

# Buckle Up, Markets Gone Wild But Not For One Money Manager!

## An Interview with Thomas Rehberger

by BJ Dugan

Waiting for the next shoe to drop in this economy is somewhat akin to being trapped inside Imelda Marcos shoe closet during a 9.5 earthquake. There does not seem to be anywhere you can go to avoid being clobbered by some new re-evaluation or development in the investment scene. No one seems to be immune from this market. Even the most hallowed of our investment icons like Warren Buffett (founder of the legendary Berkshire Hathaway Company), Kirk Kerkorian (billionaire owner of the Tracinda Corporation), and David Dreman (the renowned contrarian investor) have been taken by surprise by the volatile downturn in the marketplace. As governments and banks the world over attempt to remedy the myriad of problems with cash infusions and stimulus packages, we are reminded that the world has become tightly connected by our global financial system and investing is a very risky business.

For a market like this one, you need nerves of steel and the ability to assess change and react quickly without regard to emotion. Thomas Rehberger of Private Asset Group, LLC, a high net worth money manager based in Las Vegas, NV, would seem to be the man for the times. He made his financial name as a trader on the floor of the Chicago Board of Trade (hardly an atmosphere for those easily rattled). Mr. Rehberger has also designed mathematical models used to test investment strategies for many investment vehicles including hedge funds. He has used both of these knowledge

bases to develop his own investment method. Mr. Rehberger was kind enough to grant the Global Economist Review (GER) the opportunity to share some of his personal thoughts on the investment markets in these challenging times.

**GER** - What is your investment strategy?

**Rehberger** - *I believe the best way to describe it is the efficient use of capital. I found over the very long run that capital that has been misallocated is the easiest target for increasing returns. Money sits far too long in investments that have a low probability of increasing value. There is also a lot of hidden risk that people take. These two areas are big problems in portfolios. I often say that portfolios are like a closet; they hold all the junk people are sold over the years and after a short time people forget what is in the closet. I advocate cleaning out the closet/portfolio with purpose and on a regular basis.*

*The number one rule though is to hang on to the capital.*

**GER** - Please give a brief description of the mathematical tracking system you use.

**Rehberger** - *I describe it as really big radar. I track over 700 assets from around the world and compare them for diversification, correlation, volume, beta, and a couple of other metrics. I then build portfolios and use some algorithms to rank them. The assets I want to own show up at the top. The idea is to be consistent and not allow human emotion to drive*

*the decisions. You can not predict the future so we must be diligent in our preparation for it. I believe that money management and asset allocation are two of the most important areas to spend time on.*

**GER** - There has been an incredible lack of transparency involved in many of the bailout plans. How does your model assess risk?

**Rehberger** - *That is a huge problem. The bailouts are making the bad companies look like*

*good companies. It is one of the unintended consequences of what the government is doing. I'm looking for the good assets to separate out (bifurcate) as we go forward, and they eventually will. Right now, I'm overweight cash, so it isn't much of a problem. I*

*don't lose sleep over trying to make too much out of all of this confusion. Market timing is not my goal so picking a bottom holds no value for me. This economic crisis might go on for a very long time, nobody knows. I'm interested in assets that show positive expectation and right now, all assets are deflating.*

*Sorry, back to risk. I look at two types of risk: one is the individual asset risk and two is the systemic or macro economic risk. Both of these risks change over time so they must be reassessed constantly. The big problem we ran into in this crisis is that most managers, hedge funds, and investors forgot about the systemic risk. They also like to ignore systemic risk and point to the long run statistics for buy and hold. Unfortunately, we don't live forever.*

**GER** - You stated that you use statistical modeling to implement your investment strategies. When did your models begin to predict something highly unusual was about to happen and what course was dictated by their

foreshadowing?

**Rehberger** - *I have three models that I use to manage money. The first one is the gaming model which follows some local and national gaming stocks (I live in Las Vegas). One of the options for my models is to go to cash. The gaming model went to cash in January of 2008. This was odd because gaming is usually a good hold during economic slowdowns. The second model is the Index manager which tracks a host of US Indices. It went overweight cash in June of last year. The US was lagging the foreign indices at the time so it did not seem out of line. I felt that foreign assets would not decouple from US indices and I thought that the US would have to be propped*

*up by the red hot foreign markets and commodities. In August the Global Model went to cash for not just a few, but all assets. That got us out of the markets at the end of August and all foreign and US indices collapsed after that. Looking back it was all pretty telling of what was to come. I use the models so that I can be objective and that helps to make consistent investment decisions. We can only assess the damage later on. We can't predict the future so I compare going to cash to buying insurance. It might cost us a bit over the short run, but over the very long run it can be a portfolio saver. It is a myth that changing allocations to cash is a bad idea. I believe that cash is an asset.*

**GER** - The Federal Reserve has announced plans to implement "Quantitative Easing". This practice will involve creating massive amounts of money to purchase treasuries and mortgages. What effect will this have on bonds, stocks and commodities?

