



# FINANCIAL SENSE ONLINE

## *Newshour's Ask The Expert*

### TRANSCRIPTION OF INTERVIEW

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Marc Faber Limited & Editor of  
"The Gloom, Boom & Doom Report"

### "The Next Big Thing"

**Editor's Note:** We have edited the interview in this transcription for clarity and readability. The original real audio interview may be heard on our [Ask The Expert](#) page for Dr. Faber.

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**JIM PUPLAVA:** Welcome everyone to this week's program. Joining me on the show is Marc Faber. He studied economics at the University of Zurich, and at the age of 24, obtained a PhD magna cum laude. Between 1970 and 1978 Dr. Faber worked for White Weld & Company. Since 1973 he has lived in Hong Kong. From 1978 to 1990 he was the Managing Director of Drexel Burnham Lambert, Hong Kong. In June, 1990, he set up his own business, Marc Faber Limited, which acts as an investment advisor, fund manager and a broker-dealer. Dr. Faber publishes a widely read monthly newsletter called the *The Gloom Boom & Doom Report* in which he discusses economic issues and investment opportunities. He is also the author of the book, *The Great Money Illusion*. Dr. Faber is well known for his contrarian investment approach and is part of the Baring's Round Table this year.

Doctor, welcome to the program. I would like to start our discussion with something that you wrote last December in *The Gloom Boom & Doom Report*. It was about the nature of bear market rallies. You said it was very important for investors to watch technical analysis, but in the end, it is going to be macroeconomic and company fundamentals that determine the long run.

**DR. MARC FABER:** First of all, thank you very much for inviting me for this interview. I think that we have to distinguish between short-term market movements, which are driven by conditions where the market becomes over-bull. Such as was the case in the summer 1987 and followed by a correction, which was the crash of October 1987. Then the market eventually rallied again and exceeded everyone's expectations by March, 2000. We have to distinguish between macroeconomic trends, which will determine whether you are in a bull market for commodities, for equities, for bonds, for real estate and so forth. I think that the long-term

macroeconomic picture at the present time is such that the outlook, in general for equity markets in the western world, is not particularly good. We have to distinguish making a general statement, because you could have a decline in industries, on the Dow Jones, the S&P 500 and the NASDAQ, and still some groups of stocks that do go up. I think from here onward, we have to be much more specific, for example looking at individual companies and individual sectors and not at the entire stock market. It may be a market such as we had between 1968 and 1982, where you had rallies and declines, but by 1982 the market was no higher than it had been in 1964.

**JIM:** You know, one aspect about this bear market that has unfolded since 2000 is the quickness on the part of Wall Street to declare that each new bottom or downturn in the market is the final market low. It appears that way to me, at least, if we want to look at economic fundamentals. Things like corporate profits, debt levels, and the fundamentals still do not look good to me, specifically in the U.S. And for that matter, other areas of the world including Europe.

**DR. FABER:** I think that you make a very valid point. What disturbs me is each time Wall Street comes out with a winning song about the bottom having been reached and that the new bull market is now on the way. What disturbs me, and I go to at least one or two conferences every month as a speaker and my impression of clients' behavior, is that most financial institutions and most individuals are more afraid to miss the next bull market, then they are afraid that the market could decline by another 50%.

**JIM:** This isn't surprising. Throughout this bear market, one thing that I have found somewhat different this time is the vast majority of investors are still fully invested in mutual funds. There has not been this exodus or capitulation in this bear market as compared to let's say the bear market of 1973 and 1974.

**DR. FABER:** Yes, absolutely. In fact between 1972 and 1982, there were just a few months of mass inflows of the mutual fund industry. For ten years in a row, there were months and months of outflow from the mutual funds, and this hasn't happened. People say, "The market bottom has been reached, because there was a big outflow of money from equity mutual funds in June and July." But basically there hasn't been a capitulation at all. And I would also add to that, that fundamentals are very unusual in this economy. I don't even call it a recession since 2000. What has collapsed is capital spending especially the spending on high tech equipment. But consumption has been continuously expanding and we have this refinancing boom in the housing industry, where housing has stayed strong and housing prices have continually increased. Particularly in the UK, where over the last 12 months house prices are up 22%. It is an unusual recession. I would say that has happened as a result of massive credit creation and massive easing by the Feds since the beginning of 2000. What we essentially have is a postponing of a recession and I think that eventually the consumer will also cave in and that this will create a very weak economic environment.

