The Half-empty Cup Runneth Over…

(…gets knocked off the table & *almost* smashes on the floor.)

John Gustafson – 8 July 2013

Another wild quarter in the books – ending almost flat after continuing the first quarter's positive run. However, the negative drumbeat of disaster continues to be heard in the distance and our ongoing theme of the "Bizarro 90's" appears to remain intact.

Most regular readers can likely recall an article I penned almost two years ago discussing a problem I labeled "the malaise" which seems to remain – at least among the screaming media and the aging public. My theory back then is that the general media message has been driven politically (and selfishly) by Baby Boomers and the right side of the aisle in Congress. Self-interest and protection is clearly an ailment in our modern (mature) democracy. Something changed in our culture as generations changed power, beginning sometime in the late 1990's and people became more selfish / self-interested, looking to blame others for their ills and failing to take any responsibility for their actions. That is what troubles me in the markets and the current business climate much more than the regularly trumpeted headlines.

As a reset for clarity, the 1990's were punctuated by wild speculation and "irrational exuberance" (to quote The Maestro, Greenspan) where any slightly negative news in print, on TV or in casual conversation over marinating ice cubes was at minimum pooh-poohed and at maximum shouted down as Heresy. The opposite is in effect at this point – all is bleak and any positive sign is immediately minimalized with fervor and rich historical reference.

The other situation that continuously drives me crazy is all the bashing of Ben Bernanke and the actions of the Fed. As stated in the past, I'm guessing that "Helicopter Ben" would be more than happy to turn off the printing presses and allow things to occur naturally, however our utterly derelict politicians in Washington continue to actively fight against the American economy (as the confession states) "…by what we have done, and what we have left undone."

In some ways it's completely comical that foolish politicians, many of whom have never held a real job outside of politics, (at least none they can remember after multiple terms) continue to espouse economic opinions when they've shown that they can't handle their personal affairs properly. Why would anyone believe that Congressman knows more than the Fed in terms of what is helpful to our economy based on their history?

Now I'm not fully staking a claim in wildly bullish territory at this point – nor will I ever - but I wanted to add a little balance to the continually negative talk. As almost everyone has learned, the thundering herd is almost never right in the long term. However, the mob can cause havoc in the short term – exhibit A: the treasury market after Bernanke's most recent press conference. It's been a long time since I've seen words more broadly misinterpreted and simply misstated - this one was spectacular!

The day after the Fed meeting & presser, the headlines all screamed, "Bernanke announces the end of QE this fall!!!" That is blatantly false; he didn't come close to giving a timeline and didn't even say there was any concrete intention. In fact, if you watched the press conference rather than merely read the talking head interpretation and disinformation about what was covered, he was asked very specifically (over-and-over by numerous "reporters") about when QE will end and every, single time he said, "6 ½% unemployment is NOT a trigger to end our purchases – it is merely a level at which we would begin to explore our options of winding down the program." He NEVER gave a timeline and NEVER said there was a definitive trigger. On top of that, he said that if things slowed they would certainly reserve the right to ramp purchases up once again and provide whatever stimulus necessary to ensure positive economic growth and lower / stabilize unemployment.

Of course, it is every money manager's right to interpret what Ben said in their own way, in an appropriate fashion for their respective portfolios, but to have all the TV and print folks continue to spread an inaccurate message this far from reality is lunacy. It's as if everyone in the financial media is short Treasuries… (We have a little TBT as a hedge to the portfolios and it's been the worst holding of all.) I believe it goes back to what we've always said here – the media is a lagging indicator. They produce whatever message the public is anxious to consume, and at this point in time, it is the negative one.

That said, what does appear to be occurring amidst all this negativity is the simple fact that the economy continues to improve – not as fast as everybody would like and would historically expect – but they've been getting better for over three years. Perhaps if Congress hadn't been so derelict in their duties this would've been more of a "normal" recovery. (and the Fed would stand aside) As always, we need to live in reality, not in theory.

I'll even go so far as to concede that most Fed critics are accurate in their theoretical criticisms – i.e. everything the Fed has done is stimulative and *should* cause inflationary problems. However, the big fat kid on the other side of that teeter-totter is the President and Congress bungling everything and only creating the environment that slows the economy. (Payroll tax increases, wildly complicated healthcare laws that nobody understands, the inability to compromise on the simplest, useful details, etc.) We shall see who wins and react accordingly. I am out of the politician, rational-behavior prediction business. They are the embodiment of human chaos theory in my opinion.

Now that I've firmly planted my current flag in Pollyanna's front lawn, I'll mention a few items that do concern me going forward…

In spite of all the critical noise mentioned above, we have had a strong year with a little "Bernanke-Blip" right at the end of the quarter / half. I imagine there will be a real correction at some point in the next few months. Not something set off by an emotional over-reaction, but a normal re-leveling of values after a big run. If we do simply keep steamrolling ahead (now that the public is finally fleeing bonds and dipping toes into some equities) I will be more likely to slide over to the bear camp, at least temporarily.

From a political standpoint outside of D.C., the continuing problems in Egypt and Syria are concerning. Not because they have anything to do with global manufacturing or commerce on a large scale, simply because continuous conflict regularly piped through the TV will not help "the malaise" change to a more positive outlook anytime soon.

Finally, it's my belief that managing risk with a rheostat, not a light switch continues to be the best path ahead for our portfolios. Singles and doubles drive in plenty of runs, swinging for the fence leads to too many strikeouts and runners left on base.

I welcome any questions or comments and thank you all for your continued business, support and referrals. Hope you are enjoying your summer – cheers!