

## Personal Finance

# Marketfield Poet-Philosopher Pair Bet Europe for Top Fund

**M**ichael Aronstein, a poet, and Michael Shaoul, a doctor of philosophy, have made their MainStay Marketfield Fund (MFLDX) the world's fastest-growing by anticipating recoveries in the most-hated assets.

Marketfield grew more than five-fold to \$9.5 billion in the past year, the biggest increase of a fund with more than \$5 billion in assets, after betting on a rebound in U.S. housing stocks and European shares. Now, their success relies on Irish and Italian stocks rallying and equities in China (MXCN), Brazil and India tumbling. The New York-based fund has advanced 70 percent since July 2007, more than triple the return of the Standard & Poor's 500 Index (SPX), data compiled by Bloomberg show.

"I don't know where the level is," Aronstein, a former Merrill Lynch strategist who writes poetry in his spare time, said of the potential for further declines in developing nations' stocks in an interview April 4. "But if we are right, it's going to get to the point where people cannot stand it anymore."

Aronstein, 60, a Yale University English major, and Shaoul, 47, a British Ph.D in philosophy, follow economic indicators including credit cycles to guide investment decisions, anticipating the accumulation and consequent reduction of debt lead to boom or bust. By combing through data from the Federal Reserve's balance sheet to Brazil's consumer loans to China's auto sales, they find turning points in economic behavior and invest for the reversal of the trend.

### FUND OUTPERFORMS

The MSCI Emerging Markets Index dropped 1.9 percent to 954.38 today, the lowest level since Sept 6.

Marketfield, which started with \$500,000 and was named after a street used as a Manhattan livestock market in the 17th century,



Michael Shaoul, chairman and chief executive officer of Marketfield Asset Management LLC, manages the 20-person staff, writes daily market commentary for clients and courts potential investors. Photographer: Scott Eells/Bloomberg

seeks profits from both gains and losses in assets including stocks, bonds and commodities.

The average rise of 10 percent over the past five years beat 96 percent of its peers. The gains and new investment helped Marketfield's assets grow 468 percent from about \$1.7 billion at the end of May 2012.

When Marketfield started buying U.S. homebuilder shares in late 2009, foreclosures tracked by RealtyTrac.com had more than tripled from the end of 2006. The SPDR S&P Homebuilders ETF (XHB) lost 67 percent of its value that year from its 2006 peak, before rallying 15 percent in 2010.

### EUROPEAN BULLS

The fund turned bullish on Europe at the beginning of 2012, buying Ludwigshafen, Germany-based BASF SE (BASF), the world's biggest chemical maker, and Buzzi Unicem SpA (BZU), an Italian cement maker.

While billionaire investor John Paulson told clients last year that the euro would fall apart,



Michael Aronstein, president of Marketfield Asset Management LLC, implements the strategies, deciding how much to invest in a particular stock and when to exit the trades. Photographer: Jin Lee/Bloomberg

and Citigroup Inc. economist Willem Buiter said that there was a 90 percent chance that Greece would exit the single currency, Marketfield's bets paid off. BASF climbed 32 percent in 2012. The fund gained 13.5 percent that year and beat 99 percent of its peers.

German, Italian and Irish (ISEQ) stocks are attractive now that banks are healing and funding costs remain about zero, said Aronstein, whose reading takes him from Shakespeare's plays to the treatises of free-market economist Ludwig von Mises.

European stocks accounted for more than 25 percent of the holdings, according to the fund's monthly commentary dated May 21. Bets on declines in emerging-market shares, metals and dollar bonds of 10-year maturities or longer made up 34 percent of the portfolio.

### LARGEST HOLDINGS

Marketfield's largest holdings as of April 30 included ETFs for Mexican, Japanese and Italian stocks, U.S. homebuilders and regional

banks, according to the company's Website. American stocks are in a multiyear bull market as manufacturing grows after losing jobs to China for the last decade, said Aronstein, who also makes knives and tools as a hobby.

So far this year, Marketfield has gained 7.6 percent. While it outperforms 92 percent of competitors that follow similar disciplines, it lags behind the 16 percent total return in the S&P index, data compiled by Bloomberg show.

Shaoul and Aronstein study economic data, money flows and corporate earnings, and compare their views against market consensus to formulate their investment strategy.

Once they decide on the themes, be it a housing recovery or emerging-market slowdown, David Johnson, director of research, screens for companies that are most exposed to the trend. They typically recommend four to eight investment ideas that will play out over the next one to five years.

### 'ONE-TWO' PUNCH

Aronstein implements the strategies, deciding how much to invest in a particular stock and when to exit the trades. Shaoul manages the 20-person staff, writes daily market commentary for clients and courts potential investors.

"It's my job to help him come up with big-picture ideas," said Shaoul. "It's his job to ignore me if he thinks it's wrong. We have a lot of trust in each other."

