HS Dent Forecast

March 1, 2009

The Economic Guide for Effective Financial Decision Making

## Feature Articles

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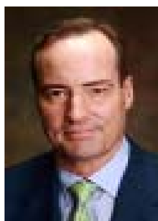
# Near Term Bottom in Stocks and Commodities Imminent—Buy Signal Likely Just Ahead—But How Low?



***In brief:*** The markets have continued to fall as expected into a right shoulder but have broken just below strong support at 7,200. This pattern is morphing more into a fifth wave downward that should bottom near term and lead to the more-sustainable rally that we have been looking for. If the markets hold closer to 7,000, then the right shoulder pattern still would hold and the projected target would now be more like 10,600—a bit lower than our original 11,000 target. If we fall below 7,000, then the strongest target would be back at the fourth-wave rally high recently of 9,100+. Stocks have become very oversold on futures sentiment readings from Jake Bernstein, with as low as 3% bulls on the S&P 500 on February 23. However, stocks have yet to get as oversold as we would like on our oscillators and on other technical indicators. The Dow failed to break above resistance at 7,400 and at 7,620 on its recent short rally that we thought would be likely to fail. We should now see one more wave downward to 7,000 or lower. The support is strongest at 7,200, and we should hold close to that, say, near 7,000. If we don't, then the next support is more around 6,400 to 6,500. It is hard to see the markets going that low, as the oversold readings would likely be beyond extreme—but that is the nature of this market.

We have warned repeatedly in our updates that gold and silver were becoming overbought, with bullish trader sentiment readings at 96% and 95%, respectively. Gold and silver are already pulling back sharply but may bounce a bit upward as stocks and commodities turn downward again. We suggest that investors sell or lighten up on gold and silver on any significant rallies ahead and rebuy later if we get oversold. Oil has started to rally more significantly, but natural gas is still closer to its lows, near $4.00. Major buying opportunities should be near in the energy sector as well but could take a little longer to bottom. Oil is at a key juncture; if it can rally above $46, it is likely to have put in a clear bottom, but if it breaks below recent lows, then we are likely to see one more wave downward there as well. We still think commodities are likely to pull back as long as the U.S. dollar is still rallying toward the past highs of euro $1.23. The dollar has remained stubbornly near euro $1.28 in recent weeks.

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U.S. Treasury bonds continue to fall with rising yields, despite deflationary tendencies in the economy, commodities, and stocks. It increasingly looks as if we made a major low near 2.00% yields in December, and investors should continue to sell T-bonds on any rallies (falling yields). There is the chance that the near-2.0% yields were a long-term bottom if the U.S. government's credit comes into question with increasing stimulus and deficits in the coming years. We will reevaluate our likely bond scenarios from the 1930s in this issue for the more precarious position of the U.S. government in this crisis as the largest net debtor in the world.

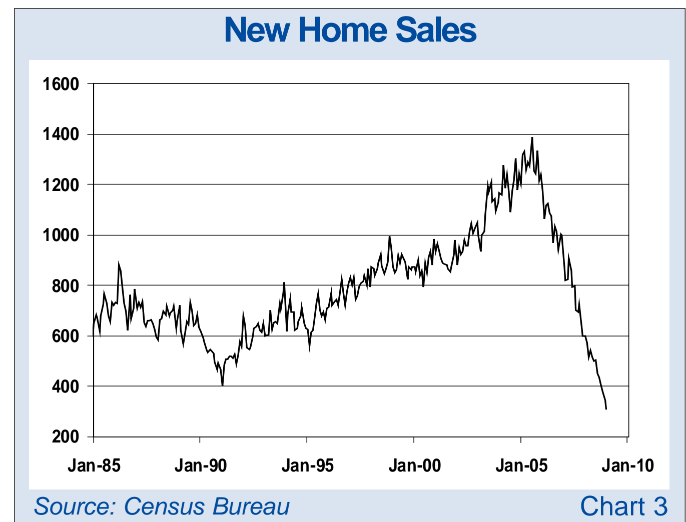
Source: Economic Cycle Research Institute Chart 1

## The Economy: Housing Still Very Weak, Leading Indicators Still Headed Upward For Now

We continue to monitor the Weekly Leading Index (**Chart 1**), as it will give us stronger clues as to whether we have a stronger or weaker rebound and as to whether we will face inflationary or deflationary pressures later this year. It also will be harder for stocks to sustain much of a rebound if the leading indicators don't suggest that there will be a significant recovery. Remember that the worst scenario over the next year would be that "we take the bottle of Viagra and nothing happens"! The index rebounded and since has moved sideways, which is a good sign for now given that stocks and commodities are still falling and they are leading indicators. We would very much like to see this index continue to advance over the next few months. However, the economy clearly continues to weaken as the leading indicators have projected. Preliminary GDP came in at -6.2% for the fourth quarter.

