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# Steeplechase Investments

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Volume 13 Issue 1

January 2009

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**O** quick and the Dead. If you read the mid year newsletter, you probably gleaned from the contents, that I was becoming pretty bearish on the economy, bearish on the stock market. I did exhibit some sense of hopefulness that the problems that were ailing the U.S. could or would be rectified. Though HOPE will never revive a sick economy, a stock market on life support. When I became convinced that we, Americans were in a heap of trouble, I did the only rational thing, the only viable option open to us. I began to sell stocks, and SELL I did. From the end of May, until September, I sold 18 stocks, which was equivalent to around a 40% delivering, as it were. Now, the old stock market adage “you never own enough stocks on the way up and always own too many on the way down” is market truism. So, while we didn’t crash and burn like most investors, we still took a few body blows. Concurrently, I raised our bond exposure quite a bit. It was more to pick up a little yield and hideout for awhile then to make any serious money. I felt in the environment we were about to endure, it was better to be safe than sorry. I did not, however foresee the major Panic that ensued. During the panic, people sold everything. Every asset class worldwide went down big. Bonds held up better than most of the asset classes’ though. Stocks, gold, commodities, oil, and anything else they could sell, they sold. Throughout summer and early fall, people asked me what I was buying, and I would curtly reply I am not buying anything. I am selling on every fleeting rally there is. They would give me their reasons for buying or not selling. They seemed to think it was too late to sell, so one might as well stand pat or by??# My answer to all was we

were in a bear market, a very serious bear market, not a so called correction. Buying into these bear traps was akin to trying to walk up a down escalator. This time was DIFFERENT. This was a worldwide phenomenon. And then came October, and unprepared, the reactionaries were selling or thinking about selling. Many became frozen by their fear and emotionalism. A very eerie complacency came over the marketplace. “Well, November would have to be better than October, it just has too”. And then came November, and no amount of hope, no amount of specious arguments were going to take this market higher. And no amount of pleading and praying was going to recoup the vast fortunes that were being lost. So, what was your money manager doing throughout this avalanche? I was looking for opportunities to take the other side and do a little buying. Not for the proverbial long term, just looking for short term plays. On fear inspired down days after the market had put in a short term bottom. I would buy. Then, when the market rallied some, I would sell. We bought and we sold. We held oil for a few days to a week and then we sold. We held gold for about a week and we sold. We owned a Chinese ETF for a couple of days and sold it. The characteristics” of the market change from month to month, week to week, day to day, hour to hour, and minute to minute. It would be foolish to forecast what the market will do in the next 12 months. Market moves have become so condensed, that it would be folly to think anybody has a clue as to how it is going to flesh out. I do believe, however, that there will be opportunities to make money on a short term basis, The Quick and the Dead. Make no mistake; we are still in a bear market. The technical figures I keep have gone from bearish

to neutral. And it has taken a long time to just get to neutral. Bullish maybe for the short haul, but not yet for the long haul . . . There will continue to be a lot of activity in our accounts. That is the kind of market we are faced with. This is not the kind of marketplace that you sit with things for long periods. If there is a whiff of something not right in a give sector of individual equity, it’s sayonara, baby.

We are beginning to hear about stocks being undervalued. Yes and no. Compared to their former prices, that is certainly true. But were they fairly valued from where they fell. In this environment, are companies going to be able to grow? Has the bad news already reflected in their share price? Some will grow, many will not. Let’s compare stocks to the housing market. If you have a house “trading at \$1,000,000 two year ago, that same house may be priced at \$750,000 now. Is the house undervalued? It’s undervalued compared to its former price, that’s for sure. But is it undervalued versus the long term trend? An asset is only worth what somebody will pay for it. Greater fool theory, musical chairs, call it what you want but that is the reality, is it not. On that note, the price earnings ratio, a barometer that many investors use to analyze if a stock is undervalued. Right now, the PE of the market is considered very low in general. Certainly that is what Wall street is preaching. Of course, they always have to have a story to peddle to get John Q. Public to buy their products. You remember credit default swaps, that “risk free” way for them, not the public to make money. Anyway; the pe ratio has a numerator (which is price) and a denominator (which is earnings.) Well, the numerator has come down considerably, but so has the denominator (the

earnings, if there are any) the problems are many when it comes to valuing companies in our New economy. The shipping companies, for instance, were touted much of the year as being can't miss investments. They loved these stocks 85% higher than where they are today. One such shipper came down from 90 to 5. It rallied from 5 to 7 and a half, and they now said it was overvalued because it rallied 50%!?!# That is a classic case of Wall Street logic.

