

Forbes Interview: Jeremy Grantham – the bear buys stocks

China's Long Tale

Welcome, I'm Steve Forbes. It's a privilege and a pleasure to introduce you to our featured guest, the great skeptic of Wall Street, Jeremy Grantham. The bear who called the stock bubble back in 1998 didn't jump back into U.S. Equities after it burst the first time. Now, he finally sees opportunities in the equities markets.

My conversation with Jeremy Grantham follows, but first ...

Sometimes the story of the day can drive major topics right out of the news. Though we've been fixated for months on the global financial crisis it's worth noting that we spent most of this decade following another financial story -- the explosive economic emergence of China.

China's importance as a trading partner, investment opportunity and political rival deserves more attention than its now getting.

The disaster of Mao's "Great Leap Forward," where the government killed 60 million of its own people in the name of communism is still being felt today.

Those who would preserve the authoritarian nature of China's government aren't gone, but they've been marginalized by the facts of life in the modern world.

The authoritarians tried to respond to the 2002 SARS outbreak by conning the global community with denials. It didn't work. China eventually dealt openly and honestly with other world powers and investment dollars followed.

From 2002 onward, China exhibited amazing GDP growth, climbing 11.4% in 2007. With China's government pursuing a massive stimulus package it looks like it will show moderate positive growth for 2008 while other economies have retrenched.

Let's put China's growth in context -- during China's fastest growing five years between 2002-2007, the United States, though growing at a slower rate, effectively added an economy the size of China's to its GDP. While China is an emerging power, it has not yet arrived.

China is a unique problem for Barack Obama. He must see past the isolationists in his own party and pursue a consistent free trade agenda. China's labor and its growing consumer market will provide a boon for U.S. Businesses and our investments will ultimately help China's people escape decades of oppression.

Obama must also deal skeptically with China when it comes to national security. Our ability to conduct intelligence around the world is based on our satellite capabilities. Is it any wonder that China has frenetically pursued the

technology to destroy such satellites? That's an argument in favor of developing space-based defense systems.

In a moment, my conversation with Jeremy Grantham...

Grantham's Big Call

STEVE FORBES: Well, thank you Jeremy for joining us today. First, since you have bragging rights in this situation, what made you a bear, great skeptic between 1999 until about a couple of months ago you were saying, "Stay out?"

JEREMY GRANTHAM: Well, really very simple. Not rocket science, we take a long-term view, which makes life, in our opinion, much easier.

STEVE FORBES: Well, everyone says it, but you certainly practiced it.

JEREMY GRANTHAM: We actually do it. Well, we tried the short-term stuff and it was so hard, we thought we'd better do the long-term. We just assume that at the end, in those days, of ten years, profit margins will be normal and price earnings ratios will be normal. And that will create a normal, fair price. And more recently, we've moved to seven years, because we've found, in our research that financial series tend to mean revert a little bit faster than ten years, actually, about six and a half years.

So, we rounded to seven. And that's how we do it. And it just happened from October '98 to October of '08, the ten-year forecast was right. Because, for one second, in its flight path, the U.S. market and other markets flashed through normal price. Normal price is about 950 on the S&P. It's a little bit below that today.

And on my birthday, October the 6th, the U.S. market, ten years and four trading days later, hit exactly our ten-year forecast of October '98, which is worth talking about if only to enjoy spectacular luck. The P/E was a little bit lower than average and the profit margins were a little bit higher, so they beautifully offset. And given our methodology, that would mean that on October the 6th, the market should have been fairly priced on our current approach. And indeed it was, that was even more remarkable, 950, plus or minus a couple of percent.

STEVE FORBES: And what did you see during that ten-year period that made you feel, other than your own models, that this was something highly abnormal, that this couldn't last?

JEREMY GRANTHAM: Well, first of all, the magnitude of the overrun in 2000 was legendary. As historians, you know we've massaged the past until it begs for mercy. And we saw that it was 21 times earnings in 1929, 21 times earnings in 1965 and 35 times current earnings in 2000. And 35 is bigger than 21 by enough that you'd expect everyone would see it. Indeed, it looks like a Himalayan peak coming out of the plain.