Source: Census Bureau Chart 2

The housing market continues to deteriorate despite stimulus efforts as rising unemployment and tightening credit simply exacerbate an overvalued housing market that would naturally fall anyway. Housing starts in **Chart 2** continue to plunge to the lowest levels in decades. That is good for the housing market, as we don't need new homes coming on while new home sales (**Chart 3**) have plummeted again to the lowest levels since 1963. We continue to expect some type of flattening in prices and, possibly, mild bounces in some areas later this year, but we will see. People who want to sell real estate should take advantage, as this year will likely be your last chance to sell before we see an even deeper economic and housing downturn between late 2009 and mid 2011 with continued weakness likely into late 2012 or so.



Source: Census Bureau Chart 3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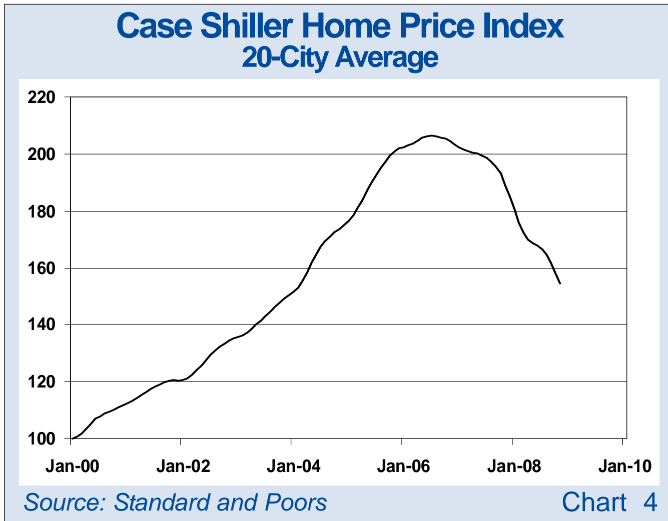
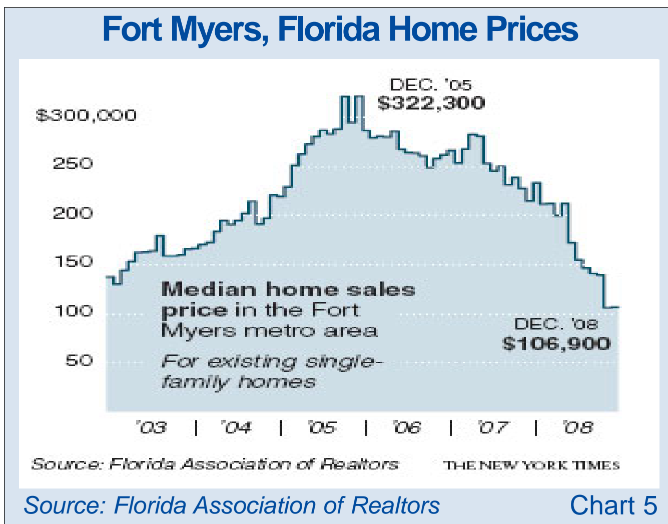
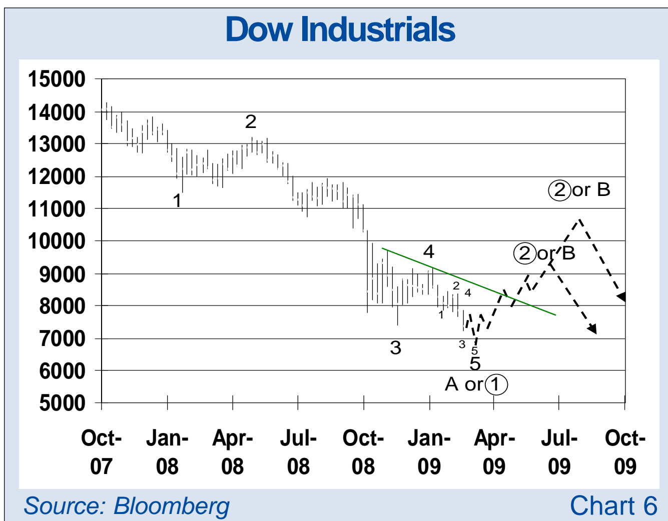



Source: Standard and Poors Chart 4




Source: Florida Association of Realtors Chart 5




Source: Bloomberg Chart 6

Home prices continue their slide back toward 1996 to 2000 prices levels, as we have been forecasting for many years. The Case-Shiller 20-City Index (**Chart 4**) is now down about 24% and needs to fall 55% to 60% to get back to reality again. This is not the time to hold onto real estate and hope for a comeback. The only real estate you should stay in would be properties that you love and want to keep long term—and even in that case, it would be better to sell this year and rebuy in 2012-2013 or so. But here is a reality kicker. The median home price in Ft. Myers, Florida (**Chart 5**), has already fallen by 68%—and this is not the highest-end homes! This is the Great Depression already occurring again, and, yes, there are people in bread lines at churches there. This was one of the greatest building bubbles, but it is not a super high-end area like Sarasota , Naples, South Beach, Palm Beach. This is a basic middle- to upper-middle-class area. Note that the rise to $322K occurred in a short period of time and that the $106K present prices still are not back to 2000 price levels but probably are getting close. Homes are now selling at less than building costs—and the land is basically "free." This shows how far home prices can fall and that bubbles always tend to go back to at least where they started.

