Steeplechase Investments

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I see a red door and I want to paint it black. No colors any more, I just want them to turn black. Mick Jagger entertained us with this song many market cycles ago. The economy has turned from red to black. Fortune 500 companies' balance sheets have turned from red to black. The stock market has turned from red to black. And our accounts have turned from red to black. The economy is on solid ground. All indications are that the economy is on an upward ascent. The unemployment figures are even starting to show signs of healing. Unemployment numbers are a lagging indicator. They are always the last to turn upward. The stock market, on the other hand, is a leading indicator. For the last 6 months, the market has been signaling the long awaited upturn. My best guess is the economy and the market stayed down longer this cycle because of the dreadful effects of 9/11. The ensuing 13 months will be fraught with uncertainty however. Why is that? Because we are coming into the season of lies, deception, and false promises. That wonderful pastime (no, not the Cubs winning the World Series) called the presidential election. So our roster of pols will fill the airwaves with garbage spewing from their mouths. So, there will be a lot of "refuse" scattered around. Buy yourself some earplugs, turn the music up loud, or turn off your TV sets. No, we can't do that. It is too much fun watching all the fakes, counters, and reveres that our pandering politicians have in store for us. Their game plan is simply to "win" at <u>any</u> cost. Vince Lombardi would be proud of them, I am sure.

I have been queried by a few people as to why we are holding so much cash in our accounts. The answer is very simple. Bonds are overvalued. I am not going to be spending our money on bad investments. The gigantic difference between Steeplechase and other managers is, I am in the business of making money <u>for</u> you, not <u>from</u> you. Other shops will certainly buy bonds for their clients whether they are pricey or not. The answer is, I think, three-fold. (1) Their "models" in their sales presentation state that you will have X% of equities, X% on bonds, and X% of cash. That is all fine and good, except I have never understood how that works if stocks and or bonds are overvalued. That way, one is starting behind the eight ball from the "get go". (2) They are not prescient enough to understand when different asset classes are either undervalued or overvalued.
(3) The overwhelming reason is there are expensive commissions attached to the sales of their products (read-bonds, annuities, insurance, and hybirds.) We do not make commissions on anything at Steeplechase and we will <u>never</u> in the future. I hope that straightens out any misconceptions that anybody has.

So, bonds are still very pricey. If the 10 year treasury were to trade around the 5% yield, I would be interested in purchasing them. The yield has rallied from all time lows in March to where they are today, around 4.2%. This repricing of bonds has caused a virtual blood bath for anyone that bought these products in the first quarter. Amazingly, "coincidentally" that is when a virtual slew of Wall Street analysts were recommending their purchase. Of course, these same analysts are saying the "easy money" in stocks has been made. If it was so easy, why weren't they telling people to line up their wagons and fill them with stock? There is no such thing as "easy money" in the stock market. Unless one is a "time traveler" and can go back in time and buy. Or maybe if they were an accountant for Enron.

In the last newsletter, I stated that the market still had some legs to it. The 3rd quarter, indeed, was a positive one. The average account is up in the neighborhood of 10%.

That's about all I have to offer this quarter. I'll see you during the holidays. I have a small case of "writer's block." Thank you for your patience through the bear market. I know it wasn't easy for you. And it most definitely wasn't easy for me.

Ed

The less a man knows about th past and present the more insecure must be his judgment of the future.

—Sigmund Freud

In the market yesterday is a memory and tomorrow is a vision. And looking back is a lot easier than looking forward

—Frankie Joe