And it begs the question, "Why didn't everybody see it?" And I think the answer to that is, "Everybody did see it." But agency risk or career risk is so profound, that even if you think the market is gloriously over-priced, you still have to get up and dance. Because if you sit down too quickly--

STEVE FORBES: Famous words of Mister Prince.

JEREMY GRANTHAM: If you sit down too quickly, you're likely to get yourself fired for being too conservative. And that's precisely what we did in '98 and '99. We didn't dance long enough and got out of the growth stocks completely and underperformed. We produced pretty good numbers, but they're way behind the benchmark. And we were fired in droves.

I think our asset allocation, which is the division I'm now involved in, we lost 60 percent of our asset base in two and a half years for making the right bets for the right reasons and winning them. But we still lost more money than any other person in that field that we came across, which is a fitting reminder that career risk runs the business.

STEVE FORBES: So, it's all right to be wrong as long as everyone else is wrong.

JEREMY GRANTHAM: That's right. "I never saw it. Nobody saw it," that's what they say about today's fiasco, which actually makes me quite disgusted because almost everyone we talked to did see it coming. And I described it in June of last year as the most widely-predicted surprise in the history of finance. And that's 18 months ago.

A Whole New Bubble

STEVE FORBES: What was it about this bubble, do you think distinguished it, if one can distinguish bubbles from past bubbles?

JEREMY GRANTHAM: Yeah, oh, I think this was distinguishable in many ways. I described it, I think, accurately as the first truly global bubble. It had every asset class, notably real estate, as well as stocks. But bonds were also overpriced and fine arts, of course, were ridiculous. And secondly, it was global. So, you know, Indian fine arts were going out of control. And Chinese modern art --

STEVE FORBES: But you still bought them, right? Indian fine arts, aren't you?

JEREMY GRANTHAM: I, perhaps, I participated too much in Indian antiquities, which I have a soft spot for. But so, it was unique in breadth of asset class, in breadth of reach, globally. Quite unlike anything else since the Depression and even much broader than the bubble of 1929.

STEVE FORBES: You mentioned about career risk, that it's better to be with the crowd than going against it and paying a price because people don't like

what you're saying. Did people really believe, do you think, their risk models that said you can take this outsized risk but, 1) you've hedged it, and 2) if this goes up, this goes down, and therefore, it's not-- as risky as it looks?

JEREMY GRANTHAM: Oh yes, I think they did. I think you should never underestimate the ability of really serious quants to believe quant models. They can really do faith big-time in those models. There's something about having a PhD in some serious topic like particle physics or math that, when you've finished a couple of years of hard work and you've produced a model, then your faith in it can be intense. I think these people really did believe in that stuff.

Time To Buy

STEVE FORBES: And now that you feel the tide is turning, what should investors do now? First of all, during that ten-year period, where did you invest money when you saw this bubbly atmosphere? And what are you doing now?

JEREMY GRANTHAM: Most of our money is in specific funds for institutions. So, we have an emerging market equity fund. And for institutions, they don't want us messing around, moving up and down our cash balance. So, they're fully invested in equities and we're trying to do the best job that we can. We have an asset allocation group with about 40 percent of our money today.

And there, we are allowed to move around. but even there, we have a clear job description so that in one account, for example, a fairly typical flavor, we are not allowed to drop below 45 percent equity or go above 75. So, in the institutional business, people are pretty hemmed in, most of the time, and we are. Most of the last ten years, we have been promoting the idea of not taking a lot of unnecessary risk and that's probably been the most constant theme.

The single exception to that, until quite recently, was emerging markets. We felt that if you had this irresistible urge to take risk, you should exercise it on emerging, because you'd get a better bang for your buck. And we were overweighted for 12 years ending in this July. And we kind of blew the whistle in July. We had been thinking that emerging was strong enough and fundamental that we'd ride out the unpleasantness.