The "buy and hold" philosophy met with an unhappy demise in 2008. Anybody that has read the newsletters for the last dozen or so years has heard my rants about this scam, this con as far as I am concerned. This is and has always been a misguided and fraudulent thesis. I am going to mention a few of the more emphatic examples of selling we have done in the last 18 or so months which should elucidate clearly why it is not wise nor fruitful to hold stocks "till the cows come home". Some of these sells were profits and many were losses. I will mention where we sold them and the lows that have put in the last few weeks, if in fact, they are the final lows. Here we go.

WFR @51.50-10  
 SPY@140-74.34  
 VTI@140-36.32  
 JPM@48.70-19.6  
 MER@79.88-7.0  
 COH@50.32-13  
 WCG@86.40-6.1  
 CROX@76.34-.7  
 SPN@37.36-11.6  
 STP@32.13-5.39  
 TIE@31.54-5.31  
 TRN@42-9.34  
 JCG@51.34-8  
 KSU@35.26-15  
 TIF@48.34-16.7  
 DRC@38.34-11  
 MR@34.40-12.3  
 WAG@39.29-21  
 MHS@95.92-29  
 DIA@131-74.50  
 AIG@44.72-1.25

SATS@34.90-13  
 VLO@44.57-14  
 KEY@19.79-4.99  
 BAC@32.08-10.01  
 BNI@104.10-68.31  
 ADBE@41.43-19.49  
 CX@24.62-4.01  
 DISH@30.83-8.34  
 STX@17.92-3.67  
 EBAY@24.54-10.91  
 GLW@16-7.36  
 DD@42.54-21.32

And there are some 30 more cases just like these where the damage was just as glaring. I rest my case. Buy and hold never worked and never will! It was a scam perpetuated by the brokerage community to abrogate them from taking any responsibility for their decision making when it came to buying stocks. It was a process set up so they never had to take losses or admit they were wrong. Of course, it wasn't their money.

Our average account lost in the 18% range for the year. The small accounts lost a bit more. The world stock markets lost 41% on average. The S&P 500 lost 38% and was down as much as 59%. The average mutual fund lost 40%. So, we endured some losses and that is for sure and they were painful losses but we can "live to fight another day". I am not sure we could handle a 40% drubbing. The top 5% mutual fund managers lost 27% on average. After losing 18%, one has to make back 22%. If one loses 40%, one has to make back 68% to get even. I guess that's what they mean when they say the law of diminishing returns.

In conclusion, where does the market go from here? The market has put in an intermediate bottom at this juncture. It is still oversold even after rallying 21% from the last bottom. Technically speaking, the next places the Dow finds resistance at are 9,150 then 9,650, and finally 10,000. All these levels are attainable, in my opinion. The market

usually bottoms 6 months before the economy. And therein lays the rub. Will the economy have bottomed 6 months from now? If I were a betting man, I would say no. I do not believe the economy will have found its way yet. I think there is a 50-50 chance we test the November lows. With that said, I believe there will be opportunities to make money in the year ahead. But it won't be done by investing for the "long haul". Thus, the investment thesis for 2009 is again Quick and the Dead. One is just going to have to be nimble, very nimble. Market moves are made in a week, where before it would have taken months. So, we will be quick on the trigger this year. We will be in and we will be out, over and over.

And are we better off now then we were a year ago? Certainly, our pocketbooks and our real estate equity would tell one side of the story. But, the other side is, our country really needed this cleansing, this purging, in my opinion. Let's face it, we found out our economy, the world economy was based on a foundation of tinker toys created by a large den of thieves. Maybe just maybe going forward, we can build a new foundation, that can last for another 100 years. And maybe that's being Pollyanna of me. From the ashes, Phoenix rises!

Ed

*So his place shall never be with those cold and timid souls who know neither victory nor defeat.*

—Teddy Roosevelt