Steeplechase Investments

Volume 17 Issue 1 **January 2013**

Fiscal cliff, deficits, debt. All the socio, political, economic watchwords we are saturated with on seemingly an hourly basis. It is reaching an almost feverish pitch. All this rabble rousing does absolutely nothing positive for the public psyche. What it does do is foment, engender fear, angst, and confusion. Firstly, all of this has never had nor will it ever have a profound effect on the stock market performance. On a short term basis, certainly, but not in any substantive way in the longer term. Deficits have always been caused by wars! Our country has always run deficits during and shortly after these conflicts. The War of 1812, the Mexican American War, the Civil War, the Spanish American War, WWI, WWII, the Korean War, Viet Nam, and presently the Iraq, Afghanistan and War on Terror have all been the main reasons for our deficits. Deficits abounded in every single circumstance. In fact, in the last 80 years, we have only run surpluses 6 times. At this time, we are immersed in an Age of deficits. And the political parties want to blame each other of course. The average deficit to GDP has been around 2%. During the FDR dictatorship, they ran around 4%. We are now at approximately 10% to GDP. You will hear that it is Obama's fault and that it is unprecedented. It is neither. The USA ran deficits in the 10% range during the Civil War, during the 1920's, during parts of FDR's terms, and during WWII. So we, as a country are not going down the path of perdition, the path of ruin. Going back to Martin Van Beren's presidency, we ran deficits. Those were cased by the financial panic of 1837, which was said to be caused by bank deregulation. That sounds a little bit familiar, doesn't it? Up till now, Ronald Reagan ran the biggest deficits in real dollar terms from 1983 to 1985. And may I remind you that the stock market rallied splendidly through those years. "Don't worry, be happy". A gigantic "wall of worry" has been erected, which is extremely positive for the stock market. So, the media is going to foment fear over the airwaves. I say, let them do it, the more the better. As long as this pervasive atmosphere exists, the market can rally. We need all those naysayers for a healthy market. We will get worried, we will get fearful when it starts looking rosy out there. And that won't happen for a good while.

Last year, the market played out pretty much as I expected. We had a lot of volatility, a lot of corrections, but they were primarily shallow in nature. We experienced the S&P downgrade of 11Euro nations, a record low in 10 years treasury yields, the Spanish banking crisis, we had the ill-fated attempts at austerity overseas, which I decried 18 months ago and said it would never work, we had Obamacare being ratified by the Supreme Court (primarily the work of Justice Roberts), we had the November elections, super storm Sandy, 8% "unemployment rate" Unemployment, and last. But certainly not the least, the "fiscal cliff". Thusly, we had many, many, events to keep us on edge throughout the year. One could say it was a pretty messy year. And through all of this morass, the market still kicked out some pretty respectable gains, the NASDAQ 16%, the S&P 13% and the Dow 7%. At Steeplechase, we had average gains of 7%, with the more conservative accounts up 5%, and the more aggressive ones around 10.5%. One third of the gains came from interest on dividends. Part of the year's gains vanished the last week of the trading year due to holiday low volume markets pushed around and manipulated by the hedge funds and high frequency trading firms. One is really at their mercy in volume trading environments like we see every year at the holidays. "While the cats away, the mice will play". In the first week of January when all the trading desks were fully manned and the mutual funds were back to work, the market regained all those losses and them some. We never quite reached my targets for the Dow and S&P, but we got relatively close. My assumption that in this calendar year, we will eclipse Dow 14,000, which should not be too much of a stretch. I foresee more volatility this year, ergo, I will probably be much more active. Bond yields have bottomed. Mortgage rates have bottomed. The real "tell" the real tipoff was a week ago Thursday, when the stock market got pummelled' the bond market got hit just as hard. It was the first time there was no safe haven rush to bonds. That has not happened in many market cycles. So, we will continue divesting in our bond funds. I think we will have somewhat of a whipsaw year, with the stock market, gold and bonds gyrating in wide ranges.

I thought I would give you a snapshot of a typical day in your money manager's life. Arise every morning@5:30, read 2 newspapers, get in front of the computer@7:30 go over watch lists of possible future buys, see how Asia, Europe and the stock futures are trading @8:30 the market opens, enter orders enter any buy and sell orders of the day. During the trading day, mostly tracking the broader market and our current market holdings for volume clues and determine if any stocks are entering interesting buy zones @3:00 p.m. market closes. Look over volume figures to determine if any our holdings are under "accumulation" (new buyers) or if any are under "accumulation" (new sellers)

@4:30 Health club till 6:00 p.m. From 9 to 11 p.m., run technical market scan for any possible new buys of r the next day or week. There are usually 25 to 30 at any given time. Finally, get some "shuteye" and start all over the next day. Sometimes, it feels like Groundhog Day and sometimes it feels like Super bowl Sunday. We still have a lot of Big Cap stocks but I started rotating into small and midcap stocks in November and December. My guess is that they probably outperform this year. The last month has borne that out, I believe. The broader market was down in the 4th quarter and we were up. Part of it was the outperformance of small and midcap stocks. They generally do lead the first part of the year.

A healthy and happy new year to all.

Ed

If you destroy a free market you create a black market. If you have 10,000 regulations you destroy all respect for the law.

—Winston Churchill