## Stock and Commodity Buy Signals Are Likely To Be Approaching

We have been monitoring a potential reverse head-and-shoulders pattern in recent issues that may still be playing out if we hold closer to 7,000. However, the Dow now has fallen to new lows, which puts us more into a fifth-wave pattern downward that should complete near term and lead either to a B wave or a major 2-wave rally in the coming months. The market continues to play out this crash and to hold off "showing its cards" as long as possible, given that there is so much fear and confusion—and that the government proposals are bold, but not as clear and targeted as the markets would like to see. **Chart 6** shows this new count on the Dow and two likely scenarios for the coming months. If this is a B wave low, the rebound is likely to last a bit longer and go a bit higher, more toward 10,600 to 11,000. If it is a major first wave downward (with a major third and fifth wave to follow by 2012 or so), then the rally could meet resistance as low as 9,100 at the previous fourth wave rally on the way down but alternately could meet resistance higher after such a major sell off. As usual, we initially will have to see where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this first major wave downward bottoms, monitor our technical indicators to best guess when the markets have advanced enough to sell out, and wait for the next major crash somewhere between late 2009 and late 2010.

In line with our discussion of Elliot Wave counts, we have been following Robert Prechter closely, as he is one of the few in the bearish camp that clearly sees deflation rather than inflation ahead. Prechter was responsible for bringing Elliott Wave analysis from its foundations in the early 1900s into an even more sophisticated form in current times, and because of his efforts, the Elliot Wave has become the new language for technical analysis. We have always respected his long-term research and perspective. Prechter's work is on the recommended reading list on our website, and in these times, we especially recommend his newsletter. Most bearish forecasters who also have predicted this downturn (including Peter Schiff) see extreme inflation coming out of this massive stimulus and money creation.

**The most important principle in this once-in-a-lifetime bubble boom burst or depression is that deflation is the end game, not inflation. The deleveraging of the massive housing and credit bubble will destroy money and credit faster than the government can create money. Banks loan out on roughly 10:1 ratios of deposits and reserves; investment banks, hedge funds, etc., have leveraged up to 30:1. The declining tide of Baby Boomer spending and retirement just adds to the deflationary and slowing tide despite massive stimulus, much as occurred in the 1930s and in Japan in the 1990s. It is most important to listen to the few bearish forecasters who understand deflation, as the implications for investments and business are often the opposite of what would be true for an inflationary bust like the 1970s!**

Prechter made an interesting comment in his most recent newsletter. He showed extremely bullish readings of 99% from futures traders when the 10-year Treasury bond approached 2.0% yields in December. He suggested that T-bond yields have made a major bottom and that yields would rise in the years ahead as the credit of the U.S. government continues to falter due to the massive deficits and stimulus programs—despite deflationary trends that normally would suggest lower interest rates. Note that this is *not* what occurred in the 1930s. As we have covered in the book and in past issues, T-bond yields spiked in late 1931, when the downturn started to look so ominous that even the government's credit was questioned temporarily. Yields fell for years while the government supported T-bonds to help keep interest rates low, but the U.S. government was still trusted despite the deficits during the



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depression. However, back then the U.S. government was a net creditor to the world, not the largest net debtor—and we didn't have an extreme housing bubble and such extreme leverage across our financial systems. The establishment economists from Bernanke to Geithner to Krugman are saying that we can learn from the 1930s and 1990s implosion in Japan and stimulate harder and earlier—and that the mistake would be not to react boldly enough. We think that that belief shows a great misunderstanding of the natural cycles wherein the economy innovates and grows and then digests and eliminates.

We have to slow after major booms and especially after major bubbles, which signify great periods of innovations in technology and business models. The policy of stimulating to prevent every downturn not only doesn't work ultimately, but in a sense is like saying that we don't need to sleep because sleeping will cause us to lose productivity from not being awake. Sleep is essential, and we would all crack up within days if we got no sleep. In fact we sleep about 40% of our time, which is close to the ratio of long-term slowdowns vs. long-term advances (and natural Fibonacci ratios).

