One Bear's Prediction: Massive Market Selloff Coming

Hard-money adviser Marc Faber, best known as publisher of the *Gloom, Boom & Doom Report* and consequently often referred to as "Dr. Doom," told CNBC on Tuesday that the stock market could decline by 20 percent. He doesn't think it will have anything to do with the "fiscal cliff" but instead will reflect poor earnings as bellwether companies struggle to be profitable in the continuing recession:

> I don't think markets are going down because of Greece, I don't think markets are going down because of the "fiscal cliff" — because there won't be a "fiscal cliff."
>
> The market is going down because corporate profits will begin to disappoint, the global economy will hardly grow next year (or even contract) …
>
> That is the reason why stocks, from the highs of September of 1,470 on the S&P [Standard & Poor's 500 Index], will drop at least 20 percent, in my view.

Faber noted that shares of Apple, Inc. are already down more than 20 percent since September, while shares of Amazon.com Inc., McDonald's Corporation, and Google, Inc. have each lost more than eight percent of their market value during that period.

Taking a longer look, however, Dr. Doom is even more bearish. He thinks equities could lose half of their value in the coming years as the financial crisis continues no matter how the immediate "fiscal cliff" crisis is resolved:

> I think the whole global financial system will have to be reset and it won't be reset by central bankers but by imploding markets — either the currency markets, debt market or stock markets. It will happen — it will happen one day and then we'll be lucky if we still have 50 percent of the asset values that we have today …
>
> I think we lived beyond our means from 1980 to 2007, and now it's payback time.

The day after Faber made his prediction the Commerce Department reported that U.S. retail sales fell in October, declining more than expected, even when taking Hurricane Sandy into account. Inside that report, building material sales fell nearly two percent, defying expectations that sales would rise as citizens made preparations for the storm.

Lakshman Achuthan, CEO of Economic Cycle Research Institute (ECRI) and author of his company's prediction back in September 2011 that the U.S. economy was headed into a recession, defended his prediction. He maintains that the economy is in recession but that most people aren't noticing it yet. Experts have gotten caught going the wrong way in past recessions, including Fed Chairman Alan Greenspan who predicted that a recession was likely coming when it was already nine months old. He noted:

> In March 2001, 95% of economists thought there would not be a recession, but one had already begun. And we do not recall anyone outside our shop predicting the 1990-91 recession beforehand.

> Hardly any economists recognized the severe 1973-75 recession until almost a year after it started. Indeed … payroll jobs growth did not turn negative for eight months.
>
> In 1970, unaware that the economy was nine months into recession, none other than [well-known economist] Paul Samuelson said that the NBER [the National Bureau of Economic Research] had worked itself out of a job, meaning that improved policy expertise had made recessions very unlikely.

Achuthan added: "the weakness in income growth is showing through in retail sales data, which, as mentioned, has … declined since March … the recession has to run its course."

This is not to discount the uncertainty over how the "fiscal cliff" will be resolved. Both sides of the issue are gearing up for battle. As Randall Forsyth noted in *Barron's* online:

> Fundamental differences remain. In his first post-campaign statement, the president said Friday that he wouldn't accept any deal that didn't involve higher taxes on the wealthiest Americans while favoring extension of the Bush-era tax cuts for those not in the upper crust.
>
> [House Speaker John] Boehner left open the prospect of higher tax revenue, but not higher marginal tax rates, which, he argued, would hit small business hard and retard growth.

And establishment economist Paul Krugman has written that President Obama, following his successful reelection, has all the bargaining chips on his side of the table:

> Mr. Obama should hang tough, declaring himself willing, if necessary, to hold his ground even at the cost of letting his opponents inflict damage on a still-shaky economy. And this is definitely no time to negotiate a "grand bargain" on the budget that snatches defeat from the jaws of victory….
>
> What should he do? Just say no, and go over the cliff if necessary.

Staunch welfare-state supporters are pressuring the president to stand firm as well, and reject any attempts by Republicans in the House to touch their most favorite entitlement programs, Medicare and Social Security. Bernie Sanders, the socialist senator from Vermont, was adamant: "We will make it very clear [that] we will not be supportive of cuts to Medicare and Social Security. It would be a huge shock and disappointment if the president forgot the reality that he just won a major victory."

Down the hall, Senate Majority Leader Harry Reid echoed Sanders: "We are not going to mess with Social Security."

Investors are not waiting for congress and the White House to come to terms. Wealthy home owners are unloading their mansions and investors with large capital gains are selling their stocks in the event that taxes do go up after the first of the year, as scheduled. Small business owners are scurrying to close deals to sell their companies, just as George Lucas did.

In addition to soft retail sales reports and declines in stock values of major companies like Apple and Google, the pressure from investors looking to "get out of Dodge" before taxes go up will likely continue to pressure the markets.

If there is one bright spot, it is this: If the president and Congress are unable to reach an agreement on the "fiscal cliff" and all the spending cuts and tax increases take hold after the first of the year and the stock market continues its decline, then the resulting damage will no longer be George Bush's fault. A blog post going viral on the internet expresses it perfectly:

> Congratulations to the Democrats and Young People! You now own it. The next terrorist attack you

own it. Can't get a job after graduation, you own it. Sky rocketing energy prices due to Obama's EPA shutting down the energy producing states, you own it. A nuclear Iran, you own it. Bowing to the Soviet Union, you own it. Another severe recession, you own it …

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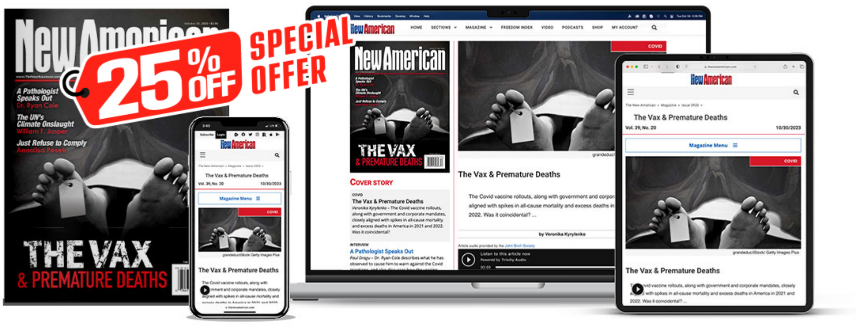

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