**JIM:** You know, Wall Street has hailed the Fed rate cuts as a cure for the markets all throughout 2001. Every time the Fed cut interest rates, which they were doing aggressively, it was seen by Wall Street as a cure, not only for a recession, but also for financial markets. You believe in many ways, what the Fed has done is likely to make things worse. What we have seen and what you have just made reference to is a bubble in the mortgage market, which is feeding into a bubble of consumer spending, which has also fed into a real estate bubble. In many ways, we might have started out with a stock market bubble, but now we have multiple bubbles as a result of Fed policy.

**DR. FABER:** I think you make a very valid observation. I would just like to remind everyone who hears this program that basically, an economy has a trend line growth of say two to three percent. Occasionally this

equilibrium is disturbed by inventions, innovations, export growth, a rise in commodity prices or what not. Then you go into an excursion of prosperity, where the economy grows above trend line. This above trend line growth is believed to be permanent and it leads to a capital spending boom and to some expenses. Then there is a period of readjustment, which I call the excursion into depression or recession. During the recession, the excesses of the previous boom are cleaned out and the weak market participants have to be eliminated. When that is done, then you restore some kind of an equilibrium in the economy. I also believe that the market mechanism is the best mechanism to steer an economy.

The moment the government thinks that they are the central planner (and we know now what the result of central planning is as we have seen it in the Soviet Union, in Eastern Europe, in China and in Vietnam), it is usually total disaster. Now, in the western world, we don't have central planning in every respect of the economy. But the central bankers think that they can steer the economy forward and backward, like you steer your car. That thinking doesn't work. The Feds and the other central bankers in the world don't know anything more than you and I do. The market knows much more than they do. I think that by aggressively easing, as we have referred to it, it is creating this mortgage loan bubble. Let me remind you in the second quarter of this year, mortgage debt expanded by over \$800 billion dollars, annualized rate. Compare that to a mortgage debt expansion in the years 1992 through 1997 of just \$200 billion annually. We have this huge expansion of credit in the mortgage market, but this has created another bubble on top of the NASDAQ bubble that we had before.

I think that the problem of the current slow down is that the imbalances that the U.S. is suffering under have not been corrected at all, but made even worse. Had they taken, in 1992, a serious recession and wiped out the weaker companies, the country would be much better off. What they did was artificially support the weaker companies. Instead of having the survival of the fittest, they had the survival of the weakest. Today the country is much worse off and possibly the problems of Japan cannot even be solved at this stage. I think it would be much better off to leave the market mechanism to solve a lot of problems than to have the government intervene.

**JIM:** You know this is one thing that does distinguish this downturn in the U.S. as compared to the last one in 1991. In 1991, housing led the downturn. You had individuals who paid down debt. *The Wall Street Journal* said the average debt pay down was about \$1,400. Individuals increased their savings and cut back on their spending. They were reacting financially in a responsible way. Throughout this recession, instead of slowing down spending, paying off debt and increasing savings, just the opposite has happened. They took on more debt, they increased their spending and they extracted more equity out of their homes, which they are taking to spend. The savings rate in the U.S. is almost virtually zero. This is certainly an unusual recessionary bear market environment as compared to the past.

**DR. FABER:** Yes, I agree with you. I think that the function of a recession is to bring about adjustment to the imbalances that are created during a boom period. That is a very important function. What it does is create a pent up demand. In other words, in 1982 we had pent up demand when we came out of a recession. So immediately, car sales soared and housing soared. In 1991 we also had rebuilt liquidity among the consumer. When the recession was over, the economy rebounded strongly. At the present time, the problem is that we have borrowed from the future. This is quite interesting. Car sales are basically at the record high, but the shares of car companies like GM or Ford are below the 1990 level. In other words, the stock market is not totally stupid. It is not the car boom. It is the car bomb with hissing wicks. One of these days, car sales will just collapse, because everyone will have bought a car. The age of the car population is now at the record low. People need to just drive their cars for another four years instead of buying new ones, in theory.

