Gleanings

Sandpiper Capital

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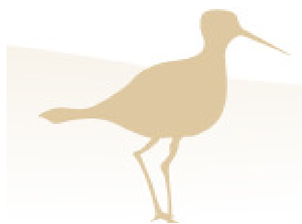

Gleanings

Pre-Occupied Wall Street

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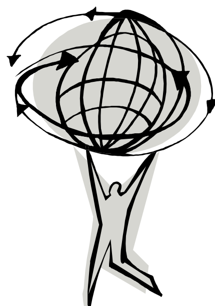

"Stable portfolio values, anchored by cash and short term bonds, can help you maintain confidence during these periods of unprecedented volatility."

Market Returns through 09/30/2011

Index	2008	2009	2010	ytd
S&P 500	-36.9	26.5	15.1	**-8.7%**
ML 1-10 yr Govt/Corp	4.1	5.7	6.0	**5.0%**
EAFE (Dev Fgn Mkts)	-43.3	31.8	7.8	**-15.0%**
Emerging Markets	-53.2	78.4	19.0	**-21.8%**

Government engineered fifty year lows in interest rates have, so far, had no effect on the sixty-five year lows in consumer confidence. Record federal deficit spending has been offset by state and local government budget cuts. Over a trillion dollars of new bank capital has failed to stimulate new lending as two trillion dollars worth of bad loans overhang the system. An unserviceable quantity of global debt (at an estimated $95 trillion or triple that of just ten years ago) suffering from the reality of slowing global growth has exposed the weakest links in intricately linked financial markets.

4% mortgage rates won't help a homeowner who's lost his job. Banks won't make new loans if their existing loans are defaulting faster than they can keep up with. Congressmen can't raise the taxes or cut the benefits of the respective constituents who keep them in office.

Solutions to the intractable consequences of using financial and political engineering as a means of avoiding the requisite investments in education, energy independence, scientific research and social welfare needed to maintain our economic infrastructure will require generations of sacrifice to repair the damage of our collective short-sightedness. Disgorging ourselves of corporate and political leaders whose interests and actions are grossly misaligned with our national interests will take an unprecedented degree of focus and national will.

None of these things are new. They've just been made more apparent as we've reached the outer limits of stimulative financial policies that have never addressed the primary problem of how to remain competitive in the global economy. Neither do they spell the end of the world for financial markets. For investors, the primary impact is the reality in which we have found ourselves for the last decade. If you rely on your savings to provide interest or dividends on which to live, the rate you receive will be much closer to 1% than to 5. If you invest in stocks to grow your capital for future needs, single digit returns will be accompanied by double digit volatility making negative years routine. Gold as insurance against monetary devaluation will be a necessary but volatile component of effectively managed portfolios. And finally, cash is still the ultimate hedge. As the risk-less asset class, it alone has returns uncorrelated with the markets. Stable portfolio values, anchored by cash and short term bonds, can help you maintain confidence during these periods of unprecedented volatility.

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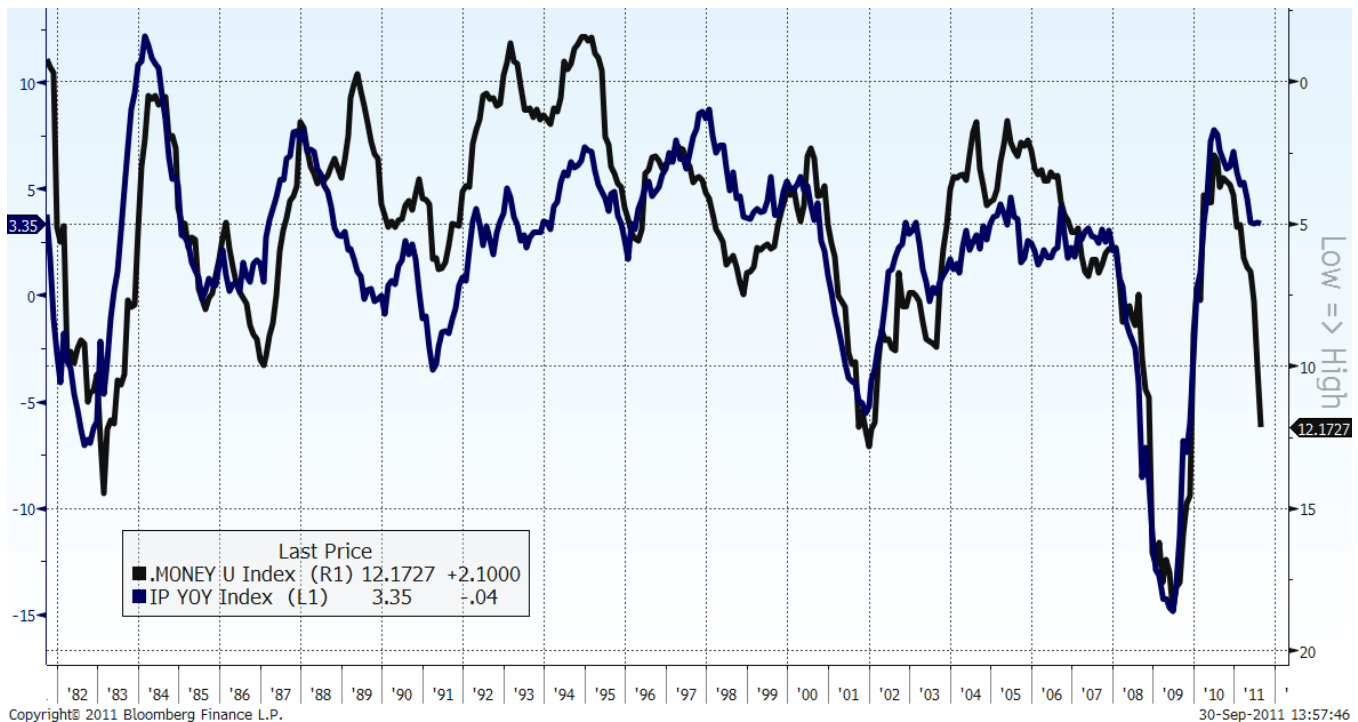
A fairly precipitous drop in leading economic indicators, (in black) was accompanied by an almost simultaneous fall in the stock market, (in red). While stocks are certainly cheap compared to our calculations of fair value, we would like to see a bottom in this weekly indicator before making any new commitments.

The Federal Reserve has responded to slowdowns in the economy, (here, in blue, as measured by the year to year change in industrial production) by increasing the rate of growth of the money supply, (in black on a low to high scale which *increases* as IP falls). Monetary stimulus now is the same or greater than during the depths of the last four recessions.



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