Market slump will likely last another year

Lack of equities growth sending investors to the exits, master stock picker Teal Linde suggests

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PROSPECTUS

When a master stock picker offers, unsolicited, the opinion that the three-year-old stock-market slump probably has another year to go, you listen. Further, when he recommends individual investors reduce their exposure to equities, you want to hear more.

Vancouver's Teal Linde shared both these opinions this week. Demonstrable, measurable achievement makes Linde a recordable voice: He was one of North America's best stock pickers in the aftermath of the Sept. 11 terrorist attacks, his Linde Equity Report gaining almost 22 per cent between September 2001 and September 2002.

"The market is down more than 40 per cent since early 2000 and growth rates of companies have declined even further and faster," he said in an interview. "Because high growth-rates lured investors to equities in droves in the late '90s, today's lack of growth is causing these same investors to head for the exits. As a result, we will likely see the markets head lower before the year is over."

(Perhaps the most important piece of TSX "news" in February was this: On 18 of the 20 trading sessions, volume lagged the three-month daily average.)

Linde thinks "two major constraints" are denying companies the rates of growth that would lure investors back to equities.

"Individuals and companies have placed new priorities on their cash," he said.

"Instead of spending, consumers are growing more interested in saving — a natural consequence after watching their investment portfolios decline for three straight years. But every dollar saved is a dollar not spent.

"Additionally, companies are not contributing to growth in 2003 as they have done in the past. The amount of triple-B corporate debt, the lowest investment-grade bond just one notch above 'junk' status has surged in the last year in U.S.

"Because companies with lower credit-ratings are at risk of paying higher interest expenses, the trend for American companies this year is to pay down debt, not spend money on capital assets to expand operations and create more jobs.

"Therefore, this year is, and will be, a year of increasing savings and reducing debt. That is why the markets will show little or no growth and will likely cause millions of growth-oriented investors to continue selling their stocks, which is why we could easily see the market indices, particularly in the U.S., reach lower levels in the months ahead."

Linde has recommendations for equity investors. Readers who want a sample of his report can visit www.lindeequity.com, or call him at 604-738-5600.