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# Steeplechase Investments

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Volume 16 Issue 1

January 2012

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**A** Wild eyed optimist, I am not. The world is definitely not in great shape. The causes and blame and excuses are many. The USA has experienced an economic collapse every bit as bad as the 20's and 30's! The media has termed this the Great Depression. I guess the Good Depression doesn't have as catchy a sound to it. It is certainly semantics. Most people would believe it has been a depression and I am in that camp. But that was then and this is now. I believe we have gone through the stages of grief. And we are in the last stage of acceptance. Here is what I foresee going forward. People are fed up with fear; it has run its course. FEAR is and has been our biggest enemy. It has engendered a total lack of confidence, a condition sometimes feeling hopeless. There is anecdotal evidence that people are beginning to get up off the mat. WW2 lasted some 5 years for America and impacted our parents' generation greatly. And they got through it. That generation accumulated many scars, both physically and mentally. Our generation has just experienced a commensurate agony in the last 5 years. It has been a devastating era. Add on to this 9/11 and the dot.com bubble and you can see why we have been in such a malaise over the last 12 or so years. Again that was then and this is now. That is the past. We have to look to the future and stop living in the past. I believe things are going to get better and maybe decidedly so.

At the beginning of the year 2000, if you posited to people that the market was going to start going down almost uninterrupted, that we would be in a Bear market for 12 years, they would have been fitting you for a straight jacket. Everybody was bullish; hous-

ing was beginning to be a user friendly ATM. The sky was the limit. The mind set was invest, invest, and invest. Buy and Hold was the path to economic security. And make sure you hedge your equity portfolio by purchasing some hard assets (real estate). So, we had a menacing and evil attack on our soil, which was thought incomprehensible, we had a bear market in stocks of gargantuan proportions, and we had an incomparable housing crash. It is very understandable that people have been mired in anxiety, fear and depression. We are at polar opposites now. When I tell someone, anyone that is going to get better, a lot better, they look at me with eyes of sympathy, scorn, doubt, and disdain.

The stock market is a leading indicator, unemployment is a lagging indicator. The had every reason to go down in a major way last year, every reason to plunge, but it did not. Yes, the market was not good at all, going down 20% at one time. But it was primed to go a lot lower and it did not. That is a subtle signal that the majority of "throw the baby out with the bath water" selling is over. I believe that housing is in trough period now, trying to put in a bottom. Oddly enough, I believe because the whole world is in trouble, it is a safer time to own stocks. I know, fit me for a straight jacket, dose me with mood elevators and throw in some anti-psychotic pills. The reason is this: it is in every single country's best interest to reflect, to cause inflation. I know, God forbid, what will the world look like in 10 to 15 years. What exactly do you think Q11, QE2, and the coming QE3 is all about? Austerity will not work. The austerity horse is already out of the barn the world is going to follow America's playbook. Inflation is bad, deflation is much worse than bad. So, we are going

to want to own, Need to own hard assets, like stocks. like housing (you gotta be kidding me). Remember, 12 years ago it was the absolute wrong thing to do. Now, it is the opposite scenario.

Baby boomers are going to come to the realization that sitting on their hands, putting cash in the mattress are strategies that are not going to work. With inflation at two and a half to three percent, they are losing money by the hour. They are going to understand to survive; they are going to have to take risks. The past is past, I know, we all got a raw deal, our retirements have been postponed, etc. But we have to look to the future. What can we do now?

The 10 year treasury note is yielding under 2%. Many, many stocks are yielding 3 to 10%. Who is going to be better off? The person who owns the Tnote, paying under 2% or the person who owns the Dow stocks paying 4%? Is volatility going to magically vanish? Not likely. With high frequency trading, computer generated buy and sell programs, with the daily droning of news coming over CNBC, volatility is here to stay.

At this time we own 28 stocks, 25 of them dividend payers. The average dividend payout is over 4%. We need to look at stocks like we use to look at bonds. We use to ladder bonds (we'd own 2 year, 5 year, 10 year bonds) When the bonds matured, we bought different maturities. Now, as equities with good dividend yields break, we add more, and as they rally, we subtract part of the position, not unlike what you have seen with the drugs, tobaccos, and phones over the years.

I'm not sure what will force investors to get our of their fetal position. But they will eventually. When they realize doing nothing is more risky than doing

something. When they realize to survive they need to risk, they need to risk to begin living again. There is a \$4 trillion on the sidelines. I believe eventually this money will wend its way into the equity markets. Technically, when the Dow makes it to the 13000 area, money will start pouring in. When the Dow gets to the old high, 14000 area, the money will be gushing in. I said when not if. If I'm right in the next 2 to 3 years, the Dow could be at the 18000 level. If I was to surmise what the range of the Dow is going to be this year, I would hazard a guess from 10500 to 14800. We have been in a secular bear market for 12 years with counter trend cyclical bullish rallies. I think this is the year that we break out of the bear market.

Yes, Europe is still an albatross around the USA's neck. Their banking system is a couple of years behind ours. Our market is reacting less and less to their chaos. Most of their bad news has been discounted in our market. It looks to me like we are beginning an uncoupling from their problems. If you lived in Europe, would you rather own

their bank stocks or ours? I know your answer is neither. But; the point is our banks are much healthier than theirs.

I believe there are better days ahead in America. Confidence is the watch word. It will come to the forefront once again. The stock market will rise, jobs will be created, and the housing market will stabilize and rise again. Do not give up hope. I think the future is a lot rosier than it was 5 years ago, and 3 years ago, and 1 year ago.

Ed

*I've never been poor, only broke. Being poor is a frame of mind. Being broke is only a temporary situation.*

—Mike Todd, 1958

*People's spending habits depend more on how wealthy they feel than with the actual amount of their current income*

—A.S. Pigou