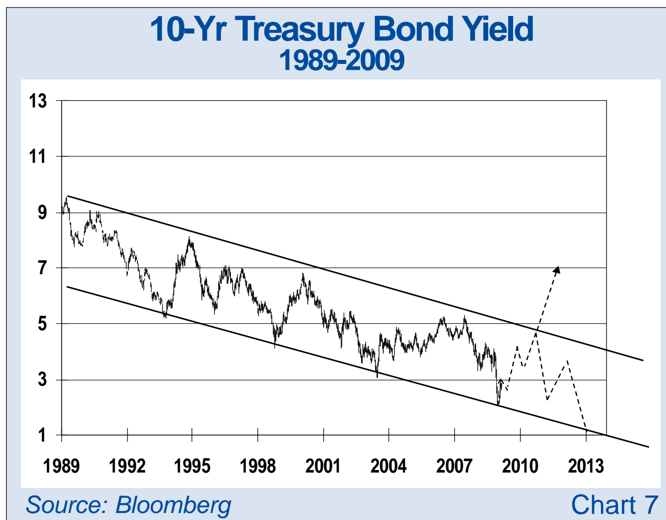


**Chart 7** updates our 10-Year Treasury Bond Channel, wherein we have seen disinflation since 1980, but more consistently since 1989. In our book we suggested that 10-year Treasury yields could go back to 7%+ into 2010 on the basis of on resurging inflation back toward 5%+ if the stimulus plan had strong initial results. However, now that oil prices have broken below $38, the deflation process seems to be progressing despite the stimulus, and a resurgence of inflation to that degree is less likely. We have been suggesting that at a minimum we are likely to retest the top end of this channel around 4.6% by early 2010 or so, with a rebound of higher rates in anticipation of some rebound and extreme oversold conditions in December. If the stimulus keeps escalating but there is little response in the economy, the markets could lose confidence in the U.S. government's credit and we could see higher rates from greater concerns of default despite continued deflationary trends, much as Prechter suggests.

**A break above the upper trend line in the Treasury Bond Channel in late 2009 or 2010 would suggest either a stronger temporary inflation surge or, more likely, that the U.S. government's credit is being questioned seriously and that the U.S. dollar is falling again, as we expect in all scenarios—but more seriously and sooner.**



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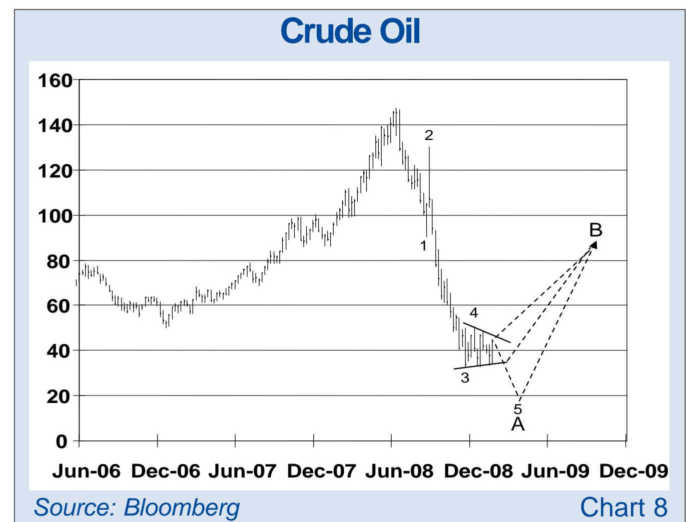
We have two scenarios ahead in Treasury bonds and interest rates. In the first, we see a second spike in interest rates due to an even greater crisis next year, as we have always expected, with the U.S. government yields spiking along with corporate and municipal yields, much as in late 1931. However, a second scenario of deteriorating confidence in Treasury bonds and in government credit along with higher yields is looking more likely. That goes against the government's recent commitments to support government bonds by buying them, but we think that the government is going to face serious tradeoffs over the next year. President Obama has come in with good intentions and strong leadership capabilities, but he has no idea what he is ultimately facing here. He will have to pull back on many of his proposals for entitlements and stimulus and the government will have to start deciding whether it is more important to stimulate or to protect the U.S. dollar and U.S. Treasury bonds.

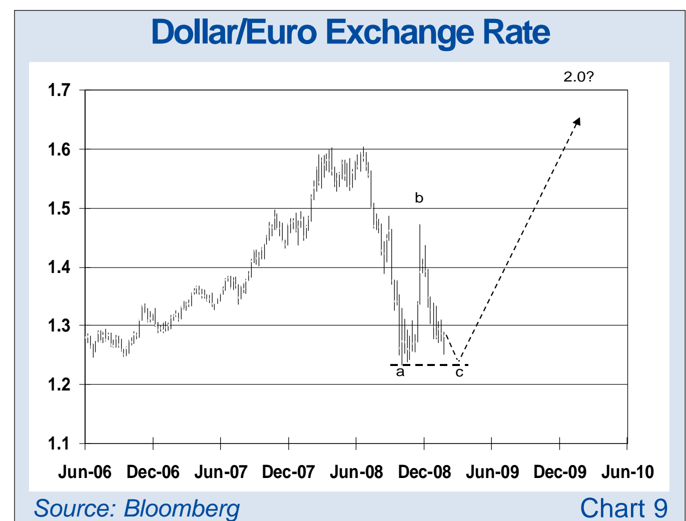
**As we have warned, President Obama is already proposing rising taxes on the top two tiers of marginal tax rates and higher taxes on businesses. This is only the beginning of much higher taxes on broader levels of the upper middle class and business to come.**

How can you keep borrowing if you lose the confidence of investors, especially the over 50% of foreign nations and investors that now own our public debt? Rising rates, less stimulus, and rising taxes would be necessary to support the dollar and Treasury bonds. Note that the long-term Treasuries got down only to around 2% at the lowest levels of the Great Depression. Thus, it is possible that bond yields bottomed in December. We have advised that Treasury bonds are the last bubble, given that investors have fled to Treasuries from crashing stocks, real estate, and commodities. Hence, in recent months we have recommended that investors get out of long-term Treasuries. We continue to advise getting out on any short-term rallies (falling yields) in the near term. In early to mid- 2010 or so, we will reconsider whether there is the potential for falling yields and whether bonds will look more attractive again, as we originally expected.