**JIM:** What happens to an economy with this bubble in mortgages, consumer spending and real estate, which was created by available credit and lower interest rates? What concerns me Dr. Faber is what happens to the U.S. economy when interest rates begin to reverse? For example, in a dollar crisis, what happens to housing, consumer and corporate debt and more importantly, the financial sector? It seems to me that the drop in a lot of the financial sector stocks, whether it is financial intermediaries (companies that insure mortgages or credit) or a drop in banks is signaling trouble ahead in the financial sector.

**DR. FABER:** I think you are touching on a very important point. I think that the collapse in companies that are involved in sub-prime lending and have had very heavy exposure to their entities like JP Morgan and Chase signals trouble ahead. I think that the bear market will eventually end when one or several banks have to be bailed out by the government. Just think of the leverage that these government sponsored enterprises like Fannie Mae have. Fannie Mae has equity of \$20 Billion dollars; they have outstanding mortgages of \$900 Billion dollars and a mortgage guarantee of \$1.1 Trillion dollars. So basically, on \$20 Billion dollars, they have outstanding commitments of \$2 Trillion dollars. That is much worse than LTCM ever was. And that it is, essentially in theory, it's government guaranteed. I think if anything happened, the government will step in. The problem is, if they had ever a problem, and the government would have to step in, it would be a big shock for the stock market.

**JIM:** As a member of the Baring's Round Table at the beginning of the year, you argued that you could very well see rising commodity prices, even if there is little or no economic growth. In other words, we may see an inflationary trend of the commodity prices and at the same time, the general economy or things related to credit, are going through a deflationary trend. Can you explain that?

**DR. FABER:** First of all we have to distinguish. Let's say the price of coffee doesn't depend on whether there is inflation or deflation in the world. It depends on the demand and supply for coffee as a commodity. If there is a freeze and the coffee crop is disappointing, prices can shoot up. As an example, the price of cocoa has tripled in the last twelve months and we have been in a deflationary environment.

Secondly, I would also argue that basically the central bankers are supplying money like water through the world, this water or money will always flow somewhere. It may flow out of something into something else. If you look at the assets market since the spring of 2000, money has basically left the stock market. That is why the stock market has been down on average. In Europe it is down more than 50% and in the U.S., it is down a bit less than 50%. But stocks are down and at the same time, real estate is up. Money has been buying real estate. The same way money could one day, buy commodities, for whatever reason.

I think that we also have to understand the macroeconomic picture of the world. Basically China began to open up in 1978. Very little happened until the late 1980's because China didn't have the infrastructure. It didn't have the commercial infrastructure to handle imports and exports and so forth. In the 1990's China has become a major producer of manufactured goods. Whatever you see around the house or in your office, the Chinese can make it for 50% less cost than for what an American or European manufacturer can make it. As their exports are entering the global markets, they are basically exporting deflation in the manufacturing sector.

If there were no protectionist tendencies, like barriers for exports, I think in due course the Chinese and the Vietnamese, can essentially bankrupt European and American manufacturing. I compared the opening of China to an occurrence in the 19<sup>th</sup> century, when as a result of the construction of canals and especially railroads, American agricultural products, grown in the mid-west reached the world markets. From 1873 to the

1900's, it led to a severe deflation in commodity prices in agriculture. In that time, agriculture was still the world's largest industry. The opening of the American continent and the export of agriculture products from the U.S. into the world market largely bankrupted European agriculture because they were not competitive. Today, the same is happening, because of the opening of China in terms of manufactured goods and in the service sector. India could really have a huge impact. If the government had any brains, it would farm out the entire social security system, the entire IRS and so forth to Indian companies, they could do it for 30% less the cost of what it costs to do it in the U.S. and Europe. Of course the government would never do it because the government has only one interest and it is to protect their own interests and not to protect the interest of the people.

**JIM:** Doctor, we have a lot of respected analysts that believe the U.S. is headed for a protracted period of major deflation. The comparisons are made between the U.S. in the 1930's and Japan in the 1990's. One thing strikes me as we look in the U.S. economy today. Number one is there are a lot of changes in the new century, as compared to the 1930's. For example, the U.S. is no longer self-sufficient in manufacturing. A lot of our manufacturing base is moving offshore. Number two, the U.S. is no longer self-sufficient in energy. We must import a lot of our oil and natural gas. And number three, we are no longer self-sufficient in capital in order to finance our current account and trade deficit. Doesn't that portend a different situation today, in relation to corrections as to where we were in the 1930's?

