JERRY JORDAN ON BLOOMBERG TV
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BLOOMBERG HOST

Our featured guest this morning, Jerry Jordan of Hellman Jordan, Manger of the Jordan Opportunity Fund. The fund is up over 17 percent in the last year, of course more than doubling the performance of the S&P Five Hundred, but Jerry recently has raised his cash allocation to 16 percent of his assets. He is certainly fearing a big correction in the U.S. Equity Markets and we'll talk about that.

And why despite that his biggest bets are still in four different areas of technology, we'll talk about those. And let's just get a quick comment on these markets from our featured guest today, and, Jerry, we've got to start off by talking about those blowout numbers from Goldman Sachs today. I know we all uttered a gasp when we saw the difference between where the analysts had it and where the number came out. You used to work in these investment banks. What'd you think of these numbers?

JERRY JORDAN

The numbers were tremendous and there's no other way to look at it. I guess the question really is sustainability. And it's our belief that ...

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But you can't sustain numbers that way, can you?

JERRY JORDAN

Oh no-no-no of course you can't, and, and

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Even they say that.

JERRY JORDAN

No you can't you can't sustain numbers like that. You also have to figure this is the best quarter that they're going to put up, on a seasonal basis, things will drift off a little bit as we go. The real tough part is trying to parse out how much were trading gains and how much do you want to pay for the trading gains? And you and I were talking before we started here. I started Solomon Brothers 15 years ago, 18 years ago.

And we used to do the same thing. we'd have huge numbers but the street always gave us a discount, versus the rest of the investment banks, so much of it was trading profits. And it was

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And it was, you couldn't tell what you were going to be ...

JERRY JORDAN

You had no idea, exactly. And that makes it and that makes it that much more difficult to figure out what you want to do with a stock. We haven't owned the stock, and we haven't owned any of the brokers now for six months. Because of the Fed rate hikes, and historically it's been hard to make money in Beckman stocks when the feds are raising rates. It hasn't happened this time.

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Yeah history has changed this time around for you.

JERRY JORDAN

It sure has.

BLOOMBERG HOST

Are you rethinking coming back into this group?

JERRY JORDAN

Not right now. And mostly...

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Too late you missed it?

JERRY JORDAN

Yeah well it's part of it's that, part of it is your teaser at the beginning, which is we think for the first time in since, since this three-year bull market started, that the risk of a 10 percent correction is finally high enough for us to raise case. So we've been raising cash. We've been getting a little bit more defensive, trimming back even some of our favorite stocks and what I don't want to do is if I'm in front of an 8 to 10 percent pullback in the S&P, I don't want to buy a brokerage stock.

BLOOMBERG HOST

Alright, well we're going to be talking about that pullback next, but we wanted to talk to our guest today about that specifically. With this big gain in bond prices, the 10-year note having its biggest one-day gain since December 22nd, is this going to be sustained, are we seeing some relief here in terms of interest rate expectations here, Jerry, what do you think?

JERRY JORDAN

I think it's a little bit of both. The bond market has been very weak and yields have been very strong over the last four to six months. We're back down near the low end of the range. If you look at some of the sediment data, people are getting very bear-ish on bonds. We believe the bonds, if they're not bottoming and yields peaking, we're pretty close.

JERRY JORDAN

Part of that is we do expect the economy to slow down and slow down fairly quickly. The fed is still raising rates. We have an inverted yield curve. The retail sales were a start of that, you know, you saw a little bit of this in the fourth quarter with the really low GDP number that nobody was expecting. We don't think bonds are a real risk here to own, and if we're correct and stocks go into a bit of a slide, bonds probably become a better bid.

BLOOMBERG HOST

The slide though in stocks, is that mostly predicated on an economic slowdown that you're anticipating for the U.S. market, for the U.S. economy?

JERRY JORDAN

It would be part of that, I mean one of the things that you would expect and one of the things that's happened during this three-year bull market is you get these growth scares, where all of a sudden everyone says, oh my gosh the economy is slowing down, there go earnings, market's too expensive so let's sell it. We think we're in one of these situations where you are going to see a slowdown in earnings, but it's actually going to be in the earnings that you don't want anyway.