Commodity prices outside of gold and silver have continued to slide, especially oil and natural gas, as they unwind from a massive hedge fund bubble in speculation. If we look at oil prices (**Chart 8**) we are in a consolidation pattern short term that could see a break out to the upside if oil prices can break above $46, or a final wave downward if they break below recent resistance, around $33 to $34. Given that the U.S. dollar is still rising vs. most currencies and the euro (**Chart 9**), we would feel much better buying oil and commodities in



Source: Bloomberg Chart 8



Source: Bloomberg Chart 9



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general when we see the euro at 1.23 dollars or lower. The dollar has been holding stubbornly just below that level for many weeks. A break upward in the dollar and a break downward in oil could set up a major buying opportunity if we don't break to the upside very near term.

Investors who have been buying in oil first should consider getting out of any USO (ETF) indices now that they have finally rallied and then should wait either for a break out to the upside or a break downward and reposition either in the lower volume USL (ETF), which is not so adversely affected by rollovers into futures contracts already anticipating a rally, or in XOP (ETF), which represents the exploration and production companies that benefit from rising oil prices, as we advised in recent updates. The best buying opportunity in oil and natural gas would come from another break downward and the euro moving to $1.23 or lower near term—and it is likely that commodities may bottom a bit later than stocks (as occurred in December after the November low in stocks), given that hedge funds, which peaked several months after stocks, have been liquidating commodity positions more aggressively in past months.

Source: Bloomberg Chart 10

Source: Bloomberg Chart 11

We recently warned that gold and silver (**Chart 10 and Chart 11**) were getting extremely overbought and were likely to peak at least near term. We have already seen sharp setbacks after bullish futures readings of 96% in gold and 95% in silver—again, very extreme. We tend to think that gold and silver will drop at first when stocks and commodities rally but ultimately will rally when confidence in the dollar and U.S. government falls. Prechter suggests that these commodities have peaked and will fall into 2012. We have a harder time buying that, given a scenario wherein the U.S. dollar and government credibility is falling, but it clearly makes sense to reallocate out of gold and silver on any near-term bounces, as there is likely to be a substantial setback first. We would like to see silver at least back down to $12 or lower and gold somewhere in the $800s before we consider rebuying—and only if they get very oversold. A substantial new high in gold at $1200 to $1400 is still likely, and silver could go back to as high as $19+.

## Technical Analysis—Looking for a Tricky Bottom

It should be no secret that this has been the hardest correction to read—at least in our lifetimes. Even the


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2000-2002 crash gave clearer buy and sell signals on the way down and back up. However, ultimately the markets have to start to show their cards. The fifth wave now in the Dow and likely in some other markets like the S&P and possibly the Nasdaq, probably will bottom near term, as we are getting very oversold. **Chart 12** shows trader sentiment in the S&P 500 futures, and you can see that it has gotten very oversold just recently—well beyond past corrections in this bear market since October 2007. However, we recently saw Treasury bonds reach extremes of 99% bullish, so why not near 1% bullish in stocks? We got as low as 3% on February 23. We think we are very close and we hope to see only slight new lows as the markets continue to fall again after the recent bounce to 7,400 on the Dow. We warned in recent updates that this bounce did not look convincing. We will have to monitor our other technical indicators that are not quite as oversold yet to determine the best buy signal.

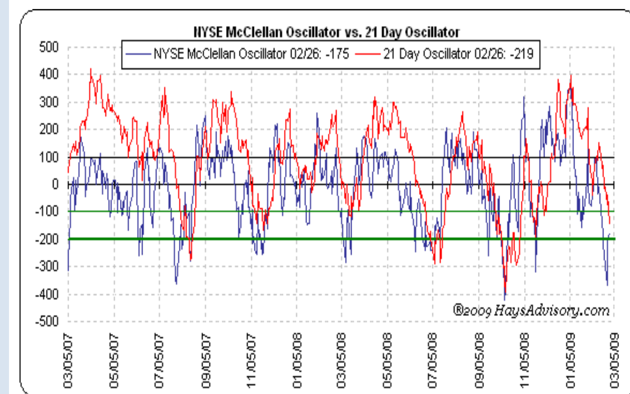
Our shorter-term oscillators are again getting very oversold but are not where we would prefer as yet. The NYSE in **Chart 13** is getting oversold on the McClellan or blue line, but the 21-day or red line tends to follow and confirm and is not as low as we would like to see in such an extreme bottom. The Nasdaq in **Chart 14** is less oversold and may correct some in the days ahead before a bottom is put in. Note that the Nasdaq has held up better in this recent correction and has not reached new lows yet. Also, the emerging markets (EEM) and China (FXI) and Asian markets (EPP) have also not made new lows and are less likely to do so. The optimum scenario would be slight new lows in the S&P 500 toward 700 with no new lows in the Asian and emerging markets; 20.50 to 21.00 is a potential support level on the emerging markets (EEM).