**DR. FABER:** Well, there are two observations I would like to make. First of all, the age of capitalism is relatively short. We only have experience with the capitalist since the 19<sup>th</sup> century. Also economics is a relatively young science. There are a lot of things that haven't been tested 100%. So sometimes it is very difficult to see what is cause and effect and how it plays itself out. When I look at today's world, I think that the type of deflation we had in the 1930's is unlikely. But you can have deflation coming in on different levels.

For example, in the 1980's we essentially had a depression in Latin America. We had an oil boom, which was essentially financed in the late 1970's. After 1980, the Latin American economy collapsed. The reaction to Latin America was to print more money and to create a large budget deficit. What you had at that time was a simultaneous occurrence of depression and hyperinflation. What then happens is that the currency collapses. You have domestic price levels that are rising, but because the currency collapses, the price level becomes extremely low. With the result that at the end of the 1980's in Latin America, you could have bought a whole office building in Central Buenos Aires for a million U.S., you could eat in the best restaurant in Buenos Aires for five U.S. dollars and you could have a luxury apartment in the best neighborhood for seventy thousand U.S. dollars. There the deflation occurred through the currency mechanism, in the sense that the currency collapsed.

Whereas in the depression years, the currency of the dollar didn't collapse, but the price level went down. You can have deflation coming through the adjustment in the domestic price level as in the U.S. in the 1930's or in an adjustment in the exchange rate of your currency, as occurred in Latin America in the 1980's. By the way, we also see currency deflation during the Weimar hyperinflation in Germany between 1921 and 1923. So I think that what you alluded to, essentially the U.S. has this imbalance in the trade account and the current account. The question is, Can the dollar weaken a lot against the Yen and can the dollar decline a lot against the Euro? The U.S. dollar is a thick currency, but the others are also thick. You have to ask yourself, Against what will your dollar collapse?

**JIM:** Could we in fact see the result of deflation in all things related to credit -- for example in things such as housing, autos, financial assets -- fall as a result of collapse in credit? And on the other hand, we could see a rise occur simultaneously in basic goods because of rising demand and lack of supply in commodities as we see a worldwide demand for basic goods and commodities increase?

**DR. FABER:** The central banks today in the western world have been selling gold. You have to ask yourself about the intelligence of the central bankers. They could have sold their gold in 1980 and 1982 for around \$800 and they could have bought the Dow Jones at 800 and they could have bought Treasury bonds yielding 15%. But the brain damaged central bankers, they waited over 20 years to sell the gold below \$300, and to invest in Dow Jones type of investments at over 10,000, and in bonds at around five percent. I think that the selling of gold by the central bankers, given their intellect is as wrong as the pricing of commodities, of gold, silver and other hard assets. Given the fact that the U.S. dollar is unlikely to collapse against other currencies that are relatively thick, probably the Chinese have the strongest currency right now. Given the fact that the other currencies are inflatable and also not relatively good, I think that eventually the dollar will depreciate against hard assets.

**JIM:** Getting back to the U.S. economy, there are many economists that are calling for a three to four percent economic growth going forward as a normal recovery to a recession. As I see it, there are a couple of inhibitors that exist today. Number one is debt. It is one of the main inhibitors, both at the consumer level and at the corporate level. Another one is valuations as they are still extremely high if we look at earnings, *real* earnings for the S&P, and perhaps another one could be government regulation. Governments are notorious for doing the wrong thing at the wrong time. Do you see these as inhibitors in the future?

**DR. FABER:** First of all, I would imagine that government statistics are highly questionable. I always say, "Everyone has information, but the interpretation of the information is important." There is growth and there is *other* growth. Let's say we are 10 people and we consume a certain amount of goods. We have a savings rate of such and such and suddenly we have an inkling to borrow money heavily to buy more cars and to buy more houses. Obviously, this additional borrowing will generate more growth. But how sustainable is it? Once you reach a certain level of borrowing, you will not be able to borrow much more. Or you have borrowed from future consumption.

