



**SuperModels** 12/20/2007 12:01 AM ET

## Stock market 'winter' is moving in

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"There was clearly outright fraud, as they were reporting earnings for years when they really had no idea whether they were making money -- they were just making stuff up," he says. "People are still in denial about Fannie Mae's value. They took every phony mortgage loan ever made by banks, losing billions, and now the government wants them to take on even more bad loans to bail people out? They should just let it go bankrupt!"

Rogers, who is short Fannie Mae shares, is also short **Citigroup** ([C](#), [news](#), [msgs](#)) and highly negative on its prospects, too.

"Technically, it's bankrupt, with gigantic off-balance-sheet derivatives positions whose value it cannot possibly know," he says. Though he believes some large banks can and will go under in the next year or two under the weight of billions of dollars worth of bad loans and blown-up derivatives positions, he doubts the government will allow Citi or Fannie to fail. "They'll nationalize them in some way. It's wrong, but they can't let the two largest lenders in the nation go down."

The fund manager, who has traveled extensively in emerging markets and lives part of the year in Asia, says sovereign wealth funds in Abu Dhabi and Singapore that recently made large investments in Citigroup and **UBS AG** ([UBS](#), [news](#), [msgs](#)) are likely to lose a lot of money on their ploys. "They're making a big mistake; these banks have many more problems still ahead. They should wait until these companies are really on the ropes a few years from now . . . and trading at \$5 a share."

But aren't they supposed to be the smart money? Maybe not. "I know these people, and they have never given me the impression that they're smarter than anyone else," Rogers says. "They have gigantic amounts of money, but they've made a bad judgment in these cases."

### US economic problems contagious

As for the rest of the market, well, Rogers doesn't see equities to buy right now, as he forecasts that a U.S. recession -- already in progress, in his view -- will choke off earnings growth at companies worldwide. He calls the emerging markets "overexploited" and likes only a few commodities, such as farm goods and energy.

"The number of acres devoted to wheat farming is at a 30-year low while inventories of food worldwide are at their lowest since 1972," Rogers says. "With so much corn going into our tanks as ethanol, a growing middle class worldwide eating more corn-fed meat and wearing more cotton than ever, agriculture has a great future, if you ask me, and that's why I'm buying."

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Though many top economists still say the U.S. will avoid a recession, Rogers scoffs at that. He contends housing and auto manufacturing are in a depression, says financial companies are in a funk that's at least worse than a recession and notes that freight-car loadings are down.

"If all these sectors are in recession or depression, then some other part of the economy must be extremely strong as an offset," he says. "I'd like someone to tell me what it is because I'd like to invest in it."

In summary, Rogers says: "We are in a bear market, and only a few big stocks that are holding up the big indexes make it look like we're not. Stocks are done, and many favorites will go down 80% after people figure out how long they've been reporting phony earnings."

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The next year may not bring an actual recession, MSN Money's Jim Jubak says, but it won't be much fun either.

So what's worth owning? U.S. and Chinese farming, pollution control, power-generation utilities and electrical-plant construction.

Desmond and Rogers could be wrong, of course, but with all the nonstop bullishness that rules investment marketing these days, it's a good idea to at least pause a moment to consider their views.

### **Fine print**

To learn more about Desmond's work, visit the Lowry on Demand [Web site](#). . . . Rogers has a new book out, "[A Bull in China](#)." It's a great read. His book "[Hot Commodities](#)," recently issued in paperback, is also good. To make investing in agriculture easier, Rogers has created a set of securities similar to exchange-traded funds. One called [Agricultural Elements](#) (.pdf file) tracks his **Rogers International Commodity Index** ([RJA](#)).

*At the time of publication, Jon Markman did not own or control shares of any companies mentioned in this column.*

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