



The Centre Cannot Hold

By Michael Lewitt, Editor, The HCM Market Letter
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*Turning and turning in the widening gyre
The falcon cannot hear the falconer;
Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world;
The blood-dimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all conviction, while the worst
Are full of passionate intensity.*

William Butler Yeats (1919)

Years of misguided fiscal and monetary policies led to the 2008 financial crisis. Now a refusal to shed these discredited policies and embrace creative and politically bold solutions is keeping our economy mired in high levels of structural unemployment and below-trend growth. In addition to the bugaboos of efficient markets and investor rationality that have led policymakers and investors astray for so many years, we can add a misguided faith in Keynesian solutions to debt crises, a near-religious belief that mild deflation must be avoided at all costs,¹ and uninformed media hype about the alleged benefits of mergers and acquisitions to the list of bad ideas that continue to lead economic policy and markets astray. As David Rosenberg, who has been far more prescient than most about the direction of the economy in recent years, has written, those who missed the current economic relapse “live in the ‘old paradigm’ world of recoveries occurring in the

¹Even James Bullard, President and CEO of the Federal Reserve Bank of St. Louis, notes in his now famous paper entitled “Seven Faces of ‘The Peril’” that “the relationship between deflation and longer-run growth is not as obvious as some make it seem.” (p. 17, fn. 17) Mr. Bullard notes that the United States grew rapidly in the late 19th century despite ongoing deflation. HCM is suggesting that this assumption, like many others that govern current economic thought, should be questioned. After all, despite the deflation that has plagued Japan for many years, that country has hardly fallen off of the map or descended into anarchy, and some would argue that it is far more civilized in many respects than many other countries around the world (including many Western countries). That said, the United States is a far more fractured society than Japan, and steps should be taken to prevent the types of societal instability that a prolonged period of deflation would bring.



context of a secular credit expansion and they have not updated their models to the realities of a secular credit contraction.”²

The evidence is clear that normal monetary and fiscal transmission mechanisms have broken down. And it is not simply a matter of poor execution, although the stimulus bills and mortgage remediation plans promulgated by the government were hardly paragons of efficiency or efficacy. It appears that the U.S. and global economies have reached the tipping point beyond which the majority of money creation takes place outside the control of governments and central banks. This condition should not apply in a true crisis situation in which non-governmental actors pull in their horns and government agents are empowered by panicked politicians to pull out all of the stops and literally flood the financial system with funds. In non-crisis times, however, the market should be willing and able to fund itself.

Unfortunately, due to the failure of policymakers to adopt the proper policies to stimulate growth (as well as the noxious anti-growth rhetoric and legislation promoted by the Obama administration), non-governmental economic actors (i.e. corporations and consumers) are again refusing to spend. As a result, the system has been seized by a massive paradox of thrift that is more akin to what one would expect in a crisis or near-crisis scenario. Policymakers learned the wrong lesson from Keynes. Rather than continued debt-financed government spending, they should have focused on this paradox of thrift that arises when corporations and businesses lose faith in leadership. Trying to cure a debt crisis with mountains of debt that will ultimately have to be monetized is enough to make anybody stuff their cash in the mattress and start building bunkers in their back yards.

Comparisons with the Great Depression are useful as far as they go, but they may not go as far as necessary to get us out of our current morass. The 21st century world and its economies are profoundly different from the early 20th century one that suffered a calamitous economic collapse. For one thing, there were leaders that people believed in; perhaps new ones will emerge now to replace the imposters who are currently in office. But the key to studying history's lessons is not simply looking for similarities between the past and present, but drawing the proper distinctions that can lead mankind to improve his current course of action. The current approach to solving our economic ills has been driven by a near religious fear of even mild deflation, and has taken the form of a purely Keynesian brew of government spending and artificially low interest rates that penalize savers. While Keynesian stimulus was needed at the height of the crisis, maintaining this approach once markets and the economy have stabilized is a recipe for years of below trend growth and extension of the boom and bust cycle that has characterized the last three decades of the U.S. economy. The Obama administration's economic team learned the wrong lessons from Keynes and from history.

² David Rosenberg, Gluskiin Sheff, "Breakfast with Dave," August 25, 2010, p. 4.