And then, on June the 26th, precisely, the penny dropped that I had been quite optimistic on lots of little fundamentals. None of them, perhaps, profoundly optimistic, but they accumulated to considerable optimism. And it was revealed to me that I had just mis-evaluated how bad things were going to be, fundamentally. And one of the reasons was career risk. Because we were the best, there was a kind of disinclination to wrack your brains to be even further off the spectrum than you were already.

And since I was already considered a perma-bear, I thought, "Well, we're the most bearish people around, let's leave it at that. Don't look for trouble." And then, June the 26th, we had a Glaswegian arrive to kind of review the data

with us, an economic strategist. And he had this dour Glasgow accent. I think that had something to do with it.

And I came out of the meeting thinking, "Holy cow, this is going to be really, really awful." And I wrote a courtly letter immediately saying, "I recant on emerging. Up until now, we'd been advising for two years, 'Take as little risk as you can, except for emerging.' Our new advice is take as little risk as you can, period." And we held up the letter for two weeks.

We did the biggest trade in our history. And for the first time in 12 years, we went to underweight emerging across the board, which in some accounts meant zero. And for the only time in my career, the emerging market immediately nosedived. I mean, immediately, like the day after we did our trade it headed south.

And three months later, it was down 40 percent. I mean, I've never seen anything like that. So, we replaced it. We thought, "Well, 40 percent makes a lot of difference to anybody." We were looking at 11, 12 percent imputed real returns for seven years in emerging and we replaced the bet in October.

Cheapest in 20 Years

STEVE FORBES: You went back in emerging markets.

JEREMY GRANTHAM: Back in emerging markets.

STEVE FORBES: And in terms of evaluating markets and stocks, in particular, you have a pretty disciplined formula so you can say precisely 950 and--

JEREMY GRANTHAM: That's exactly right. It may be wrong, but it's precise. And we've had a long history of doing it the way I described, that everything will be normal in seven years. And it's turned out to be quite robust. And probably pretty simple and straightforward-- an effective way of doing it. And right now, what it says is that, since October, global equity markets have been cheap, not dramatically cheap, not cheap like you and I have seen a couple of markets, 1982, 1974, that was very cheap, indeed.

This is merely ordinarily cheap. But it's the cheapest it's been for 20 years. For 20 years, we had this remarkable period when the markets were never cheap. They got less expensive, you know, too, but they were never cheap. And so now, you have this terrible creative tension between, on one hand, they're the cheapest they've been for 20 years.

They're pretty decent numbers. For seven years, we expect seven and a half real from the U.S., from the S&P. And perhaps nine and a half from EAFE and emerging. These are not bad number for seven years. And on the other hand, as historians, we all recognize that the great bubbles tend to overrun.

STEVE FORBES: Right.

JEREMY GRANTHAM: And they're not normally satisfied, you can't buy them off by being slightly cheap. They insist on becoming very cheap. So, we've said for several months that we thought this cycle would go to 600 or 800 on the S&P, 800 if it was a mild recession, ho-ho. Can throw that one away. And 600 would be quite normal if it was a severe recession like '82, '74, which I think, I don't know if you agree, is pretty well baked in the pie today. It may be worse, but it's probably not going to be much less bad than '74 or '82.

STEVE FORBES: And so, in terms of the markets today, even though they're cheap, you're going in gingerly or since it could theoretically go down to 600 and given the emotions you get in these things.

JEREMY GRANTHAM: Yes, I would say two-to-one, by the way, my instinct plus looking at the history books that it will go to a new low [in 2009]. So, this is the problem. We're underweighted still, in an ordinary asset allocation account that has 65 percent in equities, we have moved up to 55. So, we're still underweight, even though they're cheaper than they've been and they're reasonably cheap.

Now what happens? If we throw in the client's money and it goes down, indeed, as I think it will [in 2009], they will complain quite bitterly that we weren't very smart. We thought it was going down, and yet we threw their money in. So, that's one kind of regret. And the other kind of regret is that we hang back and the market runs away, the one-in-three comes up and they say, "You told us the market was cheap. You told us that you had these nine or ten percent real return opportunities and you're still underweight and the market's back up 200 points. You're an idiot."