The arrangement results in "one of the great one-two intellectual give-and-takes that I've seen," George Wolfson, chief fixed-income strategist at SYM Financial Advisors, which oversees \$1.2 billion and has invested in Marketfield since 2008, said in an interview May 16. "We don't always agree with what they do, but we respect it, and the performance is there to justify it."

Shaoul and Aronstein started betting against stocks of the largest developing countries, including Brazil, China and India, via ETFs in July 2011.

### 'FIRST WAVE'

The nations are reaching a point where too much borrowing by companies and households throttles economies, just as in Japan during the late 1980s and in the U.S. in 2006, Shaoul said. As housing prices and wages increase, central banks will eventually choke off credit.

"We are in the midst of the first wave, in which China, India and Brazil lead the way down," said Shaoul.

Brazil's Ibovespa stock benchmark has lost 26 percent since the end of 2010, the MSCI China Index fell 13 percent and India's S&P BSE Sensex dropped 4.7 percent. The S&P 500 surged 31 percent during the same period.

China's total credit, including items off bank balance sheets, climbed to about 190 percent of the economy by the end of 2012, from 124

percent in 2008, according to Fitch Ratings Ltd. That was faster lending growth than in Japan during the late 1980s that foreshadowed two decades of deflation, and in the U.S. before the financial crisis of 2008, according to Royal Bank of Scotland Group Plc.

### EARLY MISTAKES

"At the end of the decade, they were the best place on earth to make money," Aronstein said of emerging markets. "Things tend to reach extremes and then sow the seeds" of their own failures, he said.

Aronstein and Shaoul have had their own missteps, especially at the start. Marketfield began investing in stocks on Oct. 9, 2007, the day the S&P peaked at 1,565.15. While they correctly predicted that the housing slump would undermine financial shares, their bets that industrial companies such as General Electric Co. (GE) and International Business Machines Corp (IBM) would escape unscathed proved wrong. The S&P sunk as low as 666.79 in March 2009.

"It took a long time to turn that into more money," Shaoul said. "One of the things we really got wrong was not radically cutting back on exposure during that two week period" after Lehman Brothers Holdings Inc.'s Sept. 15, 2008 bankruptcy.

As the fund grows bigger, it may become more difficult for Marketfield to maneuver and time the market right, said Ronald Sugameli, chief investment officer of Wellesley, Massachusetts-based Weston Financial Group Inc., whose \$1.7 billion includes holdings in Marketfield.

### FINANCIAL STOCKS

"They probably still have some room, but at some point, they may bump up against their capacity," Sugameli said in a phone interview May 16. "Scalability is an issue for many new managers as they become successful."

Aronstein said the fund's size hasn't become a barrier because the partners focus on broad market trends, not picking small-capitalization stocks for short-term trading.

The fund bet against financial shares, including New York-based Citigroup, in 2008, helping limit losses that year to 13 percent while the S&P tumbled 37 percent.

In 2009, Marketfield gained 31 percent after buying ETFs for regional banks, retailers and homebuilders, as well as Google Inc. (GOOG) to ride the U.S. economic recovery from the worst financial crisis since the Great Depression.

A long-short fund like Marketfield tends to underperform the S&P 500 in a bull market, which hurts its bearish bets, according to Josh Charney, an analyst with Morningstar Inc. (MORN) in Chicago.

### 'PRETTY PHENOMENAL'

The strategy works better in a bear market, lowering the volatility of the returns through the entire market cycles, Charney said in an interview on May 16. Morningstar nominated Aronstein the Alternative Fund Manager of the Year in 2012.

After adjusting for volatility, the fund gained 3.79 percent over the past five years, compared with 1.35 percent for the S&P 500, data compiled by Bloomberg show.

Marketfield's performance is "pretty phenomenal," Charney said. The managers tend to "be earlier in some of their themes, but they do pay off eventually," he said. Brendan Moynihan, a contractor and editor-at-large at Bloomberg News, is the managing director of markets and media research at Marketfield.

Aronstein, who was born in New York, wrote his senior thesis at Yale on American poet and insurance company executive Wallace Stevens and started his Wall Street career as a market strategist for Merrill Lynch in 1979, in part because he was interested in "complex systems."

### BEST INVESTOR

With two Merrill colleagues, Stan Salvigsen and Charles Minter, he started hedge fund Comstock Partners Inc. in 1987. Five years later, Aronstein left after it underperformed the market.

He spent the next 10 years investing in commodities, as well as running a timber mill and lumber company. In 1995, the Financial Times named Aronstein one of the 10 best investors of the decade in its "Guide to Global Investing."

London-born Shaoul was buying and renting out apartments in New York, where he'd moved in 1993 after earning his doctorate in philosophy at the University of Manchester in the U.K. He once erected an 18-foot bronze statue of Vladimir Lenin brought from the former Soviet Union on the rooftop of a building called Red Square.

The two men met in 2004. Shaoul, then the CEO of Oscar Gruss & Son Inc., a boutique investment bank with roots dating back to 1918 in Poland, hired Aronstein as chief investment strategist. The two set up the Marketfield fund three years later.

