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## Regan MacNeil Market

This market makes my head spin and spin and spin; there is so much movement, that I occasionally want to vomit from all the dizziness. For those wondering who Regan MacNeil is, she is the character played by actress Linda Blair in the movie *The Exorcist*. When the movie was released in 1973, it caused quite a public stir as audiences watched this child actor become possessed by the devil. The movie was scripted and the producers of *The Exorcist* made sure to leave the door open for future sequels and more scary times of evil possession.

This current market has made many of us sick to our stomachs, from all the flip-flopping and spinning, also from the actions of politicians and business leaders on all continents. Has this type of turmoil happened before?

A favorite quote of mine from Mark Twain is: "History does not repeat itself but it does rhyme." Volatility is nothing new for the markets, and in 1973 we had Middle East wars, oil embargos, the Watergate scandal, and other headlines that can be easily transported to today's newspapers.

**What is different this time?** The difference is we are all connected more than any time in human history and the speed at which we are connected is measured in seconds. Imagine a world where information was once shared by a town crier yelling through a megaphone or a messenger jumping on his horse. Now, the world watches a Greek election on a Sunday to determine the price of corn in Iowa on Monday. This type of interconnectivity seems very convoluted and in many ways it is, which makes it one of the dangers with which we live in today's modern society. I recently attended a presentation by author William Davidow as he discussed his book *Overconnected*. Mr. Davidow is one of our country's leading venture capitalists with 30 years of experience and a background as an electrical engineer. In his book, Mr. Davidow examines the Internet and the dangers of all this connectivity and the need for examination into how humanity is processing all this information.

**What Can Be Done to Prepare & Benefit?** Unless the novelty toy, the Magic 8-ball, was to suddenly become accurate, then we must rely on analytics. I think it is very difficult and costly to have a portfolio of investments completely hedged against sudden headline news. Adjustments can be made to cash allocations, plus other strategies employed to reduce volatility, but ultimately the market will react the way it does on each event. Trying to predict or react to every headline would bring us back to the imagery of Linda Blair and her head spinning around and around.

Denial and Avoidance are two emotions that can greatly impact an investor. Sticking your head in the sand and denying that anything bad can happen is comparable to the opposite of being scared of everything and afraid to do anything.

In this investing market I think it is good to have Cautious optimism because of current headlines, knowing the opportunities for investments in an expanding world of seven billion people is appealing.

Back to Mr. Twains quote on history rhyming; 1973 was the start of a two-year American recession during which unemployment started at 4.9% and moved to almost 9%, very similar to today's numbers. During this period, you could have bought 10-year US Treasuries yielding 7.4%, but today the same 10-year yields a poorly 1.6%. Inflation was higher than today, but today's inflations is different because of items like energy costs and education. This volatile period in the world of 1973 presented opportunities. Just two years earlier in 1971, a group of engineers launched a company called Intel to sell computer chips and other technology hardware. Getting in early and rising out the storm is sometimes what is needed to make investments realize their potential.

Critical as well and harder to identify in this fast-paced world of interconnectivity, is change and its effects. Just look at your cell phone - Five years ago, the cell phone market was dominated by Motorola, Nokia and Blackberry, and today Motorola Mobile is now owned by Google, and Nokia and Blackberry are hemorrhaging cash while losing market share and their existence does not look promising. The cell phone disruptor 5 years ago was Apple and a business model that included 3<sup>rd</sup> party apps on a smartphone, plus an unheard of revenue sharing model with the carriers, with guaranteed minimums.

As your portfolio manager, I have widened my scope of investments to look at all opportunities worldwide. I still place a large emphasis on value- and yield-oriented strategies, which has led me to investments in France, Canada, Australia and anywhere I can find a bargain. We recently purchased for select accounts a high-yield bond from the issuer Earthlink. High yields are also known as junk bonds because they are not investment grade. I like this Earthlink bond because we paid less than par (under \$100 per bond) and the coupon was 8.75% with a yield to worse of 9.2% and only seven years of maturity. A lot can happen in seven years so I am not going to over-allocate a portfolio with any one issuer, but I believe the risk/reward ratio is one that I am willing to take in a current environment where interest rates are near zero. I look at the 9.2% as an opportunity while some others are looking at with fear.

In this kind of market, being scared is OK; but fear can be crippling, so the secret I believe is to have both eyes open and be opportunistic while others panic.

Sincerely,

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