I think that we think we have had a lot of growth and actually we've had hardly any growth in the last two years. Which is quite funny given the credit expansion we had. In other words, in 2001 GDP grew by about \$170 billion, non-financial debt expanded by about \$900 billion, and financial debt expanded by about \$1.1 trillion. To generate \$170 billion worth of growth on the GDP of \$10 trillion, we have to create an additional \$2 trillion worth of debt. This doesn't add up in the long run.

In economics, there is one principle that is simple. What is not sustainable in the long run is unsustainable. That happens from time to time where eventually it reaches where it can't grow anymore. That is evident in the market, which is the result of a widening credit trend. If someone tells me that the economy will grow by three to four percent, yeah in theory it is possible that you can drive the debt growth even further. But in my opinion, the boom of the late 1990's and the subsequent slowdown still has a lot of unfinished business left in the slow down. The consumer should retrench and build-up his liquidity and create pent-up demand. That hasn't taken place yet. I think it will eventually take place.

**JIM:** Given the bursting of the current investment bubble, one thing that I believe that is not fully understood is that once a bubble bursts, leadership changes in the financial markets. In other words, what led the market in the 1990's? Technology stocks. New leadership eventually emerges. The surprising thing is that this is not readily grasped immediately. For example, in these mini-rallies that we have seen in late July of this year and the rally that we had in October, we had the Philadelphia Semi-Conductor index move up maybe twenty to thirty percent, despite the fact that the companies

that make up the index reported very poor earnings. This new market leadership hasn't quite caught on with the public. What I am referring to here is the movement and rise in the CRB index this year. It measures commodities up almost over 13%. We've seen the rise in gold shares, unhedged gold shares which is up 70%, in the Philadelphia Gold and Silver index. Can you talk about this leadership change?

**DR. FABER:** If you look back at the last 30 years, an investor could have made a lot of money by being very lazy, he could have bought oil at \$1.30 a barrel, gold at \$35 an ounce, and silver at \$1.80 an ounce and then gone on a holiday and come back in 1980 and sold gold at \$850 an ounce and oil close to \$50 and silver close to \$50 an ounce. Then he could have shifted all his money into Japanese stocks and gone again on a holiday until 1990 and sold out his Japanese shares with a seven times gain and then bought into the S&P or the NASDAQ and then gone again on a holiday until March 2000.

What I want to say is basically, once the commodities boom was over, it wasn't a bull market anymore in commodities, in oil shares the next big bull market was, let's say in the financial aspect. Once the Japanese stock market was over, the next big bull market wasn't any more in Japanese shares, but it shifted into U.S. stocks. I think that in every huge bull market and bubble, once it bursts, you have the money shift into different sectors. My point is simply, people say it is a housing bubble, yeah to some extent it is. But I think in America, let's say not an apartment on Park Avenue, in New York and in Boston and in San Francisco or the best location. Let's say the typical house in the countryside is not terribly overvalued when I compare it to say the Dow Jones and the S&P 500. It is possible that the housing market will continue to rise for a while and of course it will also end in a bubble. We don't know when it will burst.

It is possible that all the money will shift to other regions of the world, say to Asia. In Asia most markets are down, say 70-80% from their high in 1990. Let's say their high's 12 years ago, the devaluations, are what I call reasonable. With all the real estate in Asia in countries like Thailand and Indonesia, one can for sure buy property relatively cheap. I think in China real estate is still relatively cheap compared to its potential in the future. I think that eventually money will shift into new regions and to new sectors and so forth.

The bull market in the U.S. is definitely over. At the very best, you can hope for a trading range of say Dow Jones of 8,000 and maybe 11,000. For the S&P, maybe around maybe 800 and 1100. In my opinion, it will eventually go down much lower. That could take time. If you look at the Asian market, it peaked out in 1990 and Thailand and Malaysia peaked out in 1994 and Hong Kong in 1997. Say the typical market peaked between 1990 and 1994, but the Asian crisis and the big collapse only came in 1997. So that is only seven years after the market had peaked out, and the market had collapsed by another 80%. That can happen in the U.S. The decline, the bear market, is being postponed by the Federal Reserve Policy of supporting assets at any costs.

