

BEWARE THE PROPAGANDA

What is truth and what is fiction? It can be very difficult deciphering between the two these days because it is so difficult to know the incentive of who is reporting the information. We have received a number of questions recently from clients inquiring why we remain cautious in the face of such wonderful and optimistic news regarding the economy from the media and Washington Economic Establishment. Well, let me share a few basic facts and considerations that we keep in the back of our mind in the face of such positive news.

First, let's consider stock market projections. Barron's included the normal roundtable quoting various experts for where the stock markets will end the year. Not surprisingly, every one was positive. Remember, Wall Street has to sell a positive story in order for them to sell their products. **When was the last time any major Wall Street firm projected losses for the stock market for the year?** As far as I am aware – **never!** And also, many critics now claim “gold is in a bubble.” How would they know? How many of them successfully called the stock market bubble in 2007? Or the Oil bubble? Or the real estate bubble? Or the Tech stock bubble? *Better yet, how many of the people claiming gold is in a bubble have actually been invested in gold these past eleven years?*

Second, the so-called experts are claiming the stock market will rise because earnings are going up and stock prices will follow. Unfortunately, this logic is completely backward. The stock market is a **leading** indicator and a discounting mechanism. The stock market rises, amongst other things, in anticipation of rising earnings. It doesn't care about anything that has happened in the past, only what is coming in the future. Doesn't it seem odd that for all the fanfare and propaganda about the economy improving

over the past nine months that at the time of this writing the Dow Jones Industrial Average is only 581 points (approximately 5%) higher than it was in April 2010? If a double-dip recession is coming, the stock market will signal it long before the experts do.

Third, Chairman of the Federal Reserve Ben Bernanke recently said, “*Recovery Finally Taking Hold,*” reported on January 7th by CNN Money. Can it be true? Surely he would know. After all, he made this comment back in November 2007:

“Our forecast is for moderate but positive growth going into next year. We think that by the spring, early next year, that as these credit problems resolve and, as we hope, the housing market begins to find a bottom, that the broader resiliency of the economy, which we are seeing in other areas outside of housing, will take control and will help the economy to recover to a more reasonable growth pace.”

So if he was that wrong back then, what credibility does he deserve now? Besides, if everything with the economy is as good as is being claimed, then why is the Federal Reserve pumping **\$75 Billion** into the economy **every month** through Quantitative Easing #2 (i.e. printing money)?

Fourth, does anyone really believe GM is fixed? I recall back in the 1970's Amtrack was nationalized by the government. Shortly thereafter it was broken into two companies – Amtrack which remains nationalized to this day and Conrail which was taken over by private interests. For the past thirty plus years Amtrack has continued to rely on government subsidies every year (i.e. your tax dollars) to survive while Conrail has operated at a profit. Need I say more?

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I could fill pages with examples of headlines and stories that contain part-truths and fabrications. But these few illustrate my point. Besides, I don't want to leave you with the impression that there are no opportunistic areas in the current market environment. At the right price I believe there are.



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