At the household, corporate and state government levels³, economic agents are shifting from spending to saving as they absorb the lessons of 2008 and pay the piper for previous profligacy. Only the federal government keeps spending like a drunken sailor, with federal spending having increased from \$2.7 trillion to \$4.4 trillion since the Democrats assumed control of Congress in 2007. (The Presidential veto pen has been put on ice, particularly when it comes to preventing unnecessary spending. Presidential leadership means saying no to the strong, not to the weak. It means standing up to Wall Street in action, not just in empty rhetoric.) The individual savings rate has increased from 1 percent to 6 percent and is likely to rise further without an improvement in consumer confidence. This savings phenomenon is evident in the drop in credit card balances, which hit an 8-year low in July. Corporations are bolstering their balance sheets with cash and engaging in a massive paradox of thrift by conducting business in a manner that benefits them individually but harms the economy collectively because it limits hiring and spending. The primary reason corporate profits are rising is that companies are limiting their hiring and cutting back on discretionary spending. To the extent they are increasing capital expenditures for expansion, they are doing so in a manner that is inimical to job growth. Revenues are beginning to increase, but corporate managements are not running out to hire new workers in a world where employing someone is taxing and aggravating.

A word also needs to be said about the false hopes being placed on the nascent boom in M&A deals. The only ostensibly positive thing these deals do is boost short term stock market prices of the companies being purchased. The thought that M&A activity is a signal that corporate managements are gaining confidence in the future is completely misplaced. In fact, quite the opposite is the case. Corporations seek out acquisitions when their existing markets run out of growth prospects. Having lost confidence in their ability to grow organically, managements look for new markets to conquer in order to maintain or stimulate growth. Two more points should also be made about mergers. First, many studies have shown that the majority of mergers do not produce the results that are intended. The challenges involved in combining different companies and cultures are significant, and more often than not enormous resources are wasted in the process. One need go no further than to study the enormous write-offs that have followed so many mergers to see this point. Second, the mergers being contemplated are the last thing needed by an economy with a structural unemployment problem. Virtually all mergers result in so-called "redundancies," which is a polite word for layoffs. If there is a merger wave right now, it will only make the unemployment situation worse.

³ State governments are required by law to balance their budgets.



HCM's reform plan

HCM would propose the following reforms that we believe would restore market stability and investor and consumer confidence. We discussed some of these in our *Barron's* interview on August 30, 2010:

Tax Reform: The tax system should be used to encourage productive investment activities and discourage speculation and unproductive economic activities. Unfortunately, our current tax system does precisely the opposite, and we can see the results lying in ruins around us.⁴

Tax Cuts: (i) a payroll tax holiday; (ii) incentives for companies to repatriate offshore funds that are spent productively in the U.S.; and (iii) investment tax credits for certain energy and infrastructure projects.

Tax Increases: (i) a tax on speculative investment activities such as LBOs, algorithmic trading, and unhedged derivatives trading; (ii) revocation of the carried interest tax for private equity (not for venture capital); and (iii) revocation of the Bush tax cuts for incomes above \$1,000,000.

Spending Cuts: (i) entitlement reform (raising the social security retirement age to 70); (ii) end the war in Afghanistan, which is unwinnable and unaffordable; and (iii) cut all non-discretionary spending by 5 percent and then freeze it for five years.

Regulatory Reform: (i) ban naked credit default swaps; (ii) ban off-balance sheet vehicles used to hide assets from regulators and investors; (iii) ban flash trading, dark pools and all forms of high frequency trading; and (iv) bring back the uptick rule on short-selling. FINREG missed the boat by allowing naked credit default swaps to continue in existence and failing to aggressively address flash trading, which has scared investors out of the stock market. These activities render the markets remain highly unstable and subject to certain future blowups.

The death of equities

Mutual fund flows and other evidence suggest that investors continue to flee the equity market. The straw that broke the camel's back may well have been the May 6th "flash crash," but the creeping dominance of algorithmic trading as well as a lost decade of equity performance were already shaking confidence before the market inexplicably plunged hundreds of points in the blink of an eye last spring. Nonetheless, HCM finds it amusing to

⁴ While taxing consumption rather than income (especially savings) has many merits, there is a significant possibility that such a tax regime could exacerbate the paradox of thrift that is currently causing consumers and businesses alike to pull in their horns and reduce spending. This aspect of a consumption tax merits further study although the idea has a great deal of appeal.



hear reports about the death of equities when the S&P 500 is still trading at 1050 and the Dow Jones Industrial Average at over 10,000. Talk to us about the death of equities when we reach 500 on the S&P and 5000 or less on the Dow – levels we don't expect to see anytime soon even in our worst nightmares.

