ECONOMY STARTS GROWING FASTER AGAIN
- THEY PEAK WHEN THE RISE IN COMMODITIES AND INTEREST RATES SLOWS DOWN THE ECONOMY

Achtung! Attenzione! Attention! Warning!

Watch real short-term interest rates

COMMODITIES ARE WEAK

\$NATGAS (Natural Gas - Continuous Contract NYMEX (EOD)) INDEX

© StockCharts.com

8-Jan-2007 4:00pm

Open 6.55 High 6.69 Low 6.50 Last 6.55 Chg +0.20 (+3.17%) ▲

10 \$NATGAS (Weekly) 6.55

— MA(10) 7.46

Volume undef



GOLD IS GOING NOWHERE



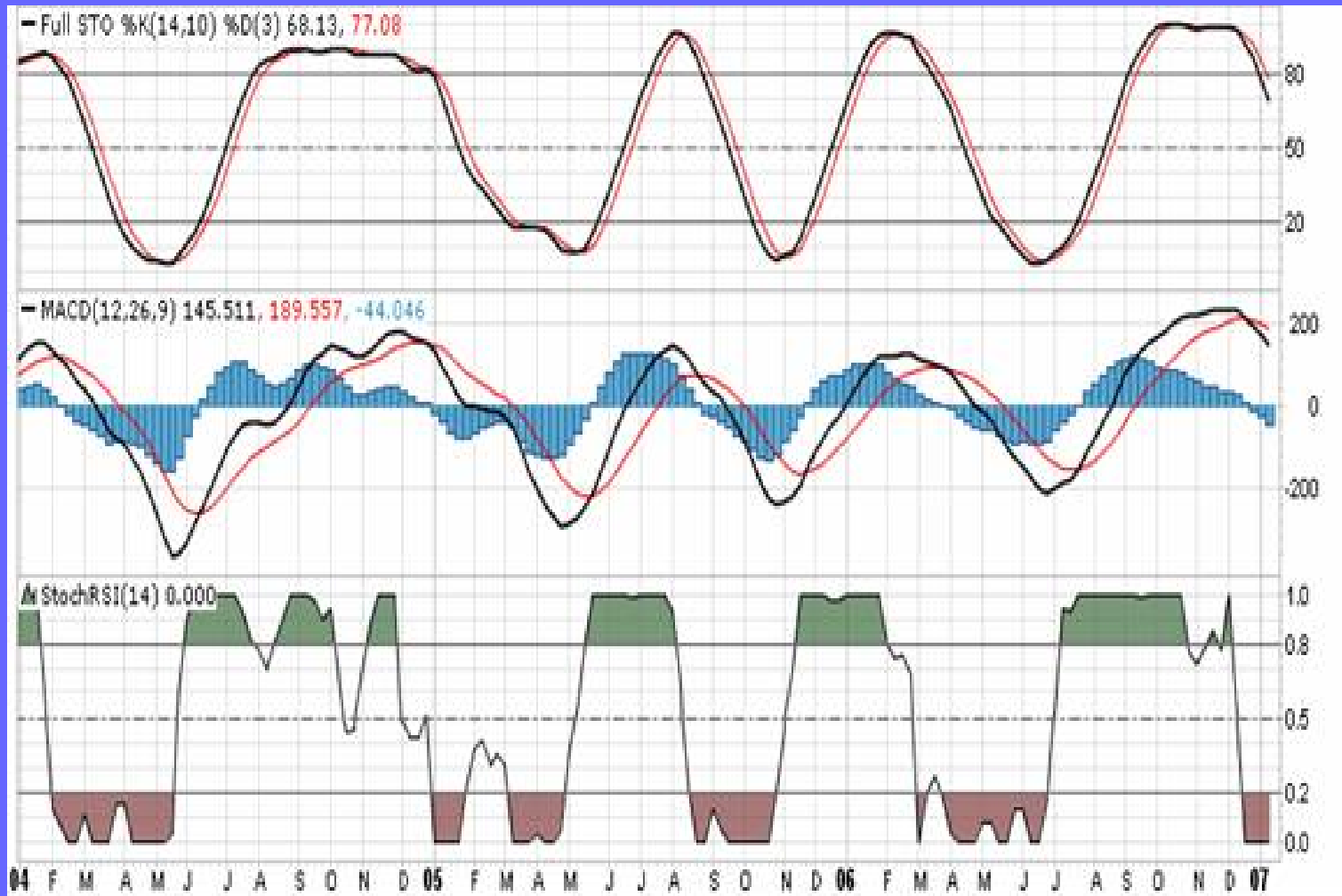
COPPER IS SINKING



FINANCIALS ARE STRONG



WHEN WILL THE MARKET PEAK?



KEEP IN MIND

- DIVERSIFICATION = AVERAGE PERFORMANCE
- AVOID ASSET CLASSES NOT IN TUNE WITH BUSINESS CYCLE
- INVEST IN SECTORS BENEFITTING FROM CURRENT BUSINESS CONDITIONS

**DID YOU LIKE
THIS PRESENTATION?**

**I WILL BE DELIGHTED
TO MAKE A
SIMILAR PRESENTATION
TO YOUR
INVESTMENT GROUP**

THANK YOU!

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