So energy companies, earnings will be lower. Steel companies, earnings will slowly roll over. The commodities sectors, the parts that really hurt you from a CPI perspective, from a cost-to-goods sold perspective, as a manufacturer, as a producer of products and services, we think those costs go the other way, which will be a negative for us in p earnings, but is a positive for bonds and is a positive for multiples, which is why, even though I'm looking for a correction between now and the end of the summer, I don't think it's going to be very sharp. And I think we then come roaring out of it.

BLOOMBERG HOST

The problem with the correction is, is you, you, you, you have to go up for it to correct. And you would argue, we really haven't gone up very much. I mean, all of last year, we saw three percent gain. We're up about three percent, so yes, maybe we've come six, seven percent. We've already seen a lot of technology pulling back, a lot of the large caps haven't done well in the first place. So what are we correcting from? I mean, we're not, we haven't gone too far.

JERRY JORDAN

And that's a fantastic question, and I think a lot of people, when, when they hear somebody get more cautious, they say the same thing.

JERRY JORDAN

But what, where we're really cautious is Russell 2000. It wasn't up three percent last year. It was up 13, 14 percent last year. It's had an enormous move, both absolutely and relatively in the last three years, relative to the large caps. Then if we go over seas, look at Germany, Great Britain, Japan, the emerging markets have all gone bananas.

JERRY JORDAN

We think that's where all the risk is. As the economy slows down, as the global economy slows down, I think you're gonna see a loss in emerging markets, particularly, and in the foreign markets. And that money's gonna come flowing back here.

BLOOMBERG HOST

So you would argue though that you should actually be buying US equities, not holding off in anticipation of the flow-back, um, from all these riskier equity markets that will fall apart and the money will find its home here.

JERRY JORDAN

If I had one trade to do and I was overweight in foreign markets, I would lighten up foreign markets and put the money in the US.

BLOOMBERG HOST

Alright. Welcome back everybody. As you just saw from that last chart, the S&P telecom index is the top performer this year, up 14 percent. Of course, compare that to three percent total return for the S&P 500. And according to our future guest, the move in telecom may just be starting. Is that right, Jerry?

JERRY JORDAN

I think to some extent, it's right. I we don't own any of the telecom service companies. We don't own AT&T. We don't own Verizon. And the reason is we think there's a huge expansion upgrade cycle that's about to occur. As the RBOCs, the regional bell operating companies and the cable companies face off with each other, uh, they're gonna have to offer video on the telephone side, telephone on the cable side. There's gonna be a huge spending war.

JERRY JORDAN

And that's gonna benefit a lot of the companies that we own. For instance, Cisco, which most people still can't stand. But we think is still pretty cheap and could easily be up 30 to 40 percent over the next 12 months and some names that people have sort of, had left for dead six months ago that are just starting to emerge again, which

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Such as who?

JERRY JORDAN

...JDS Uniphase, a name from the past.

JERRY JORDAN

Sienna, PMC Sierra, all names in our portfolio. Um, have they gotten a little ahead of themselves? They've had enormous runs recently. They might have gotten a little bit ahead of themselves. But the optical spending cycle disappeared for five years. It is reaccelerating right now.

BLOOMBERG HOST

So basically again, it's a theme that we've heard about before, which in these wars, by the companies that are making the bullets and you're saying that the Ciscos and the JDSUs, that these are the ones who are manufacturing the products that will go and, and sort of, uh, uh, keep this war going between the, uh, the RBOCs and the, and the telecoms. Who are some of the, what are some of the other themes that you've got in technology?

JERRY JORDAN

We're very bullish on semiconductors, but particularly, semi-cap equipment. And it feeds into some of our other, other beliefs about there being an industrial cycle in front of us. If you look at all the technology products that are rolling out over the next two years, it is one of the biggest cycles we've ever seen. You've got the roll out of flat-panel TVs. Everyone’s gonna buy one globally. You're gonna have the roll, the, the upgrade cycle into smartphones.

Everyone's gonna have a phone like a Blackberry or a Handspring Trio with a keyboard on it. There's gonna be an upgrade to that. You've got, uh, the new Windows, uh, Microsoft Vista product rolling out. Uh, that'll be your first real PC upgrade cycle since 2000. Uh, and then you've got all this optical spending that's gonna go on as everyone gets broadband and the broadband goes from one megabit to 10 megabits.