General Motors IPO – Buyer beware

General Motors is clearly not ready to return to public ownership. Not only does the company remain highly indebted and in fragile financial condition, but it lacks the types of internal financial controls that investors have a right to expect from any public company, particularly one being sold to them by the U.S. government. The disclosures provided in the IPO prospectus suggest that the company's financial management is deficient, and it is no surprise that the government brought in a financially-oriented executive rather than an auto executive to fix the problem. **The company is in no shape to go public and the offering should be avoided by investors at all costs.**

As a general matter, the woes of the U.S. auto sector have not been solved, and barring debt forgiveness by the U.S. government, it is difficult to see how the company has any positive equity value at all. The U.S. economy is slowing, and President Obama doesn't have another "cash-for-clunkers" rabbit to pull out of his hat. Accordingly, the recent strong performance of GM is unlikely to persist in the second half of the year.

On the financial side of the ledger, however, there are real concerns that should send investors running in the other direction from this offering. The company's global pension plans are facing a \$27.4 billion shortfall⁵ while using the unrealistic assumption that they will earn 8.5 percent on their U.S. pension assets and 7.97 percent on their non-U.S. pension assets in a zero interest rate world.⁶ The plans are supposed to earn such a return with the following asset mix: equities – 28 percent; debt – 42 percent; real estate – 9 percent; and alternatives, including private equity – 21 percent. The odds of achieving such a return are very long. Moreover, GM's annual payments to its U.S. pension plan participants were \$8.9 billion in 2008 and \$9.3 billion in 2009. The plans lost \$11.4 billion in 2008 and earned \$9.7 billion in 2009, which means that they lost \$1.7 billion over the last two years.⁷ How they expect to earn \$7.2 billion, or 8.5 percent, in today's treacherous markets is anybody's guess. A more reasonable return assumption would be half of 8.5 percent, or 4.25 percent, which would leave GM billions of dollars short of the \$9.5-\$10 billion that will be needed in 2010 just to keep up with its pension obligations over the next couple of years. In other words, GM's pension black hole is growing, not shrinking.

⁵ Source: General Motors S-1, p. F-85. This figure may actually be as large as \$32.3 billion when the effects of fresh-start accounting are applied. See General Motors S-1, p. F-86. I am indebted to the *Financial Times*' Tony Jackson for pointing out these pension shortfalls in an excellent column on August 23, 2010 ("Why the new GM is just a hedge fund in disguise") and for helping me with this analysis.

⁶ Source: General Motors S-1, p. F-87.

⁷ Source: General Motors S-1, pp. F-85-F-86.



Investors are likely to consider this pension shortfall no big deal – just as they did before the company filed for bankruptcy. Typical of the lackadaisical attitude of prospective investors is the comment of Morningstar Inc.’s equity analyst David Whiston, who told *Pension & Investments* that “[e]very automaker has underfunded pensions. It’s not as if it will scuttle the deal.”⁸ Mr. Whiston neglected to mention – or perhaps his quote was cut off – that two out of the three automakers was forced to file for bankruptcy in part due to unsustainably large pension obligations! GM’s pension plans are going to be a significant pull on cash in future years and should not be ignored by investors.

But there is an even more serious financial deficiency that the financial press and the government have either ignored or tried to shove under the rug: the company’s internal financial controls are deficient. The company received a qualified accounting opinion from its auditors because of this deficiency, which is an extremely serious matter for any public or private company. The following is from the “Report of Independent Registered Public Accounting Firm” that accompanies GM’s financials:

“A material weakness related to ineffective controls over the period-end financial reporting process has been identified and included in management’s assessment [of the effectiveness of internal control over financial reporting]. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the Consolidated Balance Sheet of General Motors Company and subsidiaries as of December 31, 2009 (Successor) and the related Consolidated Statements of Operations, Cash Flows and Equity (Deficit) for the period July 10, 2009 through December 31, 2009 (Successor) and the period January 1, 2009 through July 9, 2009 (Predecessor).

