

Shorting Indexes, Buying Gold Stocks Gives 41.8% Return

By Kevin Gale

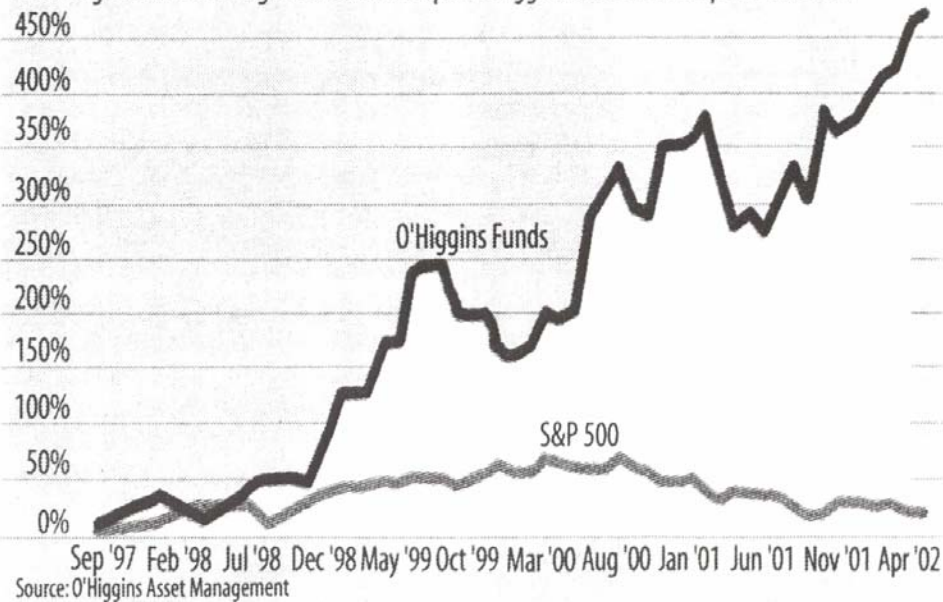
While the huddled masses of investors pull out their hair with the latest stock market lurches, money manager Michael B. O'Higgins of Miami Beach was up 41.81 percent for the 12 months ending in May.

His strategy has been to short sell the Nasdaq 100 and S&P 500 and buy gold stocks while keeping the bulk of the money he manages in cash. The Nasdaq 100 was down 33 percent over those 12 months while the S&P 500 was down about 15 percent. Gold was \$267 an ounce on May 31, 2001, and rose to \$327 by the end of this May - a 22 percent increase.

O'Higgins, whose clients have at least \$1 million in their accounts, has a bearish view of the market. "Those of us who have been around a while and know financial history know that we are still off the charts in terms of historical valuations," he said. That

CUMULATIVE RETURNS FOR O'HIGGINS FUNDS VS. S&P 500

Investing in undervalued gold stocks has helped O'Higgins realize a 41.81 percent return.



could mean a 30 percent to 50 percent drop in stock prices to get to the historical median of values like dividend yields.

"We're still in the midst of the deflation of the greatest speculative bubble of all time," he said. "What is coming these days with accounting scandals is typical of a post-bubble deflation."

In contrast, he said gold is undervalued. In 1980, the Dow was at 850 and gold was \$850 an ounce. "From that point to July 1999, gold went down from \$850 to \$250 and the Dow went up to 11,000. The Dow went up 13 times while gold went down 70 percent, which changed the ratio from 1 to 1 to 44 to 1," O'Higgins said. The current ratio of 29 to 1 is still high.

Another clue is the still-low dividend yield on stocks. O'Higgins said those yields are more trustworthy than P/E ratios because profits can be manipulated. Before 1994, dividend yields (dividend payments as a

percentage of a stock's price) dropping below 3 percent usually signaled the top of the stock market. Falling stock prices raised the yield and a 6 percent figure usually signaled the bottom of the market, he said.

Stocks in the Dow Jones industrial average are yielding about 2.03 percent and the S&P 500 is yielding about 1.6 percent, O'Higgins said. "Just to get back to there, we've got to go down 50 percent on the S&P 500 and a third on the Dow, so the problem is people don't realize how far, how grossly overvalued the markets were two years ago," he said.

The market will probably make some new lows in the next few weeks then rally this summer, but investors should expect a disaster in the fall, O'Higgins said. "I think we're probably in the middle of '29 and '32. In those situations, stocks go down 90 percent, which would not surprise me one iota," O'Higgins said.

And about that rush to invest in real estate? It's largely been fueled by low interest rates. He used an analogy to his own clothes' buying: "Brooks Brothers runs a sale every two weeks and I buy ahead and buy ahead - and my closet is full for the next two years."