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Diving Board Economics

As I assess the current market conditions I think back to a time when I was much younger and hanging out with my friends at the big public pool. You might have experienced a public pool like mine growing up — the one with the small spring diving board and the huge tower right beside.

You remember experiencing a nice hot day with all your friends, just hanging out and acting silly. Next to you might have been a few serious swimmers staying within the ropes in their lanes. The line for the small springboard was forming, and cannonballs or superman jumps were being performed. If provoked enough you might try the belly flop, or sometimes by accident the flop just occurred. On a big belly flop, you had to do everything possible to hide your pain because the thud sound of your body just alerted all nearby viewers, and their eyes are upon you as your face breaks through the surface. Be calm, show no pain.

Every now and then you would see someone climb the tower. Everyone at the pool watched, as a belly flop from this level would surely be momentous. Most likely, the person on the tower had experience and, while not ready for the Olympics, they had some style and confidence. If you were one of my friends, then peer pressure to climb the tower and jump without killing yourself was a rite of passage. If you made the motion towards the tower, your friends egging-on increased, and the next thing you knew your foot was on the first step. You could still back out, but you didn't. You climbed a few more steps, and had crossed the point of no return. Then you reached the top and realized how high you were, also aware that it was not the cold wind causing your knees to knock. What happened next is what made your personal history, and the memories are either painful or happy.

The current political and economic environment is analogous to the pool and diving board.

1. Everyone likes having a good time, and rising markets make people happy. It does not matter how crowded the pool is, as there is always room for one more. Those inside frolicking mock those who did not venture into crowded waters.
2. No matter what chaos surrounds, some people stay in the lanes and focus on the goal at hand.
3. A monumental belly flop hurts, no matter how much you try to hide your pain.

4. The tower is high and scary, and should only be attempted by those that know what they are doing.

Currently, our politicians are high on the fiscal cliff tower and playing chicken with the American public, and the closer we get to it without resolution, the more the odds for a huge belly flop increase. I believe our politicians will come together before the election and announce a delay to the fiscal cliff, but I certainly don't see this resolved before the elections. The tower will remain to be climbed again tomorrow.

Germany, Canada, and a few other countries have done everything right and stayed in their lanes, but they are being drawn into the turbulent waters by those that were not as diligent.

Corporations have huge piles of cash, and we are in a low interest rate environment yet mergers and acquisitions are barely existent. This may be because of the fear of a public belly flop, similar to Bank of America buying Countrywide.

It is hot outside, and everyone wants to cool down, but it's hard to stay cool when there is so much heat. The noise around the world is sounding hotter to people that follow political economics. There is no shortage of reasons of why one should just stay out of the water, yet there are people having fun and enjoying the day.

Ultimately, the only thing that matters is arithmetic, and few people around the world will be splashing happily if we don't get our fiscal pool filled with life sustaining economic policies. So, I suggest we swim in the shallow end for now and let's watch others climb the tower and take big risks.

Sincerely,

Ian Goldey

Ian Goldey, Portfolio Manager

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