“In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2009...”

The company expounds on this deficiency on page 25 of the 600+ page prospectus (long prospectuses are never a good sign for investors) in the section entitled “Risk Factors.” The disclosure is somewhat lengthy but worthy of quoting here in its painful entirety.

“Our management team for financial reporting, under the supervision and with the participation of our Chief Executive Officer, conducted an evaluation of the effectiveness of the design and operation of our internal controls. At December 31, 2009, because of the inability to sufficiently test the effectiveness of remediated internal controls, we concluded that our internal controls over financial reporting was not effective. At June 30, 2010 we concluded that our disclosure controls and procedures were not effective at a reasonable assurance level because of the material weakness in our control over financial reporting that continued to exist. Until we have been able to test the operating effectiveness of remediated internal controls and ensure the effectiveness of our internal controls and procedures, any material weaknesses may materially adversely affect our ability to report

⁸ *Pension & Investments*, August 23, 2010, “\$26 billion unfunded liability won’t stall GM IPO, experts say,” p. 4.



accurately our financial condition and results of operations in the future in a timely and reliable manner. In addition, although we continually review and evaluate internal control systems to allow management to report on the sufficiency of our internal controls, we cannot assure you that we will not discover additional weaknesses in our internal control over financial reporting. Any such additional weakness or failure to remediate the existing weakness could materially affect our financial condition or ability to comply with applicable financial requirements and the requirements of the Company's various financing agreements."

In other words, **the financial data in the prospectus may not accurate**. In the good old days, it would have been unimaginable for a company lacking a clean accounting opinion to go public, much less one owned by the U.S. government. In today's lapsarian world, apparently, the lack of adequate financial controls is sloughed aside. The financial media should be ashamed for downplaying this issue. One can only imagine how severe the deficiencies had to be for GM's management and the government to fail to pummel the auditors into rendering a clean opinion. This is a bright red flag that, coupled with the other factors noted above, should steer investors away from this offering (or to shorting it if it is successful). This offering will be a major test of global investors' gullibility.

This leaves the question of what happens if the GM IPO fails. Failure could take the form of the deal being pulled, or pricing significantly below its initial price range, or trading down in the aftermarket. *HCM* would place the odds of one of these scenarios occurring as very high, with the most likely scenario being the government forcing a deal into the market that ends up trading poorly. Investor confidence in the equity market is already shaky; a failed IPO could be the tipping point that could seriously dent investor confidence and lead the market sharply downward.

A word should also be said about GM's management (or lack thereof). Much was made of the fact that Edward Whitacre allegedly decided to step down as Chairman of the company prior to the IPO. This news was greeted with a great deal of dismay by the financial media, but the disclosure of the qualified accounting opinion suggests that the company's financial operations are seriously deficient and that Mr. Whitacre and his financial managers weren't doing their job. It comes as little surprise to *HCM* that the company is lacking financial controls, or that management in this area needed a drastic facelift. As noted in the previous issue of this publication, Mr. Whitacre recently stated that General Motors had "repaid our government loan, in full, with interest, five years ahead of the original schedule." Only someone who was completely oblivious to the true financial condition of the company could have made such a statement with a straight face. Yet these words came from the Chairman! As *HCM* noted at the time, "General Motors had done nothing of the kind. It had repaid approximately \$7 billion of the almost \$60 billion of loans and other funds invested in the company by the government, and used \$7 billion of TARP funds to do so."⁹ The departure of the Chairman of a company who would make a

⁹ *The HCM Market Letter*, "This Is No Way To Run A Railroad," August 1, 2010.

¹⁰ *Newsweek*, August 15, 2010.



statement so much at variance at reality should trigger great relief, not the wringing of hands. Any responsible Board of Directors, especially one controlled by the U.S. government, should have shown Mr. Whiteacre the door upon reading such an overtly false proclamation. The fact that a change in management wasn't made immediately is another example of the dumbing down of this country's leadership. The American people deserve better.

The carried interest tax – The moral equivalency of war?