So, there's no way you can avoid some regret. You have to look at your own personal balance sheet, how much pain can you stand? If you absolutely can't stand a 20 percent hit, you'd better carry quite a lot of cash, because you're quite likely to get it. If on the other hand, you're made of steel, you can concentrate on the seven-year horizon and filter money in and having a lot of cash here is probably a bit dangerous from the other point of view.

But in any case, it's a very personal judgment of risk avoidance and how tough you are under stress. The worst situation that will befall probably quite a lot of people is that they exaggerate their toughness. The market goes down 30 percent from here to 600 and they panic, dump their stocks and never get back. And that's the worst outcome.

Japan A Blue Chip?

STEVE FORBES: And one of the areas you seem to be interested in is Japanese stocks?

JEREMY GRANTHAM: I think Japan may turn out, finally, in a curious way, to be a blue chip here. They've been through a lot of the problems, their ordinary corporations are no longer super-leveraged as they were, it took them 15

years, but finally, they got there about three years ago. The banking system is not at the cutting edge of all the problems, so they look relatively blue chip.

And yes, they're exposed to the global export problem, but when you look at Japan, they are deceptively low exporting country. It's only 12 percent of their GDP, it's much lower than most European countries, et cetera. So, I think they're fundamentally a candidate for the blue chip and plus, they're stock prices, of course, have been terrible.

STEVE FORBES: Right.

JEREMY GRANTHAM: It's taken them 17 years to lose 78 percent of their money. This is what I say, that exhibit is called "stock for the very, very long run." Aimed at Jeremy Siegel if you think that people are machines, then of course you can tuck stocks away and hold them forever. But ordinary human beings don't like to wait 17 years to lose 78 percent of their money or 28 years to round trip in Japan.

They haven't made a penny in 28 years, including dividends, in real terms. And people have dismissed that, "That's Japan, we're the U.S." And that is, in a way, the most simple minded of logic. Of course, every country is different. But do not think that we can't have terrible times. I sincerely hope we will not, and I don't expect that we will. But you have to consider it a possibility.

Emerging Markets

STEVE FORBES: Now, looking at emerging markets, what ones stand out as particularly enticing right now, or do you try to emerge them all together?

JEREMY GRANTHAM: Merge the emerging, yes. We do, I think. Emerging market is no longer at all monolithic. There is an exporting clutch, there is a handful of eastern European that looks a little shaky. There are two or three that have forgotten the rules of the Asian crisis and have accumulated some foreign-denominated debt that leaves them very vulnerable. And increasingly, each one looks separate. But in general, many of them have better finances than they had in other crises.

STEVE FORBES: Any ones particularly stand out that you?

JEREMY GRANTHAM: Well, Brazil, of course, is much improved from the way it used to be and has a nice position in natural resources. And on a very long horizon, I like its style. I'm not making a recommendation based on today's price. Indeed, I don't know today's price, they most so fast. We had one day the other day when their entire fund and the index was up over 10 percent for the day. So, the numbers change at bewildering speed these days.

Buy Big US Stocks

STEVE FORBES: And U.S. blue chips, you--

JEREMY GRANTHAM: No, U.S. blue chips, I think is manna from heaven. They're conservative in a risky world. The best companies on the face of Earth, right? And from '02 to '07, they were considered boring and all the action was in the racier, more leveraged stuff. They underperformed every single year from '02 onwards and five years in a row. So, when this trouble started to escalate, they were about as cheap, on a relative basis, as they ever get.

They were not absolutely cheap, but they were relatively very cheap. And the best bet, for my money, then and now, a year later, was to buy the great franchise companies, the great quality companies and to go short the junkier, more leveraged companies. That's been a very profitable strategy and one of the few things that has been working this year. This year, of course, as you know, has been the year from hell for money managers.

The value traps, the like of which we haven't seen since the 1930s, the great value managers all made their reputation by being braver than the next guy, by buying the WaMus of the world when they'd fallen to seven and they'd bounce back to 28. And this time they went from seven to three and they doubled up again and they went to zero.

