



In Ben We Trust...

(Because we have to, he's the only grown-up in Washington)

John Gustafson – 10 April 2013

Once again, as the quarter comes to an end, everyone is left scratching their heads – fortunately with a little extra jingle in your jeans. With all this dysfunction in the world the US stock market continues to grind higher. While everyone waits for “the big fall,” I will happily – but cautiously - enjoy the ride. It truly does feel like Groundhog Day these past few quarters (though as someone living up north, please don't get me started on that little rat Punxsutawney Phil) – the same problems, the same predictions, the same screaming media, yet we continue to climb the wall of worry. I am most nervous when everyone is sure they hold the winning ticket. That is clearly not the case at this point.

“Helicopter Ben,” as he was nicknamed several years ago following a famous speech discussing some of the tools in the Fed's toolbox, continues to fly around the country figuratively dropping sacks of easy money on our economy, much to the disdain of the strong dollar crowd. However, as I've been saying for months, if it wasn't for Ben and his minions, who knows what situation we'd be in because of the absolute dereliction of duty from the White House and the members of Congress on both sides of the aisle.

I have no doubt that Bennie and the Feds would love to stop the easy money policies and retreat from being the punching bags for all media and “experts,” however the ridiculous children in Congress insist on getting their way with absolutely no concern for what their behavior does to our economy, our societal attitudes, or our perception in the world. They truly continue to fiddle while Rome burns.

Recall something that has been somewhat of a theme in these notes of late – we're in the Bizarro 90s. By that I mean, back in the 1990s everything was optimism, sunshine & lollipops – no matter the news, a positive spin was put on it. Now however, every little fact in the economy is parsed and threshed to find the kernel of negativity, which is then broadcast as if it is the most important piece of the news and nothing else matters.

Most of us have been around long enough to realize that just because something is broadcast on the news doesn't mean it's important (or wholly true) – it simply means the media thinks they can catch your attention. Similar to how my poor pooch Gracie used to obsess over squirrels in the backyard... It may not be important, but it sure can get you fired up and cause anxiety while moving your focus away from the actual important trends.

Also, I don't want to be a contrarian just for contrarian's sake, but I have to continue to lean on the fact that the crowd is almost never right – and right now almost everyone in the crowd is standing around “waiting for the fall.” Yet somehow, businesses continue to make more money and their stock prices reflect that fact.

The trend I've been noticing, and how I feel as a small business owner, is that most of us are trying to be as efficient as possible with nothing but tax increases and a creeping healthcare law that nobody seems to really understand on the horizon. Both are economic afflictions that simply make adding headcount too expensive and risky until another body becomes absolutely necessary. Remember, unemployment is a lagging indicator, as is housing... Both metrics trending in a positive direction month after month – not “fast enough” according to most news stories – which is a separate affliction in modern society: Impatience.

Two of our negative themes discussed over the past couple of years also continue to smolder in the background: Europe (which we first wrote about in May 2010) continues to be a mess and decisions are being made that defy logic; and here in America, the Baby Boom generation, cool like the grasshopper, have failed to prepare for winter and are looking (hoping) for solutions that are simply not fiscally possible.

All of these news items and concerns actually make me slightly more comfortable where we sit at this point. The market is not “wildly overvalued” and almost no one is demanding more exposure to equities in their portfolios. Not a traditional scenario to kill a bull market for sure...

That's not to say there's no risk of course - it's *investing*, there is always risk. In my mind the most blatant side of the risk equation is in bonds. I'm continually surprised by how strong the fixed income markets are currently. I know I would rather invest in a company looking for profits with potential upside, (and the trend lately for pretty good dividends, far in excess of any reasonable – read: decent credit - bond interest) rather than a government like ours that can't even submit, let alone balance their budget properly. Also, please remember that there is no upside in the bond market – you collect your interest payments and then receive your principal back at maturity – or not...

Again we return to the Bizarro 90s attitude... Instead of legging out the double without a care in the world, people seem to feel that they should be on third by now but don't want to take their foot off of first base. As with most things in life, the truth lies somewhere in the middle. (Sorry to my non-American readers for the blatant baseball reference – e-mail me if you need a more culturally neutral example. ;)

What does concern me? A situation where I have absolutely no valid speculation as to the outcome: North Korea. Kim Jong Un couldn't appear to be more crazy and/or irrational, and any sort of nuclear explosion – even by accident – would severely change everyone's outlook worldwide. I have no idea why the Chinese haven't stepped in to shut this nut down?? They are much more at risk from his shenanigans than we are currently. My expectation is that China will

be involved, but as with most government actions we've discussed over the past few years – not until the 11th hour.

The fiscal nonsense occurring here and in the EU has now been going on for so long that it's not shocking to the markets. I wouldn't say it's not a concern – it is almost all that the traditional financial press cares to discuss. It's just that most of the “leaders” on both sides of the pond have once again proven to lack any of those actual qualities so anything they do that is dumb is generally seen as not immediately dangerous and we have come to expect last-minute band-aids. Even the “Sequester” – Congress' self-imposed critical deadline for action - was neutered and minimized. Lots of political hand-wringing and chess playing, but mostly empty threats...

I know I've had this conversation with many clients – their level of selfishness and hypocrisy is astonishing. And both sides have proven over the past decade that they are equally incorrect, dangerous and inept. If they actually do stumble upon a valid compromising solution with understandable details, I think the markets would rally strongly. (However I, along with everyone else, view this as a wildly speculative outlier.)

In conclusion, as uncomfortable as things *feel* on a regular basis, that is the situation that makes me the most comfortable. Believing that investors are being cautious and somewhat rational is good. Remember “irrational exuberance?” We are far from that bull-killer at this point...

Also, don't be surprised to see a correction, it has been awhile since we've seen any sustained action to the downside, however with the seemingly strong pent-up demand and cash on the sidelines, it should be the “pause that refreshes.” We will also continue to monitor the hotbeds of the world mentioned above, with only minor tweaking planned for our current allocations.

As always, thank you for your continued support and business. If you have any questions or needs, please let me know – and thank for your continued introductions to new potential clients. It is our best past to future growth with those we enjoy.

Cheers!

A handwritten signature in black ink, appearing to read "J.M. Gustaf". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.