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DARE TO BE DULL

The Great Depression ahead?

I had the chance to interview Harry S. Dent, whose latest book, "The Great Depression Ahead," is on the top 50 list of Amazon.com best sellers.

When I was asked to do this, my immediate reaction was "isn't he the guy who wrote about the Dow 40,000?" But, since he's coming to Colorado Springs on Feb. 11, and his talk is free and open to the public, I thought I'd give it a go and try to keep an open mind.

I spent the weekend reading the book. It's well written and Dent is a smart guy, with a Harvard MBA and management consulting experience with Bain & Co.

He makes some compelling points based on global demographics.

Baby boomers across all developed countries are aging and will start to spend less and less. There are fewer younger people in the work force to support us, which is what he claims will cause the next Great Depression.

Dent notes in the book the many times he's been right and even addresses some times when he hasn't.

Now I happen to be basically with him up to this point, but it's not exactly a secret that we baby boomers are aging — even though we might not always act like it. (I personally have learned the folly of playing city-league flag football at age 50.)

What it means for investors

Dent makes some very bold forecasts.

For example, he states the most likely scenario is that the Dow will bounce up to between 12,000 and 13,200 somewhere between April and September of this year.

This represents as much as a 60 percent increase from where we are today.

It's after this bounce that the next Great Depression begins, with the Dow falling to around 3,800 by late 2010. He clearly notes in the book that he is making "very bold forecasts," and I've got to give him credit



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for doing so.

In my experience, most financial gurus give dates or give numbers, but never give both.

I asked Dent what he would recommend for an investor today, and he responded that for the conservative investor, "cash is king." For the aggressive investor, however, he recommends a portfolio of roughly 50 percent stocks and 50 percent commodities.

The stocks, he said, should be heavily weighted toward financial services and natural resources, while the commodities should be in gold, silver and energy. Then, when both hit their highs later this year, it's time to unload and get back into cash.

While we didn't directly discuss it, I guess this implies that moderate investors should put part of their portfolio in cash and then invest the other part in stocks and commodities until they peak, later this year.

Harry Dent's track record

I asked Dent about his track record, and he correctly noted that short-term forecasts are very risky.

He said he had a 60 percent to 70 percent track record of being right on short-term forecasts.

If this is true, it's a heck of a lot better than the nation's top economists, who have forecasted the direction of long-term interest rates correctly only 29 percent of the time, far less than a coin flip.

Now I admit that I can't totally assess Dent's track record without weeks of research, but here's a sample of some things I found.

- During the up markets between 2004 and 2006, he did indeed forecast the Dow to be as high as 40,000 by 2010.
- Later, he revised his forecast for the Dow downward — placing it at only 15,500 to 16,000 during 2008. It actually closed at 8,776.
- A mutual fund known as the AIM Dent

Demographic Trends Fund (ADDAX) once had \$2 billion in assets. It was merged into another, now extinct, mutual fund when only 20 percent of the assets were left. Dent claimed the poor performance was due to the fund not taking all of his advice.

My take on his advice

Admittedly I haven't looked at everything, but it appears that Dent's predictions are rosy during up markets and "doom and gloom" during bad times, typical as far as predictions go.

It doesn't take a Harvard MBA to determine that economic times are bad. It's also reasonably certain that people want to know what to do during good times, and even more so what to do during bad times.

While Dent's book delivers specific advice, I personally won't be taking it.

A 1999 Money Magazine article by Pat Regnier reviewed Dent's work and noted "Perhaps the best advice is: Don't be too sure of anything." It appears that investors who took Regnier's advice 10 years ago fared far better than those who followed Dent.

I strongly recommend embracing uncertainty rather than betting the farm on either Dow 40,000 or 3,800. It's what we know we don't know that counts.

And though, as I said, I don't plan to invest as he recommends, the book and Dent are both very thought provoking, and I truly believe that hearing all points of view is important.

If you're interested in attending Dent's presentation, call Provence Wealth Management Group at 475-7802, ext. 5, to reserve a spot.

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