



Market Monitor

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Michael O'Higgins, President of O'Higgins Asset Management

PAUL KANGAS: My guest "Market Monitor" this week is Michael O'Higgins, president of O'Higgins Asset management based in Miami Beach, Florida. And welcome to NIGHTLY BUSINESS REPORT, Michael.

MICHAEL O'HIGGINS, PRES., O'HIGGINS ASSET MANAGEMENT: Thank you.

KANGAS: For over three years now you have been one of the most unwavering bears on Wall Street. But in light of stock market's sharp recent decline along with its better action, especially this week, are you seeing a little light at the end of tunnel, are you turning more positive?

O'HIGGINS: No. I'm sorry to say I'm not.

KANGAS: Why not?

O'HIGGINS: Because the two basic conditions that I'm looking for, namely good value and high degree of pessimism, are seriously missing right now.

KANGAS: Too much optimism and prices are still too high.

O'HIGGINS: Still too high. Dividends are too low. Price to earnings ratios are too high. Price to book ratios are too high.

KANGAS: Dividends are what? around 2 percent for the Dow these days?

O'HIGGINS: The Dow, they're around 2.4, the S&P around 1.8.

KANGAS: And where would you like to see them get? How much higher before you feel they would be bargains?

O'HIGGINS: Well, bargains you are talking over 6 percent. Typically at market tops we're above 3 percent dividends. So we'd have to go down 20, 30 percent to get to where we've normally been at a top of the market.

KANGAS: And you think this will happen?

O'HIGGINS: Well, it's - probably. We don't deal in certitudes. I'm just a percentage player.

KANGAS: Now you were the originator of the "dogs of the Dow" theory, one year buy the ones that were the worst performers and they'll probably be among the best the next year. Are you following that theory now?

O'HIGGINS: No, because - and I actually backed away from it in the late '90s because I realized that these stocks were not likely to do well in a serious crash-type of scenario similar to '29-'32. From '29-'32 the dogs of the Dow did very poorly.

KANGAS: Well, you haven't been afraid to use the term depression in some of your writings. You really feel that is what we're headed for?

O'HIGGINS: Depressions are a normal occurrence. It's just been so long since we have had one that everybody who remembers is dead. But they are a natural phenomena that occur after several generations of uninterrupted prosperity.

KANGAS: And you think that the bursting of this massive bubble of the '90s is going to cause us to go through how many years of depression or recession, whatever?

O'HIGGINS: Usually, just to put it in terms of the stock market, if you bought stocks in '29, it was 1954 before the Dow made a new high, 25 years later.

KANGAS: All right. So we don't have good years ahead of us as you see things. How do you manage your money? What are you doing with it?

O'HIGGINS: Well, and keep in mind this is how my personal money - all of my personal assets are in my own funds that I manage. We are in separate accounts: 20 percent short the market through the Rydex Anti-Market Funds; 20 percent gold stocks; and 60 percent cash; and my hedge fund is 5 percent short the market and in gold.

KANGAS: And gold stocks, which ones do you like the best?

O'HIGGINS: I like Newmont (NEM), Goldcorp (GG), Anglogold (AU), Randgold (GOLD), those are a couple.

KANGAS: And you own all of these through your asset management group?

O'HIGGINS: Right.

KANGAS: Now tell us more about this extended recession or depression we're going to have. How far down can the Dow go do you think?

O'HIGGINS: Well, in the past in depressions, stocks go down 90 percent. In fact, most everything except gold goes down 90 percent. That's about average

KANGAS: And there's no other way to use an investment vehicle to get through this thing with even a little profit? Just gold?

O'HIGGINS: Well, I mean, on the New York Stock Exchange from 1929 to 1932, there was only one stock which rose in price and that was Homestake Mining (ph), a gold stock.

KANGAS: And you feel that we're going to see a repeat of that sort of action?

O'HIGGINS: Probably worse.

KANGAS: It's kind of ironic that on the best week the Dow has had since October of 1982, here we have one of the most unwavering bears. But this is the way you see. And you say, batten down the hatches, buy some gold, keep a lot of cash until we get through this thing.

O'HIGGINS: Absolutely. That's where I've got my money. And I suggest other people do the same.

KANGAS: Any final thoughts? We have about 20 seconds.

O'HIGGINS: What people have to realize is that cash is not such a bad thing. You have to survive. Survival is the number one goal. From '29 to '32 if you just kept your original money, you essentially made 10 times in your purchasing power.

KANGAS: And you think the same thing or something similar is going to happen over the next several years?

O'HIGGINS: Yeah. Probably worse.

KANGAS: OK. Bearish as he is, but he calls them as he sees them. Thanks, Michael.

O'HIGGINS: Thank you, Paul.

KANGAS: My guest "Market Monitor" Michael O'Higgins, president of O'Higgins Asset Management

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