

Job #: **U14043**

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

Channel: **Bloomberg US**
Date: **August 19, 2011**
Time: **9:15 PM ET**
Duration: **7 minutes 26 seconds**

Interviewer 1: **Lisa Murphey**
Interviewer 2: **Adam Johnson**

Lisa Murphey

Well, my next guest, Michael Shaoul, Chairman of Marketfield Asset Management thinks that we're in a correction in a long-term bull market. Well, we're joined by Michael who oversees \$1 billion. Well, thanks so much for joining us here on In The Loop, Michael. So define the difference between a bear market and a correction in a bull market.

Michael Shaoul

Well, the most important difference is that in a correction in a bull market, you do actually go back and create a new high later on whereas in a bear market, you may have a significant bounce at the end of the correction, but you don't get anywhere near your highs and then find yourself back into a downdraft and

Lisa Murphey

Do you think, then, that we will get back to April really marks the high this year for the S&P and the Dow.

Michael Shaoul

Yeah.

Lisa Murphey

Do we get back to that level?

Michael Shaoul

You know, I think certainly something like the NASDAQ 100, which made its high a little bit low in June will make a new high. I think the Dow has a good shot. The S&P probably just about makes it. Certainly X, the financials, really should be able to make it, but my feeling is that the next leg of this long bull market is going to be much more sector driven. It's going to be much more of what we would call a bottom-up bull market. It's going to be stock by stock, sector by sector and what you really should be doing right now is paying attention to the stuff which is going down less than everything else and one of the things I'd like to say is that the US has been something of a safe haven year to date. All the headlines would lead you to believe that this has been a disastrous performance by the US equity market relative to the rest of the world. In fact, the S&P, as of last night, was down about 10% with the average European market down about 20% and the average emerging market or a bunch of emerging markets down about 25%.

Lisa Murphey

Right, we're certainly faring better on a relative basis, but it doesn't make anyone feel better when they're here in the US and they're looking at their 401(k) statement or their portfolio.

Michael Shaoul

No, look, I think there's a problem in the global economy. I think it's emerging out of the emerging market complex and I think there's a problem in the global banking system and I think it's located in Europe and I think for the change for US is collateral damage in that process and it's punished along with the rest of the world, but if you really want to look for the problems and the solutions, they really lie outside these shores at this point in time.

Lisa Murphey

So then how does that impact a sector? If you say that the next upswing will really be sector driven and bottoms-up analysis, how do you know which ones to pick and what are you looking at?

Michael Shaoul

I think you start with that insight and you stay firm in the belief of the domestic US economy is actually in okay shape and, therefore, you look for sectors which are really internally driven and you would start, I think, with a sector like retail where the news is still okay. I think you have to make the assumption that employment is not going to get significantly worse from where we are, but I feel okay with that assumption. You look for other internally driven sectors that really feed off what's going on in the domestic economy rather than the international economy.

Lisa Murphey

Michael, we're going to stop right there, but I do want to come back and let you finish that thought because we talked about retails. I want to talk about financials a little bit more and find out exactly when the turnaround comes. All right, stay with us. We're going to be back with more with Michael Shaoul of Marketfield Asset Management when In The Loop returns.

We're back now with the Chairman of Marketfield Asset Management, Michael Shaoul. Michael, thanks so much for staying with us. I also have here my colleague, Adam Johnson, and I want to continue along this discussion. We were just talking about financials during the commercial break and leading into the commercial break. You like retail stocks. What about financials?

Michael Shaoul

No, I mean I've been on record for months saying that it's just not where you want to be and I think within the US financials, the main problem they face is that they're simply not making money at the level that people would have expected under the new regime. I think if you look outside of the US where our real funding strength's now in the European system and European financials are a fairly dangerous place to be right now.

Adam Johnson

Now given the financials are the second-largest group in the S&P, technology is the first, can you really be positive the market if the number two group and the group that's funding everybody else is not doing business.

Michael Shaoul

Well, you know, index is just a mathematical process and the financials will become a smaller and smaller waiting in advising S&P. It's a drag, but if you went back to the 1980s, you started with the energy complex, massive compared to the rest of the S&P and you had a pretty good decade, while the energy complex didn't do anything very useful for you. So it wouldn't be the first time that you saw prior leadership just get punished all the way through to the [inaudible].

Adam Johnson

And how much lower could the banks go? .

Michael Shaoul

Well, I mean, I don't really have a target, but in a liquidation, they can be pushed another 10% below where they were. They may not stay there, but this is a, you know, this correction really has had some power in the last few days.

Lisa Murphey

What's the biggest threat to your outlook at this point? Is it what is happening over in Europe? Are you worried about, more worried about what is happening here in the US when you look at the economic data that's been released?

Michael Shaoul

No, I think the US economic data, you've had a couple of really bad pieces of data. We had one yesterday. You've had a couple of very, very good pieces of data and no one talks about consumer credit growing at the same pace it was in 2007 or the fact for the first time since 2007, if a mortgage is 60 days delinquent, it's more likely to go current than go 90 days delinquent. So there have been some very, very good pieces of data here as well. There's some very, very poor ones. The real problem, I think, is Europe where you really do have a game of chicken in financial markets between the politicians and the ECB and the financial market and the financial market wants to see more liquidity and I think needs more liquidity and the politicians and the ECB don't want to give it more liquidity and I think in the end, the market wins. The question is how much damage does the market do before the ECB capitulates like it did in the fall of 2008. The other big threat I think which is out there and which people have not realized is that a number of large emerging markets seem to be slowing and seem to be slowing rapidly and I think the very sharp falls in markets like India and Brazil and Turkey and Israel, those look like the beginnings of long bear markets, bear markets with legs.

Adam Johnson

Okay, so where does the growth come from because Germany's an exporter. Japan's an exporter. China's an exporter. Where does it come from?

Michael Shaoul

You know, I think that a lot of that export-driven growth is going to slow down and I don't think that's where you want to be in a global portfolio. Again, you look at Germany. You look at the DAX, one of the worst-performing markets in this correction. In other words, I think the market is beginning to understand what is going on and I think you look for more defensive industries and I think you look for the sort of bastion of global safety, which I think in this hemisphere is going to be the United States. If you look at Europe, you look at the United Kingdom, which is much further along its fiscal austerity process than you would have thought. They actually had a small budget, basically a budget surplus last month rather than a budget deficit. Obviously, they're still on a one-year basis running a big deficit, but there are a few countries out there which seem to be doing things differently and I think that's where you're going to want to be.

Lisa Murphey

Michael, I'm going to end it on a yes or no question because we got to go to break, but would you be putting money into US stocks right now?

Michael Shaoul

Not until we see a resolution in Europe.

Lisa Murphey

Okay, thank you so much, Michael, for joining us here on In The Loop. That was Michael Shaoul, Chairman of Marketfield Asset Management giving us his insights saying wait for some resolution in Europe before putting your money in ----

Important Disclaimer

Although strenuous efforts are made to ensure the accuracy of interview transcripts, Executive Interviews and its associated companies accept no liability for what is said, for any discrepancy between the spoken and written word, or for any errors and omissions. Where doubt arises, please refer to the original broadcast video interview.