

November 2010

Another Horizon

Curtain opening on a historically interesting scene in the investment cycle. The quarter of the year we're in right now, a mid-term election year, and the first quarter of the following year have provided some of the better returns in the database. Theoretically, then, we might anticipate good returns in the markets for the next five or six months. As that guy in the sit-com used to say, however, always remember and never forget that the same kind of data mining indicated that September could be terrible and it turned out to be the best in decades. My indicator has reached 70, a high level but not an unusual one. Eighty is unusual and a strong sign that things will likely change in the near future. The market has been strong for the last 8 weeks; more investors — no mystery here — are drawn to such a market.

That said, America's economic health meanwhile remains less than robust. For all the reasons I've stated previously, the patient has a long and perilous road to recovery. One of my fears is that many of those unemployed may never find another full-time job. Some of these people are in their late 40s to mid-50s, quite willing or eager to work, but their jobs don't exist anymore or have changed beyond their qualifications. A tough enough problem in a good economy with no deficits, the prospects as things stand are altogether chilling.

The Federal Reserve is continuing its efforts dubbed Quantitative Easing, part two, or QE II — which I submit was better as a cruise ship than it may be as an economic policy. If that sounds like I think the current Fed stance does not inspire confidence, you're hearing me well. Its tactic is to hold interest rates down (by purchasing long-term government securities), hoping the low interest rate will stimulate the economy. Straight talk calls this "printing money," an activity that doesn't usually end well.

Which brings me to the following investment thesis: with the US economy effectively in slow motion, the timing has never been better for expanding our horizons and enlarging our international holdings. Specifically, some developing countries, much more stable than a decade ago, many of them enthusiastically trading with one another and thriving from it, are more inviting as investment opportunities than our own country. Some will argue that such thinking and such investment may retard recovery in the US. What seems true is that this is not a case of either/or but a matter of judicious choosing across a spectrum of options. That's something of a capsule version of my views in a challenging time. As ever, I welcome your thinking on the matter.

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