It's been a nightmare. And the quants, who use momentum as well as value, have had no better luck with momentum. And the quant techniques of balancing risk have also failed, as we were discussing. So, this has been a dreadful year for money management. And quality has been the one theme that has worked. And interestingly, from our firm's point of view, it's not a theme that other people seem to have adopted.

There are not quality funds, there are large cap and growth and value, but there are no quality funds. And so, it's been hard for people to pick up that theme. But it has been very, very good since September.

STEVE FORBES: What are a couple of examples of what you consider quality companies?

JEREMY GRANTHAM: I'm not recommending these companies, except generically.

STEVE FORBES: Right.

JEREMY GRANTHAM: But, no surprise is Coca-Cola, Microsoft, Proctor and Gamble, Johnson & Johnson. These are the essence of the great franchise companies. And collectively, they're not that dependable in bear markets, but they're incredibly dependable when people's confidence in the fundamentals start to go. In Japan, for example, the quality companies in Japan outperformed for nine consecutive years when their troubles came.

They accumulated again against the Japanese market of 98 percent points. They were brilliant in the Great Depression between '29 and '32. Even though

the Coca-Colas were relatively overpriced in '29, they still went down dramatically less than the junky companies. But they're the great test of quality. So, you wouldn't expect quality to be dependable unless we were having the kind of environment that we seem to be having. And I think they will have legs, they will, the high quality companies can outperform, handsomely still, from here.

Stimulus!

STEVE FORBES: Commodities, you were short oil, your firm was short copper. When do you go long, or is that just a sideshow?

JEREMY GRANTHAM: That's a very good question. I was thinking about that in the taxi today. When you see oil breaking \$40, I believe oil is the great exception. I asked over 2,000 full-time professionals to find me a paradigm shift in a major asset class and they never offered me one, so I was very pleased to offer oil a couple of years ago. I thought it was the genuine paradigm shift. I thought that after 100 years at \$16 a barrel, it had jumped to maybe \$36 or \$37 in real terms. And I think it has probably jumped again. It will be revealed in 20 years to what level. But my guess is \$60, \$65, maybe even \$70. But what people underestimate, even in the oil industry, is how volatile the asset class is. In other words, if the trend is \$65, it is fairly routine for oil to sell below half, say \$30 and more than double, say \$145.

And people never get that. So, you don't want to be too quick to buy into weakness or sell into strength, necessarily. But it can go a long way. But below 40, I must say, I do get a bit interested. And below 30, I'm definitely a buyer.

STEVE FORBES: Wow.

JEREMY GRANTHAM: And copper, copper's done so brilliantly on the downside, that you really begin to ask, it must be approaching cost of production somewhere in the next ten or 15 percent, you have to say, "That was very nice, thank you," and cover.

STEVE FORBES: Now, in terms of the U.S. economy, you've seemed to be saying that the Fed is doing right, print all you can, and for the government, to spend all you can.

JEREMY GRANTHAM: Yes, which I have to choke on, as I have no doubt, you would. Because, normally, it's a terrible

STEVE FORBES: That's why I'm not drinking the water, I don't want to choke.

JEREMY GRANTHAM: It's normally terrible advice. It's only useful when it's the real McCoy. And I think it is. And if there's unemployment, having the government help reduce that unemployment, increase employment directly is a pretty good idea. It's not driving out competition, it's not crowding out. As long as there's excess unemployed people sitting around like the Great

Depression, you should do everything you can to get them employed and get the system going again, just as a temporary stopgap, or I believe.

And I think by combining that with energy sufficiency, particularly labor-intensive kind of energy avoidance, installing insulation, storm windows, very labor intensive. Battering down solar cells on the roofs of Wal-Marts in California. I think that will be some of the highest return investments that anyone ever makes.

Just return on capital is very, very high in efficient light bulbs. And therefore should be done. And I don't mind the government accruing debts as long as every dollar is spent effectively, with a high return. That works out fine. If you accumulate debts and waste your money, that's, of course, a disaster. I know I'm preaching to choir on that one.