If the American people deserve better, however, they shouldn't look to the private equity world to find it. The industry has staked out its moral claim – on insuring that it pays lower taxes than the rest of us. It was recently reported by *Newsweek's* Jonathan Alter that The Blackstone Group's Chairman Stephen Schwarzman described the fight over the carried interest tax as follows: "It's a war. It's like when Hitler invaded Poland in 1939."¹⁰ *HCM* double-checked this story when we heard it because, frankly, we couldn't believe that Mr. Schwarzman would say such a thing. Alas, we were wrong – he did say it (and apologized a few days later, but everybody apologizes after saying what they really think and offending people). In the spirit of education, however, we would respectfully that we treat this as a teaching moment for Mr. Schwarzman. Mr. Schwarzman should fly his private jet down to the Walter Reed Army Medical Center and visit with some of the brave young men and women whose lives have been permanently altered by their decision to actually go to war on behalf of this country. Such a visit would undoubtedly lead Mr. Schwarzman to choose his metaphors more carefully in the future. As for where he wants to stake his moral claims, that's his business.

The end of private equity's love affair with Barack Obama is particularly ironic in view of the fact that the President has actually done very little to correct one of the most egregious inequalities in our tax system – the carried interest tax about which Mr. Schwarzman was so outraged. The fact that private equiteers can still pay taxes at a lower rate than the people that chauffeur them, teach their children, provide their security at home and abroad and fly their private aircraft renders a mockery of the entire issue of tax fairness. While the debate rages on about extending the Bush tax cuts, private equiteers continue to enjoy disproportionately favorable tax treatment on their socially and economically harmful activities that have contributed to the overleveraging of America. Every time I make this argument, I receive outraged responses from the denizens of the private equity industry. I have to say that I not only find their arguments intellectually vacuous but morally repugnant.

In this light, we read with interest Daniel Loeb's recent report to his investors. We sympathize with Mr. Loeb's views of the Obama Administration's and Congress's truly destructive economic leadership. But in one respect Mr. Loeb missed the boat – his high praise for private equiteers who serve as corporate directors. Mr. Loeb noted that "Board

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fees tend to be irrelevant to the members of such firms [i.e. private equity firms] as they are keenly focused on strategies to deleverage and to create long/medium term shareholder value.” Mr. Loeb surely knows that the reason private equity board members don’t care about their directors’ fees is that their firms are already being paid egregious monitoring fees in addition to steep management and performance fees (the latter of which are taxed at capital gains rates due to the carried interest tax). One of the wonders of the private equity business model is that these firms have managed to get away with charging high fees on the capital on their funds and additional transaction and monitoring fees on their portfolio companies. Directors’ fees are just another form of monitoring fees and as such are of little importance to already overcompensated individuals who have little choice but to focus on deleveraging firms that they have grossly overleveraged in order to earn transaction and monitoring fees in the first place!

Treasuries/JGBs

Much attention has been paid to the summer rally in government bonds around the world. *HCM*’s earlier view that the benchmark U.S. 10-year Treasury yield would drop to 2.50 percent happened faster than even we expected.¹¹ Both 10- and 30-year Treasuries have rallied to levels last seen during the 2008 financial crisis, which were record lows. While current yields are not as low as they were during the crisis, certain respected commentators such as David Rosenberg expect them to breach those levels (and we wouldn’t bet against Mr. Rosenberg). In Germany, the 10-year bond is closing in on 2.0 percent and the 30-year bond yield has dropped below 3.0 percent, both of which are record levels. In Japan, the 10-year JGB spent much of the month of August trading below 1.0 percent. These levels are due to investor fears not simply about deflation but about the future in general. They speak to a lack of confidence in political and economic leadership around the world. While their worries are valid, investors should be wary of buying these securities at current levels.

Marc Faber recently wrote the following about U.S. Treasuries: “by historical standards we are near the lowest yields that Ten-year Treasuries ever had. Yet, at the same time the fiscal position of the US is at its worst considering all the unfunded liabilities...For me, to buy now Ten-year Treasuries is like buying the NASDAQ in 2000.”¹² Whether one calls what is happening to Treasuries a “bubble” or not, the fact remains that buying Treasuries at current levels is a very dangerous business. While inflation is a distant worry at this period in time as the economy continues to work through a debt-driven deflation, the mathematics of bond investing render the risk-reward of buying not only Treasuries but JGBs or German bonds at current yields extremely risky. If one is buying to hold these bonds to maturity, in which case the return (absent a drastic deflation of all financial assets that is possible but unlikely) will be paltry. If one is not patient enough to hold these bonds

¹¹ *The HCM Market Letter*, July 1, 2010, “Deficits Monetary and Moral,” p. 4.