Shaoul compares this U.S. stock rally to the bull market in the 1960s as described in the book "The Go-Go Years" by John Brooks. Aronstein uses Japan's 51 percent stock market decline in the 1990s as a template for the potential fallout in emerging markets.

"Human beings don't really change," said Shaoul. "An analyst without historical perspective can do more damage than a good historian without analytic skills."

*By Ye Xie and Rita Nazareth*

Average Annual Total Returns	Period ended 3/31/13			
	1 year	3 years	5 years	Since Inception
MainStay Marketfield Fund (I)	11.80%	9.14%	9.58%	9.56% (7/31/07)
MainStay Marketfield Fund (A) <i>(max 5.5% load)</i>	5.46%	6.86%	8.09%	8.21% (10/8/12)

**Total Annual Fund Operating Expenses: Class A: 2.70%, Class I: 2.45%. Effective October 5, 2012, New York Life Investment Management LLC (“New York Life Investments”) has contractually agreed to waive fees and/or reimburse expenses so that Total Annual Fund Operating Expenses (excluding taxes, interest, litigation, extraordinary expenses, brokerage and other transaction expenses relating to the purchase or sale of portfolio investments, and acquired (underlying) fund fees and expenses) for Class I shares do not exceed 1.56% of its average daily net assets. This agreement will be in effect for a two-year period unless extended by New York Life Investments and approved by the Board of Trustees. Average annual total returns include the change in share price and reinvestment of capital gains and distributions.**

**Performance reflects the reinvestment of dividends and other earnings and is net of advisory fees. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data to the most recent month end may be obtained by calling 800-MAINSTAY (624-6782).**

The opinions expressed are those of Marketfield Asset Management as of the date of this report and are subject to change. This is no guarantee that any forecast made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment.

All holdings and sector weightings are as of March 31, 2013, and are not indicative of future holdings or weightings, and may change daily. MainStay Marketfield Fund’s top 10 equity holdings were as follows: **iShares MSCI Japan Index Fund** (3.3% of Net Assets), **iShares MSCI Mexico Investable Market Index Fund** (2.7%), **ExxonMobil Corp.** (2.0%), **BASF SE** (2.0%), **SPDR S&P Regional Banking ETF** (2.0%), **Eagle Materials Inc.** (1.8%), **CRH PLC** (1.7%), **iShares Dow Jones U.S. Home Construction Index Fund** (1.7%), **Schlumberger, Ltd.** (1.6%), **Buzzi Unicem S.p.A.** (1.5%). References to specific securities should not be viewed as representative of an entire portfolio, nor should the performance of any particular security be viewed as representative of the performance experienced by any other security or portfolio. It should not be assumed that future recommendations will be profitable. **Past performance is no guarantee of future results.**

The S&P 500® Index is widely regarded as the standard index for measuring large-cap U.S. stock market performance. The MSCI Emerging Markets Index is a float-adjusted market capitalization index that consists of indices in 21 emerging economies. An investment cannot be made directly into an index.

## Before you invest

The Fund invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities involve additional risks such as credit risk, prepayment risk, possible illiquidity and default, and increased susceptibility to adverse economic developments. The Fund regularly makes short sales of securities, which involves the risk that losses may exceed the original amount invested, however a mutual fund investor's risk is limited to the amount invested in a fund. The Fund may also use options and futures contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates, and currency exchange rates. The investment in options is not suitable for all investors. Investments in absolute return strategies are not intended to outperform stocks and bonds during strong market rallies. The Fund may experience a portfolio turnover rate of over 100% and may generate short-term capital gains which are taxable.



**For more information about MainStay Funds<sup>®</sup>, call 800-MAINSTAY (624-6782) for a prospectus or summary prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus or summary prospectus contain this and other information about the investment company. Please read the prospectus or summary prospectus carefully before investing.**

New York Life Investments engages the services of Marketfield Asset Management LLC, an unaffiliated federally registered advisor, to subadvise MainStay Marketfield Fund. MainStay Investments<sup>®</sup> is a registered service mark and name under which New York Life Investment Management LLC does business. MainStay Investments, an indirect subsidiary of New York Life Insurance Company, New York, NY 10010, provides investment advisory products and services. The MainStay Funds<sup>®</sup> are managed by New York Life Investment Management LLC and distributed through NYLIFE Distributors LLC, 169 Lackawanna Avenue, Parsippany, NJ 07054, a wholly owned subsidiary of New York Life Insurance Company. NYLIFE Distributors LLC is a Member FINRA/SIPC.

[mainstayinvestments.com/marketfield](http://mainstayinvestments.com/marketfield)



Not FDIC/NCUA Insured	Not a Deposit	May Lose Value	No Bank Guarantee	Not Insured by Any Government Agency
-----------------------	---------------	----------------	-------------------	--------------------------------------