**Given that the Asian and emerging markets have held up better and have stronger demographics and less toxic banking systems, they will be the best areas to buy in stocks for the rebound likely just ahead. The financial sector is the most extremely oversold in the U.S. and should bounce the strongest as well (XLF).**

S&P 500 Sentiment

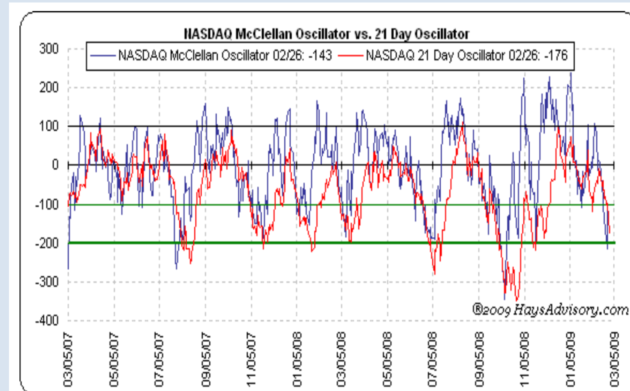
Source: Trade-Futures.com Chart 12

NYSE McClellan and 21-day Oscillators




Source: HaysAdvisory.com Chart 13

Nasdaq McClellan and 21-day Oscillators




Source: HaysAdvisory.com Chart 14



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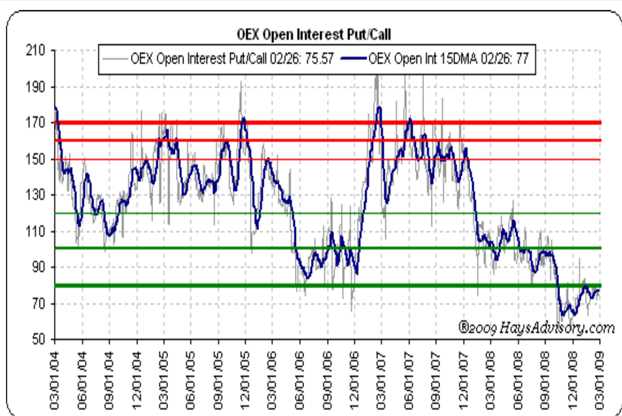
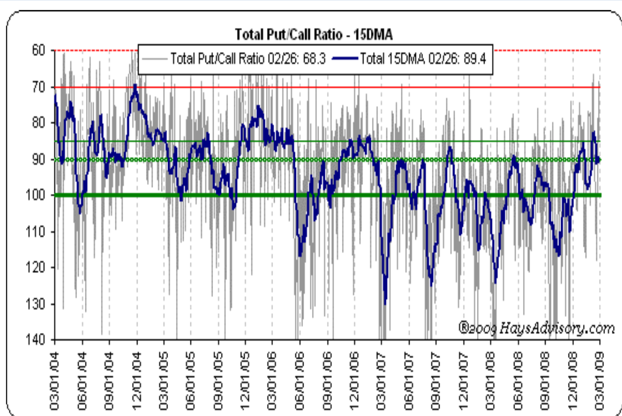
### The "Smart Money" Index




Source: HaysAdvisory.com Chart 15

### The "Dumb Money" Index




Source: HaysAdvisory.com Chart 16

Finally, we look at our classic "smart money" and "dumb money" indicators, which are less clear. The OEX open interest indicator in **Chart 15** shows that the smart money was the most bullish in November 2008 but is still very bullish now, which is positive. The total put/call ratio in **Chart 16** gives the greatest concern near term. This dumb money sector is still only modestly bearish, and this could be the last sentiment indicator to fold substantially before we see a more sustainable rally for months ahead. This chart tends to conflict a bit with the Futures Sentiment Index in Chart 12 and may suggest a bigger correction below 7,000 near term.

**Summary: This correction has continuously disappointed on the downside, even after extreme oversold readings that suggest bigger rallies out of near-term bottoms. However, we may be seeing the bottom of the first major wave downward just ahead, which would suggest at least several months of a choppy rally into the summer before we peak again and turn downward. Given that we are falling to new lows in indices such as the Dow (and now the S&P 500) in a five-wave pattern, the upside targets can get a bit lower—back to around 9,100 at a minimum. However, we may still see a bounce back between 9,800 and 11,000. Also, oil and commodities could rally further and longer given a likely decline again in the U.S. dollar and rising tensions in the Middle East. Look for updates near term on stocks and commodities—and continue to sell the "flight to quality" investments in gold, silver and Treasury bonds on near-term bounces.**

