



“Failure”

John M. Gustafson – 7 October 2013

Almost 4 ½ years ago, this firm was launched and I began to somewhat regularly communicate my views on the world and the markets via these brief notes. Looking back, this may be roughly the 30th time I’ve put my thoughts to paper, and even though I run an investment firm, the number of these notes that were not dominated by the political landscape and misdeeds across the globe can probably be counted on one hand. Oh how I wish today were different... (And I’m sure you do as well.)

You can probably tell by the title of this article what my current feelings are regarding the actions of the career politicians infesting Washington D.C. and our daily lives. In previous letters, I’ve used every hack analogy I can come up with to describe the ridiculous insanity of the continuing clown show we’re forced to live each day in a seemingly never-ending cycle. (What’s that definition of insanity again??) I’m tired, and fed up, and I’m simply going to label it as it truly is: failure.

Early last month when we performed our major rebalance of the portfolios, changed the model slightly along the fixed income and hedging arenas and raised some cash, the note that accompanied that work outlined the kabuki theater likely to play out once Syria was pushed from the news. We called it the “next shiny object” to catch the media-dog’s attention... The shiny object is laying there in front of us and we now sit at another government crossroad, completely of their own making, out of selfish, self-serving actions, based only on the desire to gain and maintain power and remain in office - with little or no concern of the actual real-world consequences of what they do, say or fail to do outside the Beltway. This has not only become tiring but it has also become much more economically dangerous and damaging as we are already in a position of extended valuations and borrowed time. (Pun intended.)

In the recent past, while discussing European as well as American politicians, I made the statement that across the globe they have all proven there are clearly no real leaders anymore; they are all sheep desperately hanging onto perceived power. Therefore they have no desire to take any action that could in any way hinder their future political aims until the clock strikes midnight and the click of the hammer can be clearly heard. I see no reason to believe that the current government shutdown / Affordable Care Act / debt ceiling debate will be any different.

However, the one little fact that the folks on the right side of the aisle seem to have overlooked is that their opponent has no future political aspirations and therefore has all the cards in his hand. (Think I’m wrong? Clinton was *impeached* and is now the most popular guy in

the world, raking in millions. The once-hated villain, Dubya is a global, charitable statesman that everyone now loves. You think Barry can't see that?!?)

As distasteful as that all may sound and as uncomfortable as that makes my Republican friends, it is the reality. And as is frequently noted here, we do not live and invest in "theory-world," we live and invest in reality. So even if you agree with what the GOP is attempting, there is almost no way they can win this battle at this point and the longer they drag it out, the more damaging it's going to be for the rest of us.

I've ranted here in the past about the ACA and what a complete failure the law has become, but I will reiterate my belief that the giant insurance company ship has already turned to its current heading after burning through billions to do so and will not turn away simply by defunding the enforcement mechanism of the law. An alternative plan must be crafted forcing the changes down the road – something the Republicans could never seem to do while holding the House majority these past couple of years. Is that Bohener's fault? The Tea Party? Harry Reid? I don't know, and I don't care... All I know is that wasting time in the last election with the one goal of removing the President from his chair frittered away a completely winnable opportunity in the Senate. There were 23 Democratic Senators up for reelection – the inability to take four or five of those seats has effectively negated the GOP control in the house when it comes to changing Obamacare. Like it or not, that is reality...

I'm sure I've irritated plenty of folks with my unusually one-sided description, but I'm on "Team Elephant" and that is why I'm so utterly disappointed – not only with their actions, but their continual strategic missteps and thoughtless bumbling.

So what does this mean for our portfolios? As stated earlier, the rebalance and cash raise over a month ago certainly makes me more comfortable in the current circumstance. Many large investors have been appearing in the media recently regarding the shutdown, boldly stating that there is "no chance" of Congress allowing a default. As a card-carrying contrarian, that may be one of the most concerning statements I've seen in awhile because as we know, in the short term the markets will do whatever they can to inflict the most confusion and most pain on those that think they "know" the future. I do believe the chance for default is small - but as I've outlined above, the distrust, vitriol and wounded egos have only widened the personal animosity amongst the main players in DC. And once again, there are sound bites creeping into the conversation from a few on the far right stating that a "temporary" U.S. government default is "no big deal." That, my friends, is insanity and misunderstanding of the highest order. The global markets run on confidence – period - and the loss of the payer of last resort (US!) would be a death blow.

Right now I'm comfortable where we sit overall and I also know that no matter what is resolved, the next 10 days or so will be very ugly, very emotional and completely unpredictable. Of course if they do get it together in Washington before the deadline, I'm sure we will all see a huge rally mowing down the shorts once again. Although I have to say that I think this outcome is about as likely as a default. Those who are wildly positive and wildly negative will likely both be disappointed.

Finally, because we're right in the middle of this nonsense and I've learned my lessons regarding the application of reason and logic in an attempt to determine the actions of irrational egomaniacs is a losing proposition. Therefore, I think it's best to hunker down, deal with reality on reality's terms and act accordingly once the media sound bite war is finished. I'll be back with an update at that point – stay tuned...

A handwritten signature in black ink, appearing to read "J.M. Gustaf". The signature is written in a cursive, flowing style with a large initial "J" and a long, sweeping underline.