STEVE FORBES: And what about tax rates? Isn't that the best stimulus? Lowering tax rates, changing incentives?

JEREMY GRANTHAM: The trouble is, in these very rare occasions, that sometimes does not work. Normally, of course, it's a lay-up. But if you give Japanese corporations were the real crunch there. Here it's consumers. Japanese corporations had so much debt, that as you threw money at them, they paid down their debt. They didn't build new factories. They were waking up at 3:00 in the morning sweating that they were insolvent.

Of course, technically, they were insolvent. So, they paid down debt and they paid down debt. Our consumers are so leveraged that you run the risk with a tax cut that they're in the same boat. You write them a check, even, same thing as a tax cut, really. Write them a check for \$250 and they'll pay down their credit card debt because they're getting desperate. They are hugely overstretched. So, it doesn't necessarily work anymore, pushing on a string. And whereas, if you get out there and spend money to employ people directly, bashing insulation into your attic, that does work.

Our Leaders Failed

STEVE FORBES: So, what is the one big misplaced assumption today when you look around at this?

JEREMY GRANTHAM: Reviewing the last two years, of course, it's a misplaced trust in the competence of our leadership, from the very top. But certainly, notably, the Fed, the arch-villains of this piece, Treasury, little better, the SEC. They were cheerleaders, all of them. And they encouraged reckless leverage and low-quality debt, complicated, un-researched, generally disgraceful.

And they made no effort to resist it in any way. Even jawboning would have been a great advantage over nothing. Greenspan encouraged, admired the ingenuity of the new instruments for sub-prime. I mean, went out of his way to

encourage it. Some, as in Greenspan, beat back an attempt to do some regulating of subprime markets. And I think it looked pretty bad.

Hank Paulson did not move fast enough to recognize that the impending decline of house prices would create some problems. And Bernanke couldn't even see the house bubble. On our data and Robert Shillers, it was a three-sigma, one-in-100 year event. After 100 years of being flat, it soared after 2000. You could not miss it. And right at the peak, October '06, Bernanke said, "The U.S. housing market merely reflects a strong economy," unquote.

What was he looking at? Where were his statisticians? These are the guys we picked out of millions to lead us in a crisis. And they can't see a three-sigma bubble? Every single bubble of that kind has broken. Asset classes are incredibly dangerous when they form a bubble and when the bubble breaks. And Greenspan did not get that, and I've been screaming "abuse" forever. It seems like as long as I can remember, but I wrote a piece in 2001 called "Feet of Clay," saying basically, "This bubble from 2000 will be hard to forgive."

And of course, it was the ancestor of the current problem and the housing bubble. The housing bubble is even more dangerous because more people own houses. It's more for the ordinary people. And borrowing is so much easier. So, that is really the most dangerous. And to do two at once, this time around, and to do it globally it to truly play with fire. We have lost, or will have lost, is my estimate, at the bottom, \$20 trillion of formerly perceived wealth, from \$50 trillion to \$30 [trillion].

And at \$50 trillion, we had \$42 trillion of debt, of all kinds, which is a fairly suspiciously high 80 percent ratio of assets. But at \$30 [trillion], we will have \$42 trillion of debt, which is much more than suspicious. And bankers, who always get religion after the event, are now going to say that 60 percent ratio might look better.

And 60 percent of \$20 [trillion] is not going to make much of an impression on the \$42 trillion of debt that we have. So we have a lot of what I call "stranded debt," \$15, \$20 trillion. Even at fair price, which is, perhaps, \$25 trillion. There's still a lot of stranded debt. This is going to take years to work through the system, not a year or two.

Dysfunctional Markets

STEVE FORBES: So, what is the best financial lesson you've learned? You've been in this business for decades.

JEREMY GRANTHAM: The market is incredibly inefficient and capable on rare occasions of being utterly dysfunctional. And people have a really hard time getting their brain around that fact. They want to believe that it's approximately efficient almost all the time and it simply isn't true.

