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A PEEK AT THE WEEK THAT WAS - May 11, 2013

DIRTY ROTTEN SCOUNDRELS!

Last week, a popular joke was doing the rounds among our hardworking congresspersons in Washington DC....

> Q. What do Martha Stewart and Raj Rajaratnam have in common with Nancy Pelosi and Harry Reid?
> A. Absolutely nothing....ha ha ha!

Whether that is actually a joke or not in DC, we have no clue. We just made it up.

But if it isn't, it probably should be after more legislative shenanigans that occurred a few weeks ago. And if you didn't notice it, you can be forgiven. Neither did we...until just last week.

What we're talking about is the very fast and somewhat sneaky passing of an amendment to the **The Stop Trading on Congressional Knowledge Act (aka the "STOCK" Act)** which was originally enacted to law on April 4, 2012. This heinous piece of ill-conceived legislation was originally passed to ensure that our esteemed congresspersons would be treated equally with the likes of Martha and Raj...should they be tempted to trade on anything that might be considered "inside" information. You know, those little snippets of valuable info that they might learn in committee or in a bar or in a bathroom....or in all three.

Not that our esteemed leaders have ever done that in the past of course!

Well..it seems that this legislation had become, shall we say..."inconvenient", hence the quick fix on April 15, while, quite paradoxically, most of us "little people" were struggling to get our legally mandated tax filings in on time. Per Wikipedia...

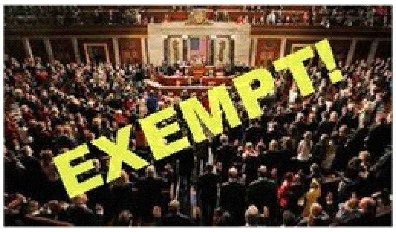
> *The STOCK Act was modified on April 15, 2013, by S.716. This amendment removes the online disclosure portion of the STOCK Act, so that affected persons can no longer file online and these records are no longer easily accessible to the public. [11] The reasoning for this change was to prevent criminals from gaining access to the financial data and using it against affected persons. This bill was introduced by Senator Harry Reid on April 11, 2013. It was considered by the Senate for 10 seconds and passed with unanimous consent. In the house, S.716 received only 14 seconds before being passed by unanimous consent.[12]*

Wow...24 seconds is all it took in both of the legislative branches. Who says they can't get along? Seems that our esteemed leaders certainly can act with bi-partisan pace and precision when it suits them. And the executive branch chimed in right on time. Even Obamus Caesar's own supporters are seemingly perturbed by his p rompt and silent acquiescence.

But folks, if this were not so tragic, it would be farcical. Basically, this amendment all but eviscerated the law that was supposed to halt insider trading in Congress. It effectivly eliminated the transparency provisions that would have made the trades of congress and related Beltway sycophants (staffers, aides, etc.) available to the general public...you know, the people who employ them!

Once again, we are exposed to the raw and unadulterated fact that there is developing in the formerly great republic, an aristocratic arrogance among our congresspeople which should both shock and offend each and every one of us. To read more about this atrocity, you can click here, here and here. Term limits anyone?

But, at least when it comes to insider trading, you now know the difference between Martha and Raj and Harry and Nancy...and the rest of our esteemed leadership crew in DC.



TWITTER JITTERS ROUND 2

We all know that two drivers motivate Mr. Market...**"fear"** and **"greed"**. When Mr. Market is fearful, he is depressed and sulky. Perversely, this is the time we like to hang around with him...not because we are masochistic...but because Mr. Market tends to cough up great deals when he is in a bad mood.

But when he is depressed, Mr. Market tends to scare most investors. People prefer Mr. Market when he is "up" and having a ball...like right now. People are greedy today. They're ignoring risk. The Volatility Index (the "VIX"), the market's so-called fear gauge, hovers around 13, which is close to the lowest it's been since before the 2008 crisis. Mortgage backed securities are once again in vogue. Real estate values are perking up. Commercial construction is hot again. All is good in the world!

And of course, Inventive Ben and his new pal, Happy Haruhiko (Kuroda) are helping to spread the cheer. $85 billion US dollars and trillions of Japanese yen being created every month have to go somewhere...and Mr. Market is as good a place as any...especially while he is so exuberant and excited...and greedy.

So this partty could go on for longer than many expect. But the more Mr. Market parties, the closer the smart party-goers will edge to the exit. When the fire alarm goes off, we suspect that the rush will not be for the slow or faint hearted.

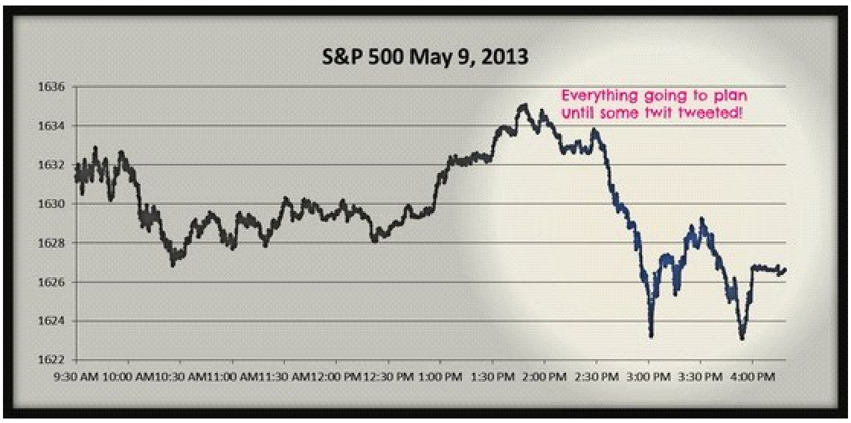
This is a nervous market. The partiers are increasingly looking over their shoulders to see who may be picking up their coats and putting on their scarves.

