

INVESTING IN THE POST DEPRESSION ENVIRONMENT

ARE WE LIKELY TO HAVE SLOWER GROWTH AND HIGHER
INFLATION?

WHICH INVESTMENTS SHOULD PERFORM BEST/WORST?

17th Forbes Cruise for Investors

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Inflation or Deflation Ahead?

- **Treasury and Fed pumped unprecedented liquidity into the economy.**
- **Budget deficit is 10% of GDP, a level only reached twice before in our history.**
- **This year's budget deficit approximately \$1.4 trillion following over a trillion last year.**
 - Greece and Spain although two of the so-called "PIGS" (Portugal, Iceland, Greece, Spain), have deficits only 2.7% and 1.5% higher respectively than the U.S.
 - A Fed Governor calculates the deficit will rise an additional \$4.3 trillion in the next five years.
 - A possible new Economic Stimulus Package, could approach \$700 billion.
 - TARP and other programs could cost an additional \$300 billion, possibly more.

Will This Force the Fed to Fight Inflation too Early With Negative Domestic Economic Consequences?

- With printing presses running 24-7, alarm is spreading globally about the safety of the dollar. China, Russia and Japan have sold a portion of their U.S. Bonds.
- Since the bulk of U. S. Bond sales are sold out of country this is a dangerous trend.
- Tightening of bank reserves by paying interest to encourage less lending, could starve small business and other sectors of vital capital.
- Eliminating first-time home buyers \$8,000 tax credit could squeeze home sales further.
- Raising interest rates relatively soon to combat inflation.
- These actions could slowdown rate of GDP and industrial production growth and halt the decline in unemployment, and possibly result in deflation.

Is this an Attempt to Keep Rates Flat?

- **In spite of the Fed's tough talk, Bernanke is a student of the Great Depression.**
- **His writings strongly criticize the 1930's Fed liquidity squeeze which he wrote was a major cause of the Depression.**

The Fed in a Box

- **Although the future appears opaque, policies both in the U.S. and globally have been remarkably consistent in the Post War period.**
- **If it is a choice between inflation and unemployment the Fed has always opted for inflation, as have other major powers.**
- **Leading economists state that at least one-quarter of the jobs lost in this depression will not be replaced.**
- **The Congressional Budget Office estimates unemployment at 8.0% for 2012, 6.3% for 2013 and at least 5% through 2020.**
- **No government in a democratic country can stay in power introducing austerity programs with high unemployment (i.e. political unrest in Greece).**

