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Black Swan Flyby

The Lebanese-American financier and philosopher Nassim Taleb published a much-acclaimed book a few years ago entitled *The Black Swan*. The reference is to an extremely rare, indeed mathematically improbable, event. The securities industry takes great pride in its emphasis on the value of high mathematics. Still, Taleb wrote, we have this phenomenon, this black swan, so improbable we may think of it as statistically irrelevant. The problem, as the Nobel laureate math geniuses at Long Term Capital Management learned, fatally, a decade ago, is that these highly improbable Black Swan events happen, they do. These guys calculate everything--*Everything*--and then along comes this Black Swan such as nearly brought down the financial system a decade before the catastrophe of 2008. The only good news about that flyby is that it may have helped prepare us, to a small degree, for what was to come.

These things happen, these Black Swan events. You know where I'm heading: the earthquake and tsunami in Japan and the partial meltdown of the nuclear power plant; the rolling riots in the Middle East, toppling decades-old regimes. Though not in the cross-hairs of the analyst, such happenings of course lie within the enormous realm of possibility. None seemed likely enough to intrude upon the calculations. They're a kind of miracle, and another miracle in the aftermath is how well the securities markets, particularly in the US, have held up.

Shall I explain how that miracle happened? Hey, it's a miracle! Initially, our markets did decline. As I've said in recent newsletters, we were due for a breather and we got it. (My indicator was at 80% and dipped to the mid-60s.) Uncertainty ruled, particularly with respect to the nuclear power plant crisis in Japan as well as concern for the economic fallout there. And there are lingering debt issues in Europe. As the situation began to come under control – not that it's really under control yet – and the likelihood of one third of Japan becoming uninhabitable dissipated, markets began to stabilize. Money started to flow to US markets because we are still – in spite of our own budget woes and massive debt crisis – one of the safest places for capital.

As the crisis was unfolding in Japan, an article in the *New York Times* declared the cost to the world of this disaster to be "uncalculatable." As one example, we're in a world where manufacturing is based on "just in time" delivery of parts to a manufacturing plant. Any disruption in the supply of parts, a great number of which come from Japan, can cause an assembly plant to shut down practically overnight. The interdependency of our global economic system has numerous benefits. Then there's the rustle of wings as a mysterious swan passes over head.

The future is as murky and troubled as a plutonium tainted district in Japan. The best news comes from the Sage of Omaha, Warren Buffett. His take is that the US economy is gaining ground month by month. I suspect he's right, which would help account for market resiliency. We are approaching that time of year, however, when the markets tend to pause, slip back or, at best, move sideways for several months. The old Wall Street saw is "sell in May and walk away." Over the last 50 years, money has consistently been made in the November to May period and consistently lost in the May to November period. The graph is too clear to ignore.

Meanwhile, spring is here, the warmth we crave almost upon us, never mind the odd blizzard. Enjoy!