BLOOMBERG HOST

So who else makes the, the components that go into all of this stuff?

JERRY JORDAN

Well, one of the things we like to do is we like to play the bigger, more OEM, original equipment manufacturing companies. So Cisco, for instance...

BLOOMBERG HOST

Mm hmm.

JERRY JORDAN

...who's gonna put it all together. And what it allows them to do is play off some of the smaller suppliers. That being said, we think this optical cycle's so big, we own some of the suppliers like JDSU. On the other side, we still own Palm. We own Motorola which has gotten very cheap here.

JERRY JORDAN

We own applied materials which we think is potentially a double over the next 18 months, as we get this upgrade cycle in semi-caps.

BLOOMBERG HOST

Motorola, by the way, I, I just looked at Motorola's, trading at a forward P/E of 16th.

JERRY JORDAN

Hey, pretty expensive, huh?

BLOOMBERG HOST

Very cheap, very cheap. And down, but down five percent, uh, your, to date. I interrupted you. We're talking about AMAT, though.

JERRY JORDAN

AMAT is the largest provider in semi-cap equipment. The stock's been beaten to death. It's another one of these stocks in that large cap space that nobody wants to own anymore. But that's usually when you wanna own them. And Cisco was in the same spot six months ago. Cisco's ride, 35, 40 percent off the bottom.

BLOOMBERG HOST

Could you go and, for example, buy the Qs as a proxy for this, or do you think this is gonna be a lot more specific?

JERRY JORDAN

I think it's gonna be a little bit more specific. The Qs will work. I think you make less owning the Qs than you do in some of these individual names. That's always true. One of the things that the Qs have got a lot of is bio-tech. And I'm not sure, bio-tech's had a big run. It's been one of the big winners in the last three years. I'm not sure it has the same vitality to it going forward. The stocks are expensive. You're starting to get a little bit of a push-back in government to the high prices of some of the products.

BLOOMBERG HOST

What about the Yahoos, the Amazons, the eBays and the Googles?

JERRY JORDAN

We own Google. I would not own the other three. And I would not own the other three because if you look at them on a trailing P, on a forward P/E basic, you know, what we think they're gonna earn, Google's cheaper. It's growing faster. It's got dominant share, much like the other ones, but it's got a dominant share. It's got higher gross margins than the rest of them. And we think there's a lot more running room. Amazon, it's a fantastic company. I use it all the time, but at the end of the day, it's still a glorified catalog company that just uses a computer.

BLOOMBERG HOST

But you're right, actually. Just checking on that Google, the forward P/E ratio of Google is less than Amazon and, and Yahoo.

JERRY JORDAN

So why, why wouldn't you wanna buy Google, which is growing twice as fast?

BLOOMBERG HOST

Alright. Welcome back everybody. We've got Jerry Jordan, who's still in the house with us. And we wanted to talk a little bit about oil pricing, Jerry, in terms of, a lot of people are now I guess the market is really concerned. Is it gonna go, is there more upside from here? Pretty much have we seen the end of what's happening to the cycle for oil prices? Where do you stand?

JERRY JORDAN

We believe on a supply-demand fundamental perspective, the peak in oil is in. We saw a peak in natural gas last year. We think we've seen the highs for a while. Supply and demand works. Commodities work, you know, they go up enough. People stop using them. They substitute. They shift their buying patterns. I mean, you've seen SUV sales plummet over the last eight months. You know, and if you go from an SUV to a car, your miles per gallon goes up 50 percent, so...

JERRY JORDAN

...the high prices have worked. Now the question is, you know, Iran started rattling their saber again over the weekend, talking about shutting down the Straits Of Hormuz. If they do that, oil goes to 100. Now it's not gonna stay there, but..

BLOOMBERG HOST

But that's something that could persist for months and months.

JERRY JORDAN

Right, so the question is, do you wanna be short oil?

BLOOMBERG HOST

Mm.

JERRY JORDAN

I don't think so. But I don't think you wanna be long oil in E and P companies at the moment.

BLOOMBERG HOST

Which particular companies, then, do you like?