¹² Marc Faber, *The Monthly Market Commentary Report*, September 1, 2010, p. 6.



to maturity and will be tempted to sell earlier, the likely scenario is that sometime during the next ten years they will be worth significantly less than par when yields reverse due to an inflation scare. According to calculations on *Bloomberg*, a 50 basis point increase in rates would result in a total return of -5.64 percent on a 10-year Treasury bond. After that, the losses become much greater. A 100 basis point increase in rates, for instance, would return -13.5 percent (equivalent to a loss of 5.4 years of coupon income at a 2.5 percent yield) and a 150 basis point back-up would return -21.0 percent (equivalent to a loss of 8.4 years of income at a 2.5 percent yield). Since many of these trades are leveraged when they occur inside hedge funds, they can be especially painful when interest rates reverse.

The hedge fund manager Kyle Bass gave a very interesting and thoughtful interview on CNBC's Strategy Session on August 17 in which he made the case for shorting JGBs. He argued that Japan has reached what he termed the "Keynesian end point" – the point in time when debt service exceeds revenue. According to Mr. Bass, Japan is currently spending twice what it earns in revenues: "They are spending more than twice what they make. You just look at interest expense, debt service and social security expenditure, add those together, it's more than revenue. They are already in the Keynesian end point." He argued further that the traditional domestic sources of demand for JGBs are drying up and that Japan will have to look outside its shores for buyers of its debt, which will require higher interest rates than it has been able to pay in the past. According to Mr. Bass, "if they have to look externally to fund themselves they have to pay out 100 or 200 basis points [more]. Every 100 [basis] points costs them a billion in revenue and interest expense." Accordingly, JGB yields will rise and the price of the bonds will fall – sharply, he believes.

The key to Mr. Bass's short trade is the timing, although it costs very little to short JGBs since their low yield results in a very low carry cost for sellers of the bonds or credit default swaps on the bonds. Japan has demonstrated, however, an uncanny ability to stretch out time, so investors may be waiting longer than Mr. Bass expects for this trade to bear fruit. But at a cost of only one percent a year, the rewards could be great. The Keynesian end point scenario that Mr. Bass lays out for Japan, of course, would apply equally to the United States. The U.S. budget is currently on an unsustainable path that would take it to where Japan is currently stuck. As noted in footnote 1 above, the difference is that Japan's society is much less fractured ethnically than ours, and the social ramifications of a lost decade or two would likely be far more negative here than they have been in Japan. While the mild deflation of the type that Japan has experienced should not be considered a basis for further mortgaging the future of our economy, the U.S. needs to adopt economic and social policies that will prevent severe social upheaval (or worse) in the event that we are unable to avoid Japan's fate. We would do well to heed the lessons of history, which have shown that periods of rapid economic change for the worse tend to bring out the worst in people.

The Mexican killing fields



Earlier this year, *HCM* warned that the drug wars in Mexico posed a threat to the sovereignty of the Mexican government and to the American states that share a border with our Southern neighbor. Since that warning, the situation has deteriorated dramatically. The savagery has spread to Monterrey, one of Mexico's wealthiest cities, and the drug gangs have grown more brazen, enlisting corrupt police officers to murder the mayor of Santiago, a town a few miles from Monterrey. On August 25, Mexican marines found a mass grave containing 72 bodies in a rural location in Northern Mexico. The government has effectively lost control of the situation, and the threats of which *HCM* warned earlier are coming to fruition. But apparently we are the only ones worrying about the investment implications of this bloodbath; global investors continue to ignore the situation. Mexican credit default swap spreads (the cost of insuring against a Mexican sovereign default) were quoted at about +115 basis points in mid-August, an absurdly tight spread for a country facing anarchy. Investors in Mexican debt and equities are duly warned – again.¹³ This Black Swan is carrying a gun and is not afraid to use it.

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¹³ Our friends at ISI have put out a report forecasting a sharp slow-down in Mexican growth based on the strength of the Peso and lower exports due to slower U.S. growth, but also point to drug violence as an unusual headwind to growth.



Disclosure Appendix

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