**JIM:** Most forecasts on gold and silver treat them as commodities. There is no mention of investment demand in gold and silver as is now occurring, let's say in Japan and in parts of Asia. Do you think that as we see this systemic risk immerge in the financial system, and as we see bear markets develop in U.S. stocks and stock markets around the globe, do you think the demand for gold and silver will resume their role as money?

**DR. FABER:** I think that first of all in some countries, demand for gold in India, given the per capita income with a population of a billion people, the annual demand for gold is about 900 tonnes. So the capital basis is about one gram. If the whole world would just buy one gram per capita the way the Indians do it, it would be 2 ½ the supply of the gold mines in the world. The demand would be 6000 tonnes and the annual supply is

about 2500 tonnes. I think that is not to be ruled out, that one day people in the world will buy gold, although especially in China and in Japan for jewelry purposes. I think that secondly the differences between gold and paper money is that paper money can be tampered with by central banks. In other words, you can increase the supply of paper money indefinitely. You just buy another printing press or you create it through the banking system. The supply of gold is extremely limited. When you consider that the 2500 tonnes of gold that are being mined every year, the value is about \$25 billion U.S. dollars, compared to the debt growth. I said earlier on that the debt growth in 2001 was \$2 trillion dollars. What is happening now is that paper money is rising very rapidly. Per unit of paper money, there is less and less gold in the world. I think in due course, the price of gold will go up very dramatically.

**JIM:** Gold and silver are actually a hedge of systemic risk you referred earlier to in our conversation. We talked about some of the possible risks to the financial system, particularly a large U.S. financial institution going under. Also, there is another risk in the U.S. So much of our financial assets, whether it is treasuries, mortgage backed bonds and to some extent the stock market, is owned by foreign investors who have been willing to take their trade dollars that they have earned by trading with us and reinvesting in the U.S. economy. Does that not make the US markets vulnerable to some kind of risk? Are we not vulnerable if foreigners lose confidence in our system?

**DR. FABER:** Yes, that is absolutely correct. I think the U.S. economy basically lives on foreigners' financing economic consumption of the United States to the tune of around \$500 billion annually. It's close to \$2 billion daily to finance excessive consumption and investment in the United States. I think that is not sustainable. The question is, At what stage will foreigners withdraw? They don't even have to withdraw, they just have to diminish their purchases of U.S. assets. Inevitably you would have a significant economic slow down in the United States.

**JIM:** What about competition for the dollar in the future? For example, central banks own a large portion of their reserves in dollars and in gold. What about competition coming from the Euro and perhaps talk about this gold Dinar?

**DR. FABER:** What I think personally is I am not as negative about the Euro as a lot of people are, I think that eventually the inclusion of countries like Poland, the Czech Republic and maybe even Turkey, in the long run, will create a very vibrant economic zone. Not without friction, because the equilibrium will be disturbed, but I think the long-term will be beneficial. I think the perception of the Euro is not particularly good and at the moment their Western European economies are not doing well at all. I think there is no strong case to be made to buy Euro against the Dollar. I wouldn't be enthusiastic about parking my money into Yen either. I think where there is some potential for some currency appreciation in the long run, not what will happen tomorrow or in the next two or three years, is that the Chinese are indeed a basically undervalued currency. I think gold is an undervalued currency compared to paper money.

**JIM:** Let's say you were to take a holiday for the next decade, as you have talked about in the past, an investor could have made very few decisions, U.S. stocks in the 1950's and mid 1960's, converted to oil and gold and silver in the 1970's, the Japanese market in the 1980's and the U.S. stock market in the 1990's, particularly in technologies. Looking forward into the next decade, if you were to place some investments today and take a holiday for the rest of the decade, where would you put that money?

**DR. FABER:** I am not an uncritical bull about the Chinese economy. In the 20<sup>th</sup> century we had seven or eight major crises. I think China will also have, from time to time, economical and political crises and so forth.

But in general, you can buy condominiums in China. You can buy an office building in China. You can buy real estate in Vietnam. These are two countries that have a splendid economic future. You may argue that real estate in Jakarta is of no interest to me. That may be the case, but for 90% of Indonesian families that have money, to have a condominium or office building in Jakarta, you have some value, because that is the business capital and the political capital of the country. In Asia we have a low price level and I would look at some real estate investments in Asia.

