

Interviewee: **Michael Shaoul**
Title: **Chairman**
Company: **Marketfield Asset Management**

Interviewee: **Thomas Brown**
Title: **Founder & CEO**
Company: **Second Curve Capital**

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Interviewer 1: **Betty Liu**
Interviewer 2: **Dominic Chu**

Betty Liu

Well, stocks have been lower over the past week, down about 3.5%. My next guest says traders looking for short-term profit should avoid issues for the next week or two. He's got a lot more to say, though, than that. Michael Shaoul is the Chairman at Marketfield Asset Management. He oversees \$1 billion. Also with me at the CME is Dominic Chu, who I'm sure would like to be here in the studio with you, Michael, to talk more about the markets, but we've got Dom there at the CME. He's going to be joining in in just a moment, but let me just ask you first: Does it seem like we're bottoming here, or does it seem like we're maybe headed for another bear market?

Michael Shaoul

I don't think the US is heading for another bear market. We continue to view this as a correction, a multi-month correction, in the middle of a longer bull market.

Betty Liu

Longer bull market, okay.

Michael Shaoul

I don't know whether you've seen the ultimate low for this particular correction. You certainly saw the kind of sort of panic and across-the-board liquidation that you see at a short-term low a couple of days ago, but this sort of negative behavior, once it takes hold, can stick around for a few weeks.

Betty Liu

So would you be a buyer here then, Michael, or would you wait a little bit?

Michael Shaoul

You know, we'd be a selective buyer at these levels. There are certain sectors which have hung in much, much better than the overall market and revenues continue to be okay.

Betty Liu

But, Michael, why do you think all this talk about, I mean, and I don't want to put words in your mouth, but, I mean, all this talk about a double-dip recession, right?

Michael Shaoul

Uh-huh.

Betty Liu

And we've had horrible a horrible revision in the first quarter GDP.

Michael Shaoul

Yep.

Betty Liu

Why don't you think that that's actually indicating something worse here?

Michael Shaoul

Well, you know, if you look at the US economy, I think in this particular cycle, it really starts at the level of the retail consumer. What you have is still very moderate inventory levels in terms of actual goods and, therefore, if retail sales continue to appreciate, to continue to increase, it's very, very difficult to see the internal industrial economy falling apart. And retail sales numbers look good. We just had the official July numbers coming from the actual stores themselves.

Betty Liu

Yeah, better than expected on the most part.

Michael Shaoul

Yeah, and really pretty decent, so until and unless we see the retail consumer turn turtle in the way that a lot of people have been expecting, we're going to remain constructive about this cycle.

Betty Liu

Michael, I want to just drill down into sectors. I want to talk about financials because we had Tom Brown on yesterday and I just want to roll for you what Tom said because he sees a rally coming in financial shares.

Thomas Brown

I'm going to be based on these almost daily economic numbers that come out, right? So we've had some pretty good housing numbers in the last month, and if you can see that trend, that would be a huge impact on the market. If you get better employment numbers, the weekly unemployment claims continuing to come down, keep them below 400,000. If we can get the payroll number this Friday to be a positive, all these things could begin to change psychology.

Betty Liu

So his take is that if the macro picture improves then the financials will participate in that, but that's something different than what you believe, right?

Michael Shaoul

Yeah, I agree with everything he said apart from therefore makes you want to go and buy the financial sector. The financial sector, in this particular cycle, has two massive issues. One, is its overhang from the mistakes it made in the last cycle, and the other massive issue is regulatory pressures have made it significantly less profitable to be a large financial corporation.

Betty Liu

So you see declines?

Michael Shaoul

Well, I certainly see a failure to participate in upside. I mean whether we go further lower from here, I'm more open-minded about, but I don't see financials as outperforming the market.

Betty Liu

As something you need to be in, okay.

Michael Shaoul

No.

Betty Liu

Okay, Dom, jump in.

Dominic Chu

Yeah, I was going to say, I was talking to Kevin Craney over at RJO Futures. He was talking about some of their clients, some of their bigger net-worth, higher net-worth clients, saying that they really are in risk-aversion mode right now, the mentality being, Michael, that they don't mind missing out on some of the upside as long as they don't have the downside there. Are you feeling that same kind of psychology among your clients, among the people that you talk to right now? And, if that's the case, should people really be buying this dip if they can't afford the risk?

Michael Shaoul

I mean, the short answer is: yes. I think that people have switched from wondering why you're not participating in a 5% to 10% up market to wondering why you would ever want to earn an equity again and it's not the first time since 2009 that you've seen this massive switch in psychology. My feeling is that the only way to invest in this very volatile, short-term environment is to have some conviction in what you're doing, and we believe that there's some long-term, positive trends in place in multiple sectors in the United States.

Betty Liu

Michael, thank you. Great to have you stop by again.

Michael Shaoul

Thank you.

Betty Liu

Nice to see you, Michael Shaoul of Marketfield Asset Management.

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