# Thoughts on *The Next 100 Years*

By: Charles Sizemore, CFA

*There is a deep-seated belief in America that the United States is approaching the eve of its destruction. Read letters to the editor, peruse the Web, and listen to public discourse. Disastrous wars, uncontrolled deficits, high gasoline prices, shootings at universities, corruption in business and government, and an endless litany of other shortcomings—all of them quite real—create a sense that the American dream has been*



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*shattered and that America is past its prime....The odd thing is that all of this foreboding was present during the presidency of Richard Nixon, together with many of the same issues.*
—George Friedman, *The Next 100 Years*

Because we are in the forecasting business, we like to read what other forecasters are writing from time to time. We were delighted to see that Dr. George Friedman has published a new book, *The Next 100 Years.* Friedman is a political scientist and the founder and Chief Intelligence Office of Stratford, the private intelligence company *Barron's* once called the "Shadow CIA."

We found Friedman's quote above interesting. Americans are known around the world for their optimism, but they can also be a very pessimistic people. Just ask any American (outside of the state of Michigan) what they think about American cars, and you'll likely hear more than a few obscene words used in the reply. Never mind that American cars have never been better in terms of efficiency, reliability, and length of service life and that American cars regularly meet or exceed the quality rankings of their German and Japanese competitors. No, they are (and presumably always will be) "pieces of junk."

America will survive this credit crisis, even if the country suffers years of economic stagnation in the meantime. We don't anticipate much in the way of a durable recovery until the Echo Boomers earn and spend enough to replace their parents, the Baby Boomers, which shouldn't happen until the 2020s by our estimates. But make no mistake, even wounded, the United States will remain the center of the global economy for a long time to come. This is certainly the view of George Friedman, at any rate.

Friedman, perhaps better than any other mainstream writer today, has a way of understanding and explaining the underlying motivations of governments and even controversial "non-state actors" such as terrorist groups. Some of Friedman's analytical conclusions are controversial—such as his belief, explained at length in *America's Secret War*, that the Iraq War was motivated far less by a desire to spread democracy or find weapons of mass destruction and far more by a desire to scare neighboring regimes (such as the Saudis) into toeing the line in the War on Terror, essentially saying "get with the program, or you're next." Friedman gives no indication as to whether he supported this line of thinking, mind you. This was simply his assessment of the underlying motivations of those making the decisions.

In *The Next 100 Years,* Friedman takes his lifetime's worth of study and analysis and allows his imagination to run freely (perhaps a little too freely) in forecasting what paths geopolitics might take over the next century. At one point in the book, when discussing scenarios for the 2040s, he sees a resurgent Japan attacking American "Battle Star" space stations from secret bases on the moon. We really wish Friedman hadn't gone there…we consider it a ridiculous distraction from what was otherwise a fascinating and insightful work.

Friedman, like Harry Dent, repeatedly warns against linear thinking and naive extrapolation of current trends into the future. History, economics, and financial markets do not move in straight lines—of which our current credit crisis provides ample evidence—but tend to move in cycles. Political movements and entire nations rise and fall and rise again. History does not repeat itself per se, but it does, to paraphrase Mark Twain, "rhyme." A country's current (and future) internal politics and relations with the outside world are a result of that country's unique history (and geography too, Friedman



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would argue). For example, Americans' ambivalence toward the assorted financial bailouts reflects a fundamentally unique national character, one marked by a general mistrust of the state that traces its roots to the Magna Carta in England. Other countries with their own unique histories have very different reactions to the crisis and the responses to it.

With all of this said, what are some of Friedman's predictions?

For one, China could cease to exist as a unified state and could break down into warring factions as soon as the 2010s. Sound farfetched? Yes, but it wouldn't be the first time this has happened to China after a prolonged period of contact with the outside world. There has always been a tension in China between the richer coastal areas, which tend to have an outward orientation, and the vast interior of the country, which tends to be poorer and far more insular in mentality. These tensions, according to Friedman, were at work in the Chinese civil war that ended with Mao's communist victory and are likely to be the cause of a new civil war within a decade. Time will certainly tell.

Furthermore, Friedman sees a resurgence, albeit a short-lived one, of Russian imperialism that will eventually implode due to Russia's shrinking population. Friedman is correct to identify demographics as Russia's Achilles' heel, yet he strangely fails to draw the same conclusion for Japan. As we mentioned above, Friedman sees Japan reemerging as a military power a full 100 years after that nation was defeated in World War II and forming an anti-American axis with Turkey, of all countries. Friedman sees Turkey more or less recreating the old Ottoman Empire and emerging as the leader of the Islamic world, filling a power vacuum creating by constant infighting between the Arab states to Turkey's south. Friedman also sees Poland emerging as a major military and diplomatic power in Europe, taking over the role traditionally played by France and Germany-Austria.

Many of Friedman's forecasts sound too fantastical to be taken seriously. But then, it would have sounded fantastic in 1914 to say that the Austrian, Ottoman, and Russian empires would cease to exist just a few years later or that the United Kingdom would be reduced from the seat of a globe-spanning empire to a mere province of the European Union just a few decades later. Time will be the ultimate judge of Friedman's forecasts.

