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William Hanley – *Lunch Money*

***Market in an awful stew?* At the Teahouse, Bob Hoye sees red for danger Vancouver – Bob Hoye** orders a glass of California merlot with his brunch at the famous Teahouse Restaurant in Stanley Park last Sunday, opting for a full bodied red even though he's having a shrimp cocktail appetizer and smoked salmon with poached eggs and dill hollandaise for his main course.

The unconventional pairing of red wine and seafood neatly illustrates the contrarian nature of this financial markets historian and original thinker who has fashioned a very comfortable living by making unfashionable calls that can make some people very uncomfortable.

At a fireside table amid the genteel ambiance of the Teahouse, **Hoye** warms to his theme that the markets are in a transition from a financial bubble to a deflationary environment, a transition that began in 1997 with the blowout in Asia and will end with even more distress because the bottom of the stock market has not been reached. While not exactly a doomster, the genial, erudite Vancouverite says the end is nigh for this particular boom.

Hoye runs his research outfit, Institutional Advisors, out of his home in Vancouver, working with two like-minded associates, **Tom Peterson** and **Ross Clark**. Their clients range from large pension fund managers and an "extremely" large U.S. mutual fund to a well-known and long-term hedge fund manager. The Institutional Advisors service goes out electronically to subscribers across Canada, the United States, Britain and Australia.

The three take their own advice. For instance, **Peterson's** equities market model has given him clear signals to produce a 107% return this year to Oct. 31. Meantime, 52 of 60 stocks that came up as short sales on Aug. 25 have fallen, giving a 28% trading gain.

"All three of us have the same approach – what makes money." **Hoye** says, "If it can't be seen to make money, it's discarded. We want to make sure it works on a buy and a sell. It makes us as impartial as you can get."

In the meantime, *Lunch Money* is about as partial as you can get to our appetizer, piping hot Teahouse mushrooms filled with crab, shrimp, scallions and Emmenthal cheese. Hoye makes short work of his shrimp cocktail while unable to resist occasional forays into the bread basket.

Yes, taking a contrary position to just about everyone else and criticizing no less a financial figure than U.S. Federal Reserve chairman Alan Greenspan sure works up an appetite. **Hoye** tucks into his smoked salmon while we, sticking with the local theme, enjoy our Ferguson Point omelette, which contains back bacon, mushrooms, cheese and green onions and comes with seasonal vegetables.

Hoye could be forgiven for wishing he had answered his usual Sunday calling and was solo white water canoeing in the mountains, a demanding sport he didn't take up until a dozen years ago, even though he was B.C. born and bred.

He got into the investment business after taking a geophysics degree and working briefly in mining exploration. After stints as a mining analyst and a broker with Wood Gundy and Pemberton Securities, he founded the *Quantum Research* newsletter in 1982, which allowed him to pursue his passion for financial history. Quantum became Institutional Advisors in 1998.

In April, 1998, **Hoye** made the cheeky – and absolutely bang-on – observation that the mighty bank stocks were heading for such a fall that they could safely be considered as short-selling candidates for the risk-averse portfolio of widows and orphans. The Toronto stock Exchange 300 composite index's financial services subindex began melting down that month and although the sector is up more than 40% this year, the subindex has still not reclaimed its record high more than 30 months later.

Meantime, **Bob Hoye**'s universe is unfolding as it should and that's bad news for all the raging bulls who feel the stock market is at or near a bottom. The Institutional Advisors financial model forecast the market would rally till the first week in September as it did in the falls of 1998 and 1999. This time, he says ironically, "it is different".

That was the final rally and the air is whooshing out of the financial bubble, just as **Hoye** says it whooshed out in five previous periods with nasty consequences.

"You know, it's not just my opinion," he explains. "It's how financial history works in a bubble."

If history does repeat itself, as 1929's Crash basically repeated the 1873 market meltdown, and distressed investors find themselves not as rich as they thought they were, **Hoye** knows who you should blame. Central bankers and specifically "reckless" Alan Greenspan have been far too loose with credit, expanding money supply against soaring paper assets. "Central bankers are the bespoke tailors for the emperor – you know, the one who was discovered to have no clothes. Central bankers must have assets go up. Otherwise, they can't expand credit no matter how hard they try."

"Look at Japan. It's been in deflation since 1990. In the late '80s, there was no finer set of policy-makers in the world than the Japanese policy-makers."

It's been a satisfying meal, the food and service fine, the setting on Ferguson Point matchless. We come away thinking the financial markets have an awful lot on their plate, much to digest, if **Bob Hoye** is any guide, with some unpleasant heartburn in the offing.

And as the week wore on, it appeared his forecast of more financial pain was turning out to be most uncomfortably correct.

Hoye will continue to bet against the market until his financial model indicates a bottom has been made. Meantime, he's expecting gold – which he concedes he held too long – to rally strongly at some point because it has done so in the deflations that have followed the end of every financial bubble.