LAMOUREUX & CO.

FINANCIAL THOUGHT LEADERSHIP

Dividend Stocks To Underperform The General Market !

What to buy and what not to buy in 2013.

Our latest missive tells of our favorable long term view of stocks. However, we do not think that participants will exploit this in the best way possible.

For one, being in an income bubble is hardly noticeable by the general public.

Dividend stocks have succumbed as much to this as various bond classes.

The need to have money working all the time is what has pushed investors in a frenzy race to buy income on sight.

It will appear dumb after the fact as it is the trademark of bubbles when you are in it.

We strongly suggest people move away from bonds and dividend stocks.

We believe that cash will become a rare commodity. As rates move up, cash will become more expensive. Companies could have to resort to paying dividends in stocks rather than cash out of necessity.

A person relying on income would have no choice but to sell the stock portion reflecting the dividend payment. This possibility would put constant pressure on shares.

The long term trend of dividend yields is also on an upward path.

The low point was seen in August 2000 at 1.11%. We have since been moving up.

I believe in the normalisation of dividend rates. I do think this process is underway and will bring dividend yields in a range of 4-5% from the current 2.05%.

This decade will offer strong returns to what is not associated or tied to debts.

Tech stocks or material stocks do come to mind. Commodities such as gold and grains are excellent plays.

In essence the have versus the have not is an integral part of next year's strategy and beyond.

Stocks and commodities will probably be in a holding pattern in the new year until the last quarter. We think two distinct period of weakness will present buy points. We suggest March-April as an early possible opportunity to be followed by August. We will refine targets, as best as we see them, as we move along.

The principle we use long term is the mismatch of financing needs to savings.

The central banks will be forced to fill this void but it will not prevent rates from rising. It will pressure housing prices in a second leg down.

This resumption will, in turn, put pressure on the commercial banks. Collateral values will be sinking again. In our opinion, this is where we go hyperdrive as the rate of money creation to sustain the illusion continues and floats what needs to be floated.

This is where you will have had ample time to rotate out of all income assets and move to capital gain growth. I do suspect that retail investors will sit on their hands next year and not be mentally prepared for the great reflation to come.

We are seeing great waves of onshoring as manufacturing leaves various part of the world to come back to the USA. It is a new fact of life and people have not adjusted to this. It is possible to compete again effectively against cheap foreign labor.

It is also why when the elastic snaps and the economy expands that money creation will be out of control. By now with better conditions rates should have normalised higher and they have not .We can envision too strong a growth in money supply with the Fed too scared to act in raising rates.

Another reason for better growth ahead is our deep conviction in a much lower oil price. Natural gas production is a technological revolution. It will slowly make progress in manufacturing and in helping more waves of onshoring.

It will be clear that stocks associated to energy in a general way are to be avoided as much as dividend stocks. Low energy will be the next trademark of the growth cycle.

We love emerging markets for that reason. Chinese stocks are offering significant undervaluation. They have traded under the magical 2,000 level on the Shanghai index late in November. Often indices will make turning points at key round numbers. We think any dips from now on should be bought.

It would not surprise us to see the leadership in China offer to open up the market to more foreign investments in the race to liberalisation. I suggest you look at the Morgan Stanley China A share fund (CAF).

Since we are on the subject of Asia lets talk about the recent election in Japan.

One of the reason that Japan has been able to carry a big debt load is in the assurance that inflation will not rage on. That is the single most important lesson of the past 20 years.

This might change as the new PM is intent on forcing the Bank of Japan into more quantitative easing. Lets be clear about this. It has never worked in the past and probably never will because of the demographics and habits of the japanese people.

In the event that bondholders become unsettled, it will have repercussions on rates worldwide. The plan set forth is to rotate out of income producing assets into capital gain growth assets.

Our recent love for the euro is paying off well as it took off exactly at the time of print in our recent December 9th commentaries.

European stocks are doing well especially German stocks as we think they will outperform the S&P500 in 2013. I suggest looking at the ishares MSCI Germany Index ETF (EWG).

Our cycle work and macroanalysis suggest a bottoming action soon on the japanese currency. It does appear to be a zig zag textbook corrective wave. The yen has so far reproduced well the expansion albeit small of broad liquidity. It does appear to us that we face a contracting phase of liquidity. This suggest strenght in the new year.

In real term the value of the yen resides at 98 today. It had been as high as 150 in 1995 in real terms. It would therefore suggest real intrinsic value and a true diversifier for 2013 as one keeps cash in a foreign currency.

Real Effective Exchange Rates Unit 2010 =100
Source Bank of Japan