JERRY JORDAN

I like oil service. And the reason we like oil service stocks is they're cheap. You're still gonna see a lot of spending, because oil prices, we don't think are going back to 30. But we think an average price of 50, you know, 40s to 50s over the next three to five years, makes sense. And that allows for double the capital intensity and double the spending.

BLOOMBERG HOST

But Jerry, they're really not cheap. I mean, many of these stocks have seen double digits, have, some have doubled in value in the last 18 months and they've had an enormous run so far.

JERRY JORDAN

They've had an enormous run, but they're still cheap and I'll give you a good example. Our largest oil service holding is a company called TransOcean, the largest deep water driller.

JERRY JORDAN

The stock is basically about four percent higher than it was in 2000, four percent higher than it was in 1997. But the earnings are gonna be double those prior peaks in '07.

JERRY JORDAN

Seems like, seems like a stock out of trade for little more than 10 times. When you're looking at a cycle that isn't gonna end next year.

BLOOMBERG HOST

Anytime soon.

MALE

I also wanted to ask our guest one question, Jerry. I know that you probably saw the international energy agency's predictions for, crude demand for the rest of this year, while, while it revised them downward, we did see their prediction for China growing at six percent, and that's twice as much as last year. Do you see that increasingly cropping up crude prices as we go forward?

JERRY JORDAN

Not really, I mean, you've gotta look at the absolute numbers. Six percent really isn't that big a number when you're only doing, you know, four to six million barrels a day. I think the offset you're gonna get in the US in terms of, of a slowdown in demand will easily offset what China will use. You're bringing on more supply. You're also doing a lot more on a substitution basis. One of the things to remember with China is their big demand year was 2004 because they used a lot of diesel generators to run power plants and run manufacturing facilities.

They're not doing that anymore. So while they're still gonna add a lot of cars, we don't, we think it'll be sort of a regular, stable growth rate and demand and, you know, that's why we don't think oil's going to 50, going to 30. But we think oil prices still gotta go lower.

BLOOMBERG HOST

What about gold? What are your thoughts on where that goes?

JERRY JORDAN

I, this may sound crazy, given that we're actually bearish on most commodities. We think gold has 10 percent downside and 100 percent upside.

BLOOMBERG HOST

Wow, 100 percent upside.

JERRY JORDAN

One hundred percent upside, and it's, you know, gold's had a tremendous run in the last five years. Anything's that had that big a move is due for some sort of consolidation and that could easily happen. But if you look at the value of currencies, you know, the dollar should be going lower. You know, we had our current account deficit come out today. That was a disaster. Our budget deficit's a disaster and that's not getting any better.

As the economy slows, you're gonna see tax revenues get worse. But nobody's doing anything about spending. So, so the budget deficit continues to get worse, so the dollar ought to go lower. But I don't think there's a real belief that the rest of the world's currencies are all that fantastic, either. So you need one currency to support it all, and historically, that's been gold. And if you look at some of the other relationships of the amount of derivatives, been created the last 20 years, all those things...

BLOOMBERG HOST

Basically a 100 percent increase for gold. There you go. That's a prediction. Let's take a break on that note everybody, and we're gonna be right back after this.

MALE

I wanted to ask our guest, Jerry, I know that you are like, some of the specialty pharma companies that trade here on NASDAQ such as Teva and Indo Pharmaceuticals, Indo by the way up five percent year to date, rising in today's session and then wanted to ask you if, if you see more M&A activity here such as Andrx getting bought out by Watson Pharmaceutical yesterday, if you like them for their possible, being taken out as an M&A play or if you like the companies for their pure growth down the road and which companies, besides these two, that you do like?

JERRY JORDAN

Well, you know, it's, it's interesting. That's one of the reasons we've started buying the stocks a while back was you had the benefit of, you have this huge, secular shift to generics, 'cause it's gonna be pushed by the government's drug, part D drug benefit. You've also got the fact that they're growing in large cap pharma for the most part isn't, in which case, large-cap pharma is probably gonna have to start shifting and buying up some of these companies.

Teva's one of our largest holdings in the pharmaceutical sector. We also own Mylan, which I know, is not a NASDAQ, but and we think there's, there's gonna be further M&A. It's, I think it's gonna be hard to pick them out, though, because sometimes, they're going to be acquisitions. Sometimes, it’s gonna be acquisitions because of products that are in the pipeline that aren't as well known to the public. From our perspective, we think we wanna stick with the ones that are showing good, strong top-line growth at the moment

BLOOMBERG HOST

You also like the hospitals. Why?

