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US Stocks a Tremendous Buy, But Not Yet: Levy

David Levy, chairman of the Jerome Levy Forecasting Center, believes in the future of America. He thinks the economy will not only fully recover but also improve its position on the global stage from its current slump.

But that's a few years off and it isn't time to buy US stocks yet, he said.

Before the economic collapse of 2008, the US economy and financial markets were in a tremendous bubble. Financial assets soared to astronomical levels, businesses overextended themselves, and property developers built too much.

Now, it's going to take several years for the economy to work through these excesses. Financial asset prices, while cheaper than they were in 2007, still aren't cheap by historic standards. Historic standards doesn't mean the last decade or even the last two decades, but going all the way back to WWII and the Great Depression, he said.

For now, Levy recommends going long high-quality fixed-income investments like Treasuries. They're attractive because they guarantee returns and won't default ("I don't care what S&P says," said Levy). Moreover, inflation isn't going to be a problem because of the economic weakness.

In fact, disinflation and "flirtations" with deflation will be the concern, said Levy.

There will come one day, however, when the economy eventually improves for good. Perhaps around the same time, asset prices will have overcorrected and become historically cheap, perhaps even comparable to Great Depression levels, said Levy.

Then, there will be a tremendous opportunities to buy US stocks.

When will all of this happen? Levy declined to give a specific time, but he thinks it'll take the greater part of the 2010s decade.