China Bubble

STEVE FORBES: So, what is your bold prediction for the future, now?

JEREMY GRANTHAM: In the long run, things will be back to normal. In the short run, I think China will be a bitter disappointment. I can't believe that the hardest job in economic history, guiding a vast empire of people and assets, growing at double-digit industrial production rates can be anything but difficult. And they've had much less experience than most capitalist countries.

And they have been because of 20 years of wonderfully good luck and favorable circumstances, we have all been seduced into believing that there walk on water. And I don't think they do. I think they have a terrible situation, which will be under stress from all sides.

They export 40 percent of their GDP. The global economy gives a passably good impression of having run, head down, into a very thick cement wall. And I can't imagine that their exports will be anything other than mildly disastrous. And yet, two months ago, the official forecast was still that it wouldn't drop below nine. I mean, that is at least faintly ludicrous.

STEVE FORBES: What are the other fault lines you see in China?

JEREMY GRANTHAM: I'm not a China expert, so I'd be happy to leave it.

STEVE FORBES: Well, the experts weren't, either.

JEREMY GRANTHAM: They have a very small consumer sector, so it's hard to stimulate that. A very large capital spending sector, how low does an interest rate have to get to build another steel mill when there are seven up the road empty, not operating. It's not an easy situation, I think. Direct spending on roads and so on is something that might work.

But can they do it big enough since they're already doing it at a dramatic level; can they increase it enough to rev their economy? I don't think so. I think their economy will be very flattish for a while. And that will be a bitter shock to everybody who's learned to depend on them.

STEVE FORBES: And one last question on China, their financial sector, their stock market, in your mind, is that still very primitive? Does it really provide capital for genuine entrepreneurs, or is it still all still?

JEREMY GRANTHAM: I can't. I really am not an expert. You look back, and what you do see about the Chinese market is that it was again, a classic bubble. It's a beautiful shape, symmetrical, it rises, it peaks and it drops slightly faster than it went up, which is actually quite typical. And it was a great opportunity that I regret not having capitalized on more than I did.

STEVE FORBES: But now you're staying away.

JEREMY GRANTHAM: Well, now it's completed the obvious part of the bubble. It's back to kind of trend line. It may not be, you know, on a long-term perspective, particularly more vulnerable than others. Even though their economy will be disappointing in the short-term, of course, it has enormous long-term potential. I do think emerging is the place to be, in the long-run.

I think it has all the indicators that will be required for the next bubble. It has wonderful top-lying growth relative to an increasingly sluggish developed world. It has a very high savings rate and investment rate. And I think it will become a cliché how passe we all are, the U.S., the U.K., Europe, Japan.

We're running out of people. The number of man-hours offered to the markets have been dropping without anyone talking about it for ten or 12 years. Collectively, the G7 is way off its old trend line. By next year, the U.S. will be 14, 15 points behind its long-term trend rates. It's never come close to since the Great Depression.

STEVE FORBES: Trend line, meaning?

JEREMY GRANTHAM: Just to take the 100-year battleship trend line, which never deviated at 3.4 or something like this. The Great Depression, it went back to trend very quickly. And now, we have been drifting off for this is year 13 of drifting below trend. We're simply getting more mature and all the other developed countries are doing the same thing. But emerging has not fallen off its trend line and has a lot of people coming into the workforce and a huge savings rate.

I think it will do very well. Put it this way, it will appeal to investors. It may not make any more earnings per share, in other words, I'm not talking about true fundamental value. I'm talking about how people buy stocks. They love top-line growth. If they're going to grow at four and a half and we're going to slow down to two and a half, it's going to look like a no-brainer. So, I think the next big event in emerging will be that they will sell it at a big P/E premium over us developed countries, who are suffering from a terminal case of middle-aged spread, I think.

STEVE FORBES: Well, clearly, the way you look at life is anything but a no-brainer. Thank you very much.

JEREMY GRANTHAM: Thank you. I enjoyed it.

Source: [Forbes](#), January 23, 2009.