In the meantime, he had several quotes in *The Next 100 Years* that we found worth repeating here.

Echoing Harry Dent's work, along with that of Philip Longman, George Magnus, and others, Friedman gives a good synopsis of the world's changing global demographics:

> …[U]nderlying all of this will be the single most important fact of the twenty-first century: the end of the population explosion. By 2050, advanced industrial countries will be losing population at a dramatic rate. By 2100, even the most underdeveloped countries will have reached birthrates that will stabilize their populations. The entire global system has been built since 1750 on the expectation of continually expanding populations. More workers, more consumers, more soldiers—this was always the expectation. In the twenty-first century, however, this will cease to be true. The entire system of production will shift. The shift will force the world into a greater dependence on technology—particularly robots that will substitute for human labor, and increased genetic research…to make people productive longer.

This could perhaps be called the "anti-Malthusian" demographic argument. We commented on this most recently in the May 2008 issue of the *HS Dent Forecast* in "So Old it's New Again."

Moving further into the territory of HS Dent demographic research, Friedman writes,



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> The decline in housing prices has many reasons, but lurking in back of it is a demographic reality. As global population growth declines, the historic assumption that land and other real estate will always rise in price due to greater demand becomes suspect. The crisis of 2008 was not yet really a demographically driven crisis. But it showed a process that will reveal itself more fully over the next twenty years....

We are asked regularly whether HS Dent research forecasted the current credit crisis. The answer is "Yes, but indirectly." Demographics did explain the real estate boom of the mid-2000s, as Harry Dent wrote in *Demographic Trends in Real Estate* and in *The Next Great Bubble Boom*. The early years of that boom were absolutely justified by the Baby Boomers entering their peak years for buying trade-up homes. The problem is that the underlying demographic trend supporting the housing market peaked in 2004…just before the boom reached its greatest frothy excesses. In those last two years before home prices began to reverse, reckless lending and speculative buying picked up where demographics left off, and we are still feeling the effects of this excess today.

As Friedman concurs, due to changing global demographics, real estate simply will not be the profitable investment that it has been for most of the past 500 years or more. In a deflationary environment, real estate is perhaps the worst asset class to own. (For an excellent analysis of the effects of population growth on inflation and deflation in general and real estate in particular, we highly recommend David Hackett Fischer's *The Great Wave: Price Revolutions and the Rhythm of History*.)

Interestingly, Friedman also echoes HS Dent's research on S-curves and market acceptance of technologies. This paragraph just as easily could have been written by our own pen:

> …[P]roductivity growth from the last generation of innovation is peaking. Great entrepreneurial companies of the 1980s and 1990s like Microsoft and Dell have become major corporations, with declining profit margins reflecting declining productivity growth. In general, the innovations of the last quarter century are already factored into the price of equity. Maintaining the thunderous pace of the past twenty years will be difficult.

So, what might an area of growth be? We have written on robotics as a growth industry, using Japan as an example of what the future might look like for the rest of us. Japan, more than any other country, has embraced robot labor as a way to mitigate the effects of an aging and shrinking population. Friedman agrees, although he does not see robots becoming widespread for another 50 years:

> [In the 2060s,] [t]he robot will represent the computer's logical and dramatic conclusion. In a world that needs economic growth but no longer has a surging population, robots will become the driver of productivity....Robots, still primitive but developing rapidly, are going to sweep the world, and will be particularly embraced by the population constrained advanced industrial world, and by countries that will be closing in on the first tier and nearing or passing population peaks.

All told, Friedman's new book is an interesting mix of critical analysis of current trends and a sometimes fantastic forecast of things to come. We give it a qualified recommendation. The book is engaging and in many places insightful. Just be sure to take some of his more controversial forecasts with the appropriate grain of salt.



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## Clear Springs Advisors, LLC

We have had a lot of questions from subscribers asking us what we are doing now. Over the past year we have been working to develop a specialized investment firm, which we now have. Clear Springs Advisors, LLC is the new firm, whose goal is to deliver low volatility returns and also preserve capital, which fits with our economic outlook. The company began operations on May 1, 2008, just as cracks began to develop in the economy. Because of the volatility of the markets and the economy since then, we have waited until now to begin discussing the opportunities available at Clear Springs Advisors, LLC.

The principal of the organization is Rodney Johnson, who is also President of HS Dent. The offerings through Clear Springs Advisors, LLC are only available to accredited investors, and therefore the details (process of investing, returns since inception, etc.) cannot be discussed in an open publication. If you would like more information on this, please visit the website of the investment firm, www.clearspringsadvisors.com. You will be asked to complete a questionnaire to ensure that you are an accredited investor before full access to the site is granted.

Please be aware that the process of accepting your registration is done by Clear Springs staff. This process may take up to 48 hours to grant you access, and longer if it is the weekend when you are applying for access to the fund site.

PLEASE NOTE: your account on HS Dent will NOT work automatically on ClearsSpringsAdvisors.com - you must register a new account there and wait until your account is accepted by the staff of Clear Springs.



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