



Heed the advice of The Smartest Man

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Crackpot. Crank. Scaremonger. Alarmist.

The Smartest Man we know has heard the slurs. When you make your living on Wall Street, yet hold the opinion that Wall Street is populated by incompetent fools, you're not going to win a lot of friends at dinner parties, are you?

And when you bet millions that the American financial system is going to fall apart, that its economy will be seized with fear - and when you were doing this and saying this before there was any hint of real trouble - well, you couldn't really expect other people to welcome the message, could you?

The Smartest Man, when delivering his prophecies, did not sugar-coat them. "This could potentially make Long-Term Capital [the financial crisis of 1998] look like some kind of walk in the park," he predicted. "The reckoning has started." No soft landing this time: It could even be "like the Great Depression of this century." He said these things not last week, not last month, but on July 26, 2007. That day, the Dow Jones industrial average closed at 13,473.

But The Smartest Man was just getting warmed up. Checking in with him again this January, he was every bit as gloomy. By that point, credit fires were burning all over the place; the Dow was at 12,500; the world's biggest banks had been forced to turn, cap in hand, to Singapore, China, the Middle East and elsewhere for billions of dollars. It won't be enough, he said. "There's a whole bunch of companies that just have to hit the wall. They can't survive."

What kind of companies? U.S. financial institutions, mostly. Wachovia looks bad. The major investment banks are shaky. It's about to get a lot uglier, warned The Smartest Man. "The implications of what's going on for the U.S. economy, credit, for lending over all, are not that pleasant to think of." Two months and two days later, Bear Stearns was gone.

So you can imagine our surprise when the Smartest Man - his real name is Krishnamurthy Narayanan, and he goes by Nandu - showed up in town this week and was *bullish*.

"I think we're ending the financial crisis now," he said. "There will be countries, like the U.S., that will go into recession. But this need not be a global recession. And there are some encouraging signs on that front."

In a different era, The Smartest Man might have been a rocket scientist, or an engineer, or a medical researcher, or maybe a university professor. The academic résumé says: MBA, PhD in finance and economics from the Massachusetts Institute of Technology, studied under Paul Krugman, who just won the Nobel prize for economics. But this is - or at least was - the age of finance, and The Smartest Man became a hedge-fund manager, placing money on his views rather than just writing them.

Lately, that has worked out rather well. His CI Global Opportunities Fund has returned 57 per cent in the past year, 19 per cent (compounded) over the past five. Nice numbers, but once you've made your money calling the credit crisis and short selling Washington Mutual, what do you do then?

You buy Canada, says Mr. Narayanan, who can't believe the way the loonie has been savaged. "The currency is ridiculously undervalued. I can't think of any country in the world that has no fiscal deficit, no trade deficit and no inflation - except Canada. I think the Canadian dollar should go through parity.

"I like the whole Canadian market. I don't particularly dig the banks because I just don't know what's in there [on the balance sheet]. But I'd say virtually everything else is fine."

You buy some emerging markets, even though they, too, have collapsed in the meltdown. "You can't play the emerging markets by listening to the market action. If the Indian market's down 50 or 60 per cent from its peak, I can assure you nothing's really changed in India. Nothing's changed. The vast majority of people in India don't believe in the stock market," said Mr. Narayanan, who was born in Chennai, India.

You look to the currencies of Asian countries that are growing and still financially healthy. Singapore, Malaysia and Thailand all have trade surpluses and single-digit inflation. "Most of the Asian emerging markets and emerging currencies are ridiculously priced right now."

You buy uranium stocks: "Ridiculously cheap." Gold miners: "Ridiculously cheap." Pipelines, too: "How bad a business is that? It's a fantastic business. You're just shipping gas. Why are people selling those?" Energy: "Unless there's an absolute collapse in oil demand, you really can't see oil plunge all that much [more]."

There are, however, some things The Smartest Man wouldn't touch. They happen to be the assets the investing masses have flocked to in this crisis: U.S. Treasuries and the greenback. "I don't think it can hold for that much longer." Once the world has to absorb trillions of dollars in new U.S. debt - watch out. In fact, he thinks the odds of the U.S. having its own currency crisis are "at least 30 per cent."

Would you want to bet against him?