Double Digit Inflation is Likely 3 to 5 Years Out

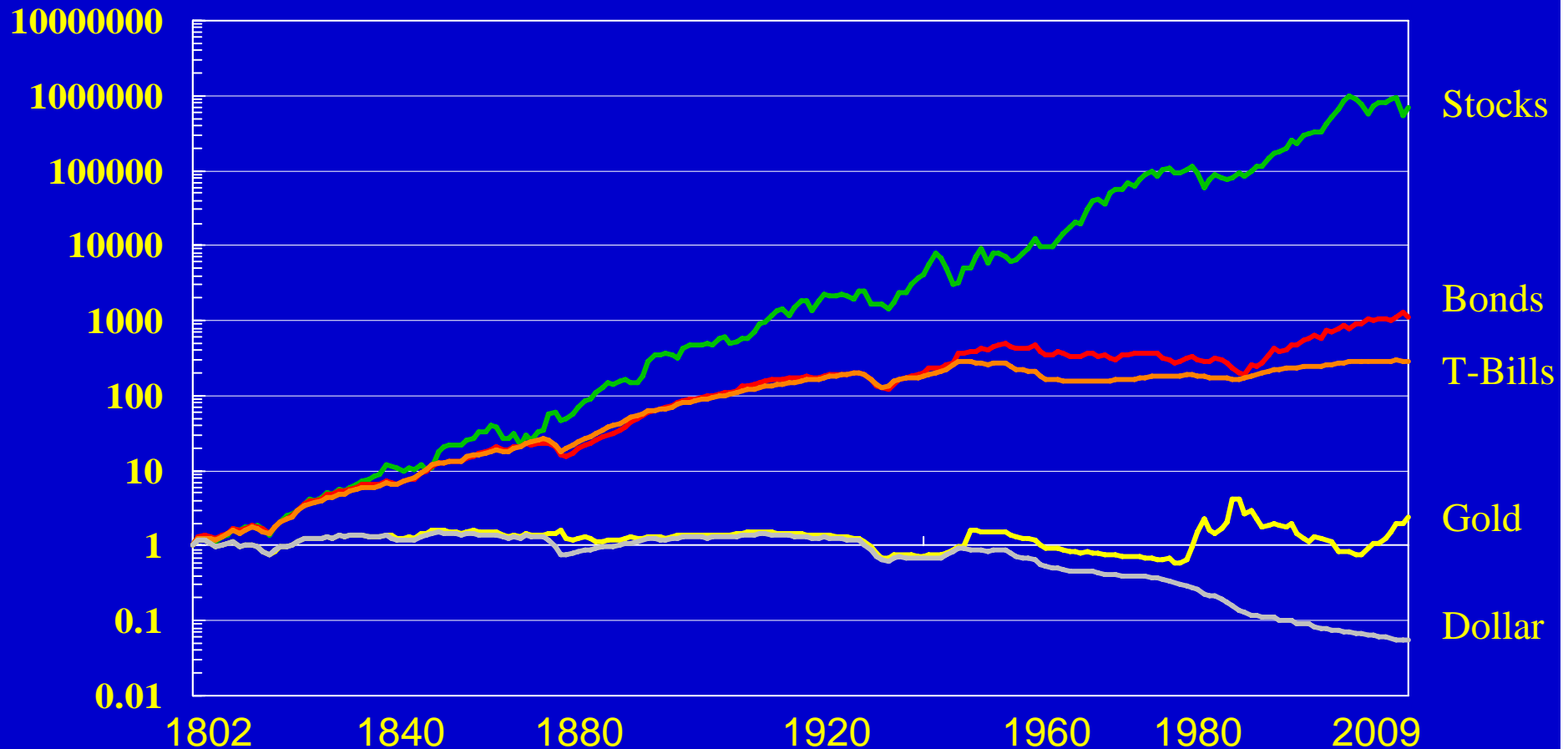
Inflation significantly benefits some classes of assets and severely damages others.

The following charts from 1800 to 2009 display this disparity.

Stocks Win By a Mile

Total Return Indexes 1802 – 2009 (Inflation Adjusted)

One of the easiest ways to invest, buying blue-chip stocks, is also the best - providing spectacular returns over time.



