PalmettoWealth Management

Walking on Sunshine

John Gustafson – 9 April 2012

With the first quarter of 2012 now in the books, having pretty much followed the pattern we discussed in our note to open the year, I'm going to keep this quite brief. I'll probably pen some updated comments as the quarter progresses as the usual suspects on the Bear's side of the aisle have once again raised their heads to begin the 2nd quarter. At this point it is too early to tell if they will be any more correct continuing the same arguments from the past few quarters that have so far not come to pass. The big question on everyone's mind as we experience the recent market softness; Is this the "pause that refreshes" as the old Coke commercials would tout? Or is it the next global crisis / "Black Swan?" (a term which has now become part of our vernacular) The next disaster has been the investment media's white whale since 2009 – almost a form of PTSD caused by the past decade of historical craziness.

The first few months have remained relatively quiet to the downside as we outlined, primarily because the Europeans appeared to have a handle on their issues. That is once again in question as the EU ministers flail around and fail to fully commit to a true solution, as usual. Next month is the 2-year anniversary of the report I wrote entitled "Europeans!" outlining these issues - not much has changed, happy we removed the majority of our "Old Europe" exposure last summer, but still a concern. One thing that has changed to the positive side is that more market participants think a solution can now be managed, with painful losses appropriately taken, as occurred in Greece. Not a fruitful area of the world to invest for quite some time, but not the uncontrolled volcanic disaster everyone was expecting last summer.

The continuing cry on this side of the Atlantic has also been that the economy is still recovering too slowly and that it is only doing so because of the Fed's ongoing easy money policy. I think a lot of this is politics in our extremely cutthroat and bifurcated election year where the Fed is working against the White House and Congressional inaction and dangerous ineptitude to keep things together – but as I mentioned above, I'll save the politics for my mid-quarter letter. It does seem as though the Grand Old Party is just about ready to put their knives away and focus on the fall rather than each other. We'll see…

The latest data point that has everyone in a tizzy was the Good Friday employment report which showed only about half as many jobs being created as what was expected – although the actual rate of "official unemployment" fell slightly. Clearly not good, but I'd like to see a little more before beginning the economic funeral here in the U.S. Over the past couple of years as the employment reports went from less jobs lost, to more jobs created – even thought the creation was also very choppy and sluggish – the bears would always say, "That good number this week doesn't matter, it's the averages / trends that matter." I think that's a logical view and should be applied here as well – if we get more bad data, that is worrisome, but as of right now it's simply one data point well below the trend.

Finally, a little downside in the markets after 5+ months to the upside should not surprise anyone. Especially since most have probably heard that this recent quarter was the best in the U.S. markets since 1998. If you don't knock off a little steam once in awhile things will certainly come to an end much worse sometime later. Everyone reading this note can remember the parabolic 1990's coming to an ugly end – at a level to which the NASDAQ has still never returned.

Right now, because of the portfolio rebalancing and updates we performed in January I'm happy with everyone's core. There may be a moment when another rebalance makes sense to pull out some cash, but I don't think we're there yet. I know the media pundits are working with the playbook of a fairly successful strategy revealed in the crashes of the past decade, "he who panics first, panics best," but we're just not in that situation right now.

One final media comment and their current use of the terms "risk on" and "risk off" describing market actions… To imply that piling into almost zero-rate treasuries (below zero in real terms even with our currently moderate inflation figures) is somehow taking risk *out* of your portfolio is just foolish to me. I'm not saying buying stocks is not risky, I'm simply saying that bonds need to be handled properly as well, especially when the cash flow provides little to no buffer.

As always, thanks for listening – I appreciate your continued trust and continued referrals to new folks – it's the only way we grow. Please let me know if you have questions or would like to discuss anything I've outlined further.

Cheers!