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Sound and Fury

By ALAN ABELSON

Even the folks on Capitol Hill and in the White House can notice a huge budget deficit, at least when they're forced to.

…IF BY SOME REMOTE CHANCE we're right and the market is in for some rough going, what's an inveterate investor to do? Well, he or she, we suppose, could always kick the habit and take up knitting or go watch a cricket game. But perhaps you're not ready for such extreme measures, especially since they hold the grave risk of boring you to death. Happily, Michael O'Higgins offers a more palatable alternative.

Mike is the main man at Miami-based, eponymous O'Higgins Asset Management and someone we've known for more than a few years. One of his claims to fame is to have invented the Dogs of the Dow approach to investing, which is based on the idea that one year's worst performers more often than not become the following year's big winners.

Among his virtues are a rare combination of Street and real-world smarts, and, even rarer among portfolio pros, he's unfailingly candid. As he readily confesses in a piece written for Marc Faber's latest Gloom, Boom and Doom report, he has no special powers that enable him to foretell the future. So if you're desperately seeking a tip from the modern equivalent of Nostradamus, Mike's not your man.

But decades of investing have enriched him with considerable insight into the workings of markets, their tendencies, quirks and history. And using elements of his Dogs-of-the-Dow technique, he's come up with an intriguing investment strategy called MOAR, an acronym for Michael O'Higgins Absolute Return.

It calls for a diversified portfolio that includes what he dubs as Dogs of the World, which consists of the five most undervalued investable global stock markets, a comforting exposure to gold and U.S. intermediate-term Treasury notes instead of cash.

After every losing year by the Dogs of the World, he takes five percentage points from each of the other categories and overweights the Dogs, again playing the odds that they'll outperform. If and when stocks rebound, he sedulously brings the equity portions of the portfolio to normal in 15-percentage-point increments.

The proof of the pudding, notes Mike, is that, using this technique, beginning in 1996 (his performance numbers of Dogs of the World go back only to '95), MOAR would have appreciably outperformed every major stock index, long-and-intermediate term bonds, gold, cash and inflation and done so with only a single down year.

In constructing his MOAR portfolio, he has carefully striven to make it capable of prevailing against what he envisions as two possible if opposite threats: from inflation fed by the easy-money policies so popular with governments everywhere or a wave of deflation as the mountains of debt, private and public, shrink at a faster rate than the central banks are able to print money. A portfolio, in other words, for all seasons.

Obviously, the bottom-line question, which Mike both poses and answers, is specifically how would he structure such a portfolio that "would likely provide an attractive, relatively steady, real inflation-adjusted return" in what is possibly a stretch of scary market years that lie ahead.

Ready? Fine. He'd put 25% in the **iShares Barclays 20 +Year Bond Fund** ETF (symbol: TLT); 25% in the **iShares Barclays 7-10 Year Bond Fund ETF** (IEF); 25% in the **SPDR Gold Trust** (GLD) and 5% each in the iShares of: **MSCI Belgium Index** Fund (EWK), **MSCI France Index** Fund (EWQ), **MSCI Italy Index Fund** (EWI), **MSCI Ireland Index** Fund (EIRL) and **MSCI Spain Index Fund** (EWP).

No guarantees, but in Mike's view that portfolio's a good bet for any investor who hopes to survive and prosper in what he believes will be the turbulent markets lurking around the bend.