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Grandich predicts long bear market and says Canada should dress warmly

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Market Call

Peter Grandich believes a "vicious, long-lasting bear market" has begun and early millennium post Internet bubble burst lows are reasonable targets for both the Dow and NASDAQ.

"It won't be overnight and there will be rallies, but if you haven't positioned yourself to be a live chicken versus a dead duck already, time appears not on your side," he said in *The Grandich Letter.*

However, he has a special fondness for Canada. And while it is considered to be in much better shape that the U.S., he doesn't think it is immune from the U.S. contagion.

"Yes, it may no longer be true when America sneezes Canada catches cold, but it appears prudent for Canadians to at least put on a sweater and gloves," he said.

Among the many items in Mr. Grandich's review of 2007 was mention of how gold's 37% gain and the "spectacular" rise for platinum prices vindicated his preference for precious metals over both U.S. stocks and base metals. He also noted that while gold may no longer be cheap, it is not yet fairly priced, let alone expensive. He remains bearish on base metals, particularly given the weaker prospects for global growth, and favours precious metals.

As for his outlook for this year, Mr. Grandich pointed to an issue of *The Grandich Letter* from back in October where he warned investors to "Man your battle stations" and be prepared for an "unprecedented economic tsunami" that will hit America beginning in 2008.

So much has been written about the "sub-crime fiasco" he said in Wednesday's edition of the popular newsletter, but "we're not even past the early innings of this disaster."

"At the very least, this fiasco should make one think long and hard on how the financial sector goes about its business and whether regulators are truly able to protect us," he said, adding that offering mortgages to those who would have trouble paying them back is just one of the dubious practices witnessed recently. "NINJA" no-income, no-job, no-asset loans surged in popularity. Given the fact that Fed chairman Alan Greenspan was likely aware of these and other practices, Mr. Grandich is all the more concerned.

So expect headlines like “Troubles in the Corporate Debt Market” in the near future, he warned.

“Up until this fall, defaults on corporate bonds were at their lowest levels in more than 25 years. But, with an absolute binge of borrowing in this millennium and an economy heading for the dumps, I anticipate heightened concerns going forward in the so-called “high yield” market,” Mr. Grandich wrote.

He also said most of the public has no idea how huge the crisis is given that the debt markets are ten times larger than the stock market.

“Economic life begins and ends with the debt market as financings for governments, companies and pension funds with credit instruments are done there on the belief loans will be repaid on a contracted schedule with interest,” Mr. Grandich said. “Now the time has come to pay the piper in the debt market, and for America to pay for years of living way beyond their means.”

As for the market, he said there was no shortage of reasons why he turned bearish and shorted it when the Dow Jones Industrial Average hit a high in October. And the situation may be worse now, while the turmoil in the credit markets is expected to remain, he added.

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