**Rehberger** - *First, I would like to say that I think the Fed is doing a great job of staving off a big economic disaster. I also like the way they are doing it, by expanding the balance sheet. I think in the long run it gives them some options to wind this thing down. Is it inflationary? YES! I wouldn't be the first to say that a little bit of inflation would be a good thing right now. We need to stop this deflationary spiral and keep it from getting out of control. Will the Fed's action create a huge inflationary problem? It could, but one step at a time.*

*From an investment standpoint, I am prepared for reflation trade as my models are perfect for inflation. I don't want to get too excited about it because we have too many problems to deal with before we inflate. If it happens, rates will soar and bond prices will drop, commodities should move up and stocks will become a scattered herd.*

**GER** - During the seventies, we experienced a period known as "stagflation". Do you think we are headed in this direction again and if so what will happen with bonds?

**Rehberger** - *Stagflation is a big potential problem for the US. I think you have to look at how this economic crisis is shaking out. The US government was not prepared for a crisis of this magnitude. The cost of all of this is falling down on the investor, the taxpayer, and the worker. All of which are the same person. The average person is seeing their 401k get hit hard, the massive deficits are going to raise taxes for years to come, jobs are being lost every day and small businesses are closing. We have the baby boomers coming to retirement mostly ill-equipped and social security and health care costs soaring. This creates a huge overhang on the economy and growth. It is easy to see why we need to worry about growth going forward. If inflation picks up, bonds would tumble as rates rise; high rates*

*would then be a drag on companies' plans to grow. This is a bad cycle. Let's hope the Fed is on it this time!*

**GER** - As an expert on commodities, which ones look the most attractive in the near future and which would you gravitate to for the long run.

**Rehberger** - *I'm not a fan of any commodities over the short run. We face deflation right now and that is not good for commodities. Cash is king! The transition to inflation is a tricky process, so I'm not sure we can get a good feel for it yet. My feeling right now is that food would be the biggest mover if we see an inflationary panic. I'm keeping an eye on corn, wheat, beans and the meats. I'm not sure the building materials would participate as the world is so overbuilt for now. I'm prepared for it; I track all of the commodities with the other investments every month.*

**GER** - Do you think the recent run up in the stock market is a bear rally or have we reached the bottom?

**Rehberger** - *Good question! I see this as a bear rally. Most of this rally came from the assets that were heavily oversold. The financials and commodities are leading this one back up. I had been expecting this bounce into summer. I don't expect the down trend to end until late this year or early next year. This is a good time to explain how I work. I do have expectations like everybody else, but the models have to show me that the market is changing. My emotions take a back seat to the metrics. Right now the market is acting as it should in a downtrend. The assets that are most oversold move up the most and the short sellers go to work again. We are still in that down cycle. The downtrend will break when the good assets lead us up. We have to remain diligent, but stop picking bottoms. The future in mathematical terms is statisti-*

*cally significant but non-determinant. In layman's terms, market timing is a waste of time. Things change!*

**GER** - A lot of investors have moved to large amounts of cash holdings. In light of the weakening dollar, how would you handle this situation?

**Rehberger** - *This is a problem only for people who invest overseas. If you own US dollars and you only invest in assets in the US the only impact is the price of the goods that we import and you buy in US dollars. Most US investors don't really see dollar problems except in higher priced goods, which can drag on corporate growth. If you invest overseas and plan to hold foreign assets, like stocks in Brazil or bonds in Europe, you need to take the dollar into account with the price of the foreign bonds or stocks. I look at the foreign assets with the foreign currency imbedded in the price. I don't want to make money on the foreign stock only to lose it on the dollar. I do use foreign currency in my global model and invest in it if it comes up on my radar.*

*It is currently implied in my models that the US is the best place to be. While it is bad here, it is worse everywhere else. The US seems to have the least leverage in our economy and the most diversification. That is what my research is showing right now, but things are changing rapidly in this environment and there is not much clarity.*

*If you are worried about holding cash in general, don't! In times of high risk I worry more about losing money than missing an opportunity. I make money when the sun is shining. I know that there is an old saying about buying when people are afraid and selling when they are greedy, but that is pretty general. If you are planning on buying a company and managing it yourself through the turmoil, that is a good model. If you are investing and hoping*

*management gets it right, that is a more difficult game. It's not efficient to hold assets that could languish for a long time, and in a downturn it's tough to separate the good companies from the bad! In other words it would be great if we could pick the companies that are going to survive this crisis now, but it's too early to call it. Be patient, the economic storm will clear up!*

Mr. Rehberger exited the markets at the end of August 2008 and has maintained a cash position since that time. Because the individual portfolios Mr. Rehberger manages have been in cash for the last 7 months the returns do not reflect the 30% to 50% declines other money managers are experiencing.

The world is changing and most people are uncomfortable with change. Investors are trying to make sense of the markets volatility based on their old comfort zones. To paraphrase the words of the immortal Bette Davis in All About Eve, "Fasten your seatbelts boys. It's going to be a bumpy ride."

**GER**

The Global Economist Review would like to thank Thomas Rehberger for his time. If you would like to contact Thomas Rehberger please visit [www.INVESTpag.com](http://www.INVESTpag.com)

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