JERRY JORDAN

Well, we don't like them as much as we did, and part of that is the fundamentals just haven't come through. They're cheap, so we don't think they're really a sale necessarily here, but the part of the problem is the flu season wasn't very good or I.e., it was good for consumers, but it wasn't good for hospitals. So they didn't have fourth quarter numbers were all that great. First quarter numbers aren't looking all that great.

The thing that's really out there right now that, that troubles me is the government appears to be looking at changing some of their reimbursement rates. And the problem is the government's still by far the largest payer to all the hospitals. So that puts a black cloud over them. I think they'll probably sort of spin their wheels for a while until we get through this. You know, most hospitals, private hospital are unprofitable.

And we gotta, we got a demographic that is getting older and is gonna use more and more hospital and health care services. So something's gotta get worked out for the hospitals to do better.

BLOOMBERG HOST

Big pharma?

JERRY JORDAN

Big pharma's a tough one. There's not a lot of growth, but they're not very expensive and they got high dividend yields. So, you know, it's not the kind of stock we're necessarily gonna own right now. But...

BLOOMBERG HOST

You could see the attraction there?

JERRY JORDAN

Exactly.

BLOOMBERG HOST

Let's take a break on that note, everybody. We're gonna come back with some final thoughts from Jerry. You're watching Open Exchange, 51 minutes past the hour. Please stay with us. In the meantime, we've got a few moments left still with Jerry Jordan. And Jerry, we're getting some e-mails from some viewers who, asking, they wanna know specifically your views on interest rates and the direction of rates from here. What do you think?

JERRY JORDAN

We think the feds got a couple more rate hikes in front of it. Part of that is predicated on what the economy does, what the stock market does. Stock market, we believe, is the leading indicator, not the economy.

BLOOMBERG HOST

And one that the fed watches?

JERRY JORDAN

We think the fed watches it because the fed's watching everything. We think that the, the bond market and the stock market leads the fed's actions, moreso than the opposite. So we thing that the S&P's gonna have to correct a little bit. That'll slow the economy down and that'll stay the hand of the fed.

BLOOMBERG HOST

The other thing that you and I were talking about and, and that is in terms of market direction going forward from here for 2006, it's very easy to have your views and to talk about it, but you also point out, it's important now to find out what hedge funds are gonna be doing, because to a large extent, they really can determine market direction. And many of them tend to move in, in, in a herd. So you've got a lot of money that goes in one direction

JERRY JORDAN

Absolutely. I mean, it, and to some extent, it's even less to figure out where they're going as to where they've been, because there are brilliant people managing these hedge funds. But they're still human, which means that everybody can get on one side of the boat, and all of a sudden, the boat tips, and so they all end up running to the other side of the boat. I think you saw, you've seen that at various times in some of the energy stocks where all of a sudden, they're down 15 percent in five days.

Because all of a sudden, everyone's going the other way. We think if you look at the data, if your hedge fund is trying to raise money and trying to create a difference in, in a, in a huge marketplace, they've been focusing on small cap stocks. And they've been on, focusing on foreign stocks and emerging markets.

BLOOMBERG HOST

What's worked?

JERRY JORDAN

What's, well, it's partly what's worked. It's also a way for them to theoretically add value. And I'm not...

JERRY JORDAN

...saying they're not adding value, but those areas have now gone nuts on the upside. And the question now is if they start to roll, do you have $50 to $100 billion that's going the other way and quickly because they can't afford to lose money. It's not like the mutual funds that invest over there where...

BLOOMBERG HOST

Right.

JERRY JORDAN

...as long as they beat they beat their benchmark, they’re doing what they're supposed to do. You're talking about hedge funds that aren't allowed to lose money, period.

BLOOMBERG HOST

Right, on that note, Jerry, we thank you very much for joining us. Wish you good luck in terms of returns for the rest of this year.

JERRY JORDAN

Thank you.

BLOOMBERG HOST

And Jerry Jordan is the manager of the Jordan Opportunity Fund.