Stocks Increase Their Lead Over Other Asset Classes in the Post War Period

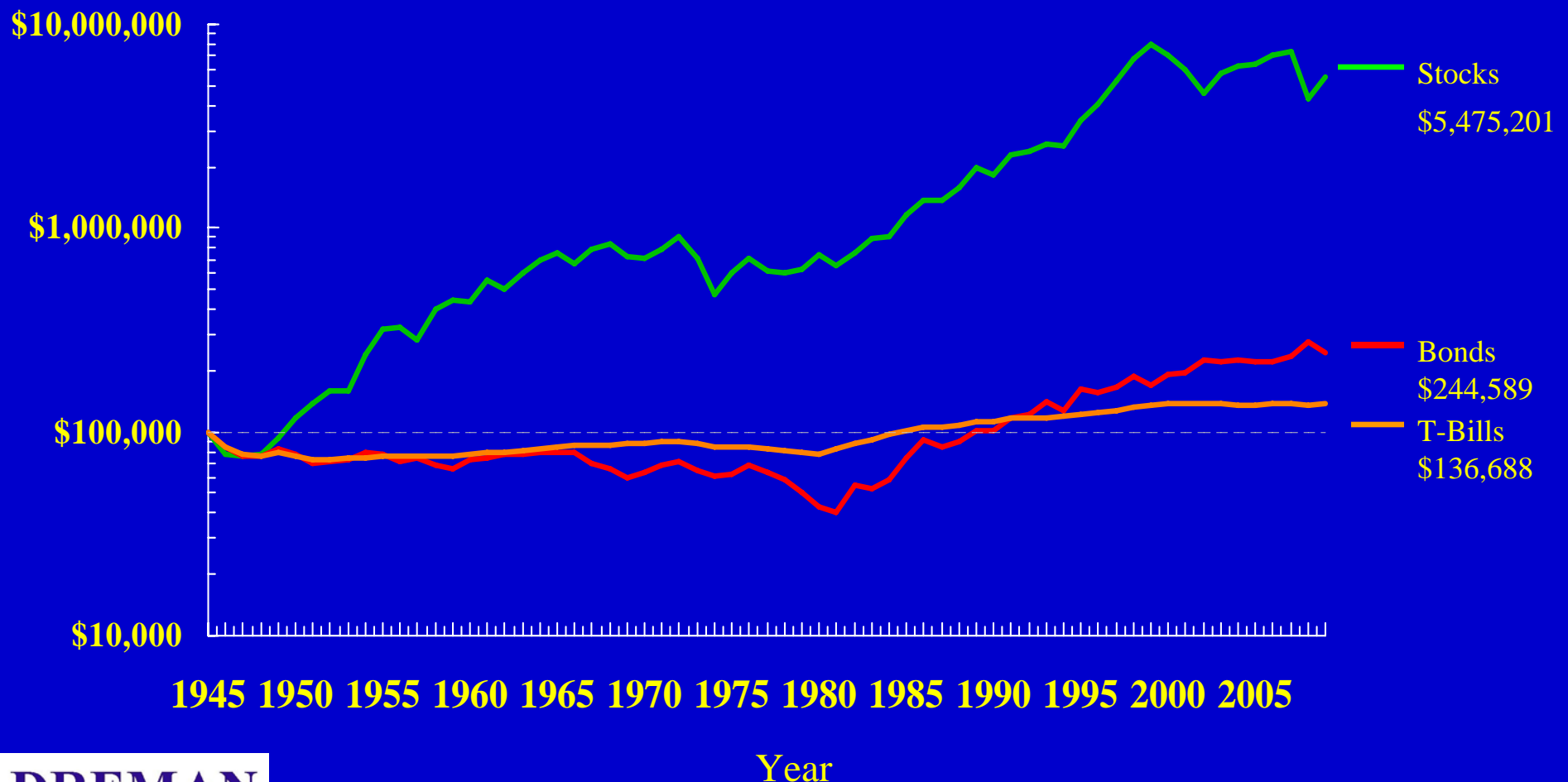
*Adjusted for Inflation
1946 - 2009*

Periods	Stocks	Bonds	Bills	Nominal Yield	Gold	Inflation
1946 - 2009	6.5%	1.4%	0.5%	4.5%	1.2%	4.0%
Sub-Periods						
1946 - 1962	9.9	-1.4	-1.3	1.7	-3.0	3.1
1963 - 1979	1.4	-2.6	-.1	5.5	10.9	5.6
1980 - 1996	11.5	6.8	2.7	7.2	-7.4	4.4
1997 - 2009	2.4	3.6	0.8	3.2	6.2	2.4

- All returns are averages for the period, expressed as percentages.
- “Nominal Yield” is the mean annual T-Bill return before inflation.
- “Inflation” is the average increase in the Consumer Price Index.
- Data: All data 1946-2009: Dreman Foundation.

Uncle Sam Learns From Jesse James

How Inflation Gouges Bonds and T-Bill Returns 1945 - 2009



The Probability That Stocks Outperform Other Asset Classes Over Time

1946 - 2009

Holding Portfolio for...	Returns			Percent of times stocks beat	
	Stocks	Bonds	T-bills	Bonds	T-bills
1 year	6%	1%	0.5%	66%	67%
2 years	13%	3%	1%	73%	78%
3 years	21%	4%	1%	78%	90%
4 years	28%	6%	2%	82%	84%
5 years	37%	7%	2%	84%	82%
10 years	87%	15%	5%	94%	86%
15 years	156%	23%	8%	100%	94%
30 years	553%	52%	16%	100%	100%
40 years	1,120%	75%	22%	100%	100%
50 years	2,181%	101%	28%	100%	100%
60 years	4,163%	131%	34%	100%	100%
Full Period	5,375%	145%	37%	100%	100%

Markets Under-Inflation

- As the charts make clear stocks, and gold do very well under inflationary conditions while holders of T-bills and Bonds lose a good part of their purchasing power.
- Ironically real estate, the most disliked asset class today will do very well under inflationary conditions.
- How do these asset classes perform in hyper-inflation?
 - Weimer Republic in Germany
 - Brazil
 - Argentina

Recommendation Time

- Stocks, Industries
- Real Estate
- Other assets
- Assets to steer clear of