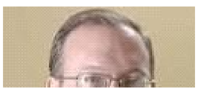
For example, on Thursday afternoon, a tweet from a twit sent shivers up Mr, Market's spine and almost caused him to drop his super-sized martini. Here's what our tweeter twitted...

Over/under on a 3pm Hilsenrath article hinting tapering is coming sooner than later

This rather innocuous tweet started a rumor that sent S&P futures into the toilet late in the day. It inferred that Ben might be one of those edging towards the exit. Take a look at the chart below to see what happened to the S&P shortly after this tweet...around 3 p.m. No less than a quick drop of 10 points or so. These types of cascades scare us at Craven Capital because they show just how much this rally appears to be based on traders and speculators having fun as opposed to serious fundamentals.

For those of you interested in such things, Jon Hilsenrath is a Wall St. Journal guy who is often perceived, rightly or wrongly, as the Fed's unoffiical "mouthpiece" (or as some have unkindly remarked...he is Ben's head plumber...as in "leak man"). All part of a kinder, fairer, gentler, more transparent Fed. Somehow, we preferred the gray of Greenspan....or even the violence of Volcker!

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WHO IS THIS GUY AND WHY SHOULD IT MATTER?

Seth Klarman is a billiionaire but he wasn't always a billionaire. He became one because he is very smart, very observant, extremely risk averse and unconventionally conservative. He is the founder and head of the Baupost Group and is also considered to be **one of the best value investors in the world**. From Wikipedia

Before founding Baupost, Klarman worked for Max Heine and Michael Price of the Mutual Shares fund (now a part of Franklin Templeton Investments). He founded the Baupost Group in 1982, which managed USD 22 Billion as of 2010. Despite his unconventional strategies, he has consistently achieved high returns. He is a very conservative investor, and often holds a significant amounts of cash in his investment portfolios, sometimes in excess of 50% of the total. He often makes unusual investments, buying unpopular assets while they are undervalued, using complex derivatives, and buying put options.

So for over two decades, he's regularly achieved significant double-digit returns for his investors while often keeping half his fund in cash.

In his most recent letter to investors, Klarman's had this to say (courtesy of Zero Hedge):

> Most U.S. investors today have a clear opinion about what everyone else has no choice but to do. Which is to say, with bonds yielding next to nothing, the only way investors have a chance of earning a return is to buy stocks. Everyone knows this, and is counting on it to remain the case.
>
> While economist David Rosenberg at Gluskin Sheff believes government actions could be directly or indirectly responsible for as many as 500 points in the S&P 500, or 30% of its current valuation , traders have confidence in Ben Bernanke because betting that his policies will drive equities higher has been a profitable wager.
>
> Bernanke, likewise, is undoubtedly pleased with these speculators for abetting his goal of asset price inflation, though we all know that he will not call them first when he decides to reverse direction on QE. Then, the rush for the exits will be madness, as today's "clarity" will have dissolved, leaving only great uncertainty and probably significant losses.
>
> **Investing, when it looks the easiest, is at its hardest.** *(emphasis added)* When just about everyone heavily invested is doing well, it is hard for others to resist jumping in. But a market relentlessly rising in the face of challenging fundamentals--recession in Europe and Japan, slowdown in China, fiscal stalemate and high unemployment in the U.S. – is the riskiest environment of all.

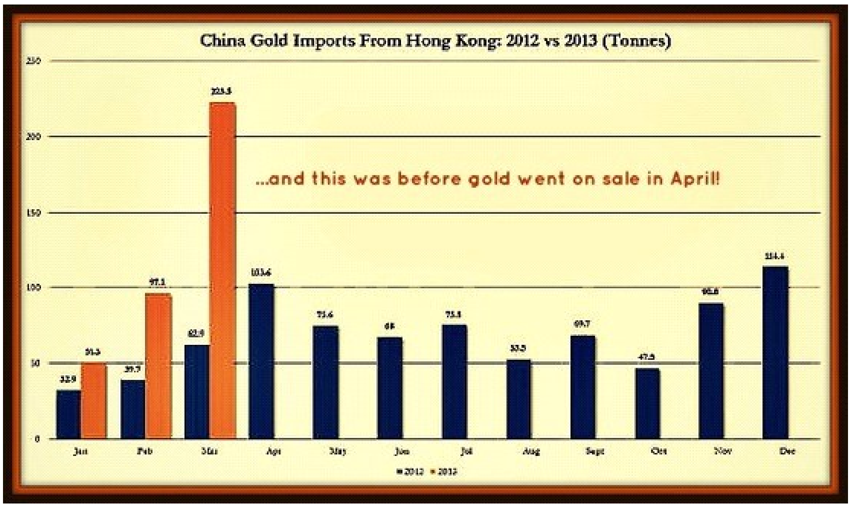
You can read more of what Mr. Klarman had to say here. And some more here.

We would be wise to listen to smart people like Mr. Klarman, especially when Mr. Market is imitating a whirling dervish in the middle of the dance floor.

CHART OF THE WEEK

Finally, let's take a look at the chart below, also courtesy of ZeroHedge, which shows the level of Chinese physical gold buying so far in 2013 compared with 2012. And this is buying that occurred **before** gold went on sale in April. Apparently sales of the shiny stuff went really nuts after April 15.   Bear in mind, China already produces more gold than any other country...and sells **NONE** of it outside the Middle Kingdom. And yet, there is still an apparently insatiable need for more. Gold may indeed get cheaper for a while but eventually demand will trump supply in the physical world.

So while Ben prints funny money, the Chinese horde the real stuff. Maybe we should too.



Til next week...

“Ignorance is the curse of God. Knowledge is the wing wherewith we fly to Heaven.”
William Shakespeare

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