In addition to that, I think that farmland around the world is very inexpensive compared to real estate in financial centers. Let's say you could buy a big piece of land in New Zealand or in Australia, you could buy for very little money, a huge piece of land in Argentina. The country does have some problems no doubt, but I don't think that your ownership would be challenged in Argentina. They just don't pay the foreign debt. Argentineans have a lot of money parked outside of the country. They can bring it back at some stage when things stabilize. Also in the Soviet Union, all real estate in Eastern Europe is relatively inexpensive. There will be an albatross where real estate in Eastern Europe, such as Croatia as compared to Spain or Portugal. The nation's coast is very beautiful. There I see opportunities around the world, for someone who has time and obviously knows the local conditions to make money.

**JIM:** Doctor, you have been following the investment markets for more than three decades. What would you say is the most important lesson that you have learned as an investor following the markets during this period of time?

**DR. FABER:** I think that the lesson that everyone should really consider is the following: throughout history, many things have changed. Companies have become rich and then they disintegrated and become zero. Many companies have been born and most have in the long run failed. Very few companies have survived more than 30 years. The one constant is that the wealth pyramid has never changed. There never were lots of rich people and few poor. There always were a few rich and a lot of poor people. If you think it through logically, it means that when everyone believes in something and when everyone buys the NASDAQ, it obviously cannot make everyone rich. It will impoverish everyone.

As an investor, you should always travel your roads alone. Do things that are against your instinct. I remember that at the beginning of the major bull market in bonds in 1981, people said bonds are certificates of confiscation, the U.S. dollar will become worthless, bonds will become worthless and people were buying gold. What happened was you had the biggest bull market in bonds in the history of financial markets between 1982 and today. The bond yields have fallen on the treasury from 15% to say less than 5%. In Japan, everyone was focused on stocks in 1990, but basically the people bought 1990 bonds that were yielding at 7% and today they yield 1.5%. They could have made a ton of money out of Japanese bonds. When everyone is fixed on something, it creates an opportunity somewhere else. If all the money of the world goes into one sector, by definition, other sectors in the world have to be capital starved and neglected. I think that the sector that has been neglected in the world has been commodities. We have had the bear market in commodities since the 1980's, for some cases like coffee and cocoa since 1977 and soybeans since 1973. Relative to the prices of financial aspects, particularly the grain, sugar also, customs, it is very very inexpensive.

**JIM:** Doctor, I want to thank you for joining us on the Financial Sense Newshour. You are a fountain of wisdom. Before we end, I was wondering if you might tell our listeners about your website and your newsletter, The Gloom, Boom & Doom Report, which I receive each month. I can't tell you how much enjoyment I get out of it. It is a pleasure to read. It is well written and thought provoking.

**DR. FABER:** It is very kind of you to think so highly of my newsletter. Our website is

[www.gloomboomgloom.com](http://www.gloomboomgloom.com) Unfortunately I don't spend very much time updating it as I should. I always tell people, I don't know very much. I am very grateful to other people who know much more than I do. I draw from their knowledge and I have learned from them. Some are economists who have already passed away and some are still living. In the end, my belief is that we know very little about the past. We know a little bit about the present. But we even don't know for sure about the present. With the debate about going to war with Iraq or not, nobody has a clear answer. We really know nothing about the future. Given that we don't know anything about the future, it should not prevent us from trying to understand what *could* happen. We have to weigh different options. To make predictions is very difficult and as an analyst, you may be right about certain things and wrong about other things. I always feel I have made some good investments and I have also made some horrible investment decisions. I think we have to be humble in our ability to anticipate future events.

**JIM:** Doctor once again, thank you for joining us on the Financial Sense Newshour. I recommend your newsletter *The Gloom, Boom and Doom Report*. Very original. Thank you so much for being generous with your time.

**DR. FABER:** It was my pleasure and thank you for taking your time to call me. I am right now in Shanghai. I hope we can do this again sometime in the future, maybe meet personally.

**JIM:** I would look forward to that greatly. Thank you so much.

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