

OPINIONS & FACTS...

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Glancing Back

With an almost 70% increase from the market low on March 9, 2009 we were bothered with only a slight dip early this year. The domestic and global markets have recovered beautifully from the biggest downturn since the Great Depression.

“Mystery Solved?”

We have written recently about the mystery of while being in the midst of a bull market, we have been surprised that money flowing into stock mutual funds has not resembled a rushing flood. We recently observed that possibly an answer to the slow net in-flows into stock funds at this time is not unprecedented.

There have been four bull markets since 1987, including the one we are currently in. During the first 12 months of the 1987 bull market stock funds saw \$16 billion in net out-flows, but that was followed by a cascade of more than \$4 billion in new money over the *following* year. A similar occurrence showed in the 1990’s bull market, \$27 billion was invested the first year and more than \$70 billion over the *next year*. The first year of the bull market that began in late 2002, saw about \$90 billion in net stock in-flows jumping to \$190 billion in the *second year*.

Generally, the thought is after the tremendous market that started on March 9, 2009, people who had left the market and sitting on the sidelines were hesitant to come back in, fearing a deadly whipsaw missing one of the biggest upticks in history. Simple **worry** over health care reform, cap and trade and the continued discontent initiated by the Federal Government has cost many people many dollars.

“So what should we consider: the same truths we have always recognized?”

By utilizing experienced money managers providing services at low cost, with minimum portfolio turnover,

you can do pretty well by staying with the market during tough times.

Historically, every time the market has turned into a bear, it has always come back as a bull: sometimes sooner, sometimes later. But by simply fine tuning portfolios during flat and down markets you are very wise to keep your money invested in well managed, well serviced equity mutual funds.

The major mistakes that we all have made over the years are that we wait until the market turns until we make our acquisitions of both domestic and global investments. This truth, like the market’s propensity to turn up after it is down, can cause us to shun any idea of buying when the price of stocks is reasonable. This is the way it has always been...except for professionals. As you know, we believe that professional managers know more about their jobs than you do. **Faith is an important thing, especially when you are with full knowledge of who handles your investments.**

An end of the Quarter Opinion...

According to a March 12, 2010 *Wall Street Journal* article, stock markets are worldwide sometimes thought of as “textbook delusional – paranoid – schizophrenic, not knowing the difference between the real and unreal.” Generally speaking, misapplication of capital invested is caused by bad government policy. According to a *Wall Street Journal* article, starting in the late 1990’s when the internet boom began, the FCC Chairman, Reed Hundt’s misguided telecom reform that had the effect of keeping data rates artificially high, created a gold-rush to install fiber and build applications that didn’t make economic sense. Bad policy meant capital became over allocated and too quickly, which drove up stock prices of every company with dot-com in its name for absolutely no fundamental reason.

That’s when the Federal Reserve (another quasi-government organization) flooded the system with money, fearing the banks would crumble under the threat of Y2K problems. As you recall these

“catastrophes” never occurred, but the money ended up in the market, which bottomed in October of 2002.

Then, 9/11, accounting scandals at Enron, WorldCom and elsewhere brought the infamous Sarbanes-Oxley law. This extreme government fiasco added a complex regulatory burden so that many companies feared going public because of legal issues. Once again the cheap credit door was opened and money was plentiful.

Enter stage left: private equity and sub prime real estate mortgages. (Why didn't somebody figure that if you couldn't afford to buy a house you shouldn't be loaned the money to do so.) Now our generous government stepped in by patting Fannie Mae and Freddie Mac on the shoulder and said, “Go to it!” Add leveraged buy outs to the mixture and according to the above mentioned Journal article, in 2007 one Blackstone private equity fund raised almost as much money as all of the venture capital industry.

“And the beat goes on...!”

Then comes along the new bear market and more easing by the Fed. Fed Chairman Ben Bernanke and his regional captains pumped more dollars into a de-leveraging economy with more cheap credit. Not to be left out of the game, Congress and the Administration are set to return capital gains taxes to 20% - 28% from 15% in 2011 along with Federal income taxes taking only its first step upward to 39.6%.(Stay tuned. More to come, at least until November 2012.) And during this nightmare... a double dream occurred: ObamaCare passed. We'll not report what appears in our crystal ball and what we believe looms in the near and distant future regarding this senseless bill. Who thought up the rule that spending more money will reduce spending? And where in the Constitution does it say or imply that medical care (unlimited) is a Civil Right? (And don't refer me to the “Commerce Clause” and use this as the lame excuse to force Americans to buy health insurance.) Set the table for “unintended consequence” for the Democratic Congress, and include a large order of “if you broke it, you buy it”.

“Let's stop, think, and use some common sense...”

As we review the current confusion about healthcare, energy, banking reforms and tax rates maybe it's time that the public and institutions look ahead, rather than back at yesterday's headlines. By doing that they might visualize investments that drive productivity increase

and higher living standards rather than paper profits. To quote Mr. Andy Kessler, a former hedge fund manager and author of “How We Got Here”: *“You don't tell the market what to do. As we know, a negative S&P 500 market over the last 10 years has frightened many investors. However, the market works in weird ways and makes these transitions in the fog of something else; in this case it's the Fed's life support that is misallocating capital. When that ends, look for new eras to begin.”* **Our comment: it soon will end.**

And when this happens, smart investors will rely on experienced, professional managers, rather than week-old market tips and publishing naysayers.

That's our take...Yours is welcome.

“Let me see that commercial again.”

Am I wrong? Or is the character I see on television advising Americans to buy gold from his company - is this goofball Gordon Liddy? Isn't he the same guy who engineered the Watergate break in and brought down the Nixon Administration? Why would anyone trust this guy to tell him where to invest his money? An even better question: why would any company hire him to be their spokesperson...?Other golden thoughts: if the dollar is going to lose its purchasing power as Mr. Liddy says and gold would solve that problem, why would Mr. Liddy want to give up his gold for my dollars?

**“No matter what you think, we love this country!”
“...and so does Bill Gross.”**

Washington says that the American people are good, but need guidance – from Washington. The middle class is anxious, and its fears can be soothed – by Washington. Washington can “make sure consumers...have information they need to make financial decisions.” Washington must “make investments”, “create” jobs, increase “production” and “efficiency.”

“Question: what has become of the American Nation? Conceived with the vision of liberty and justice for all, we have descended in the clutches of corporate and other special interests to a second world state defined by K Street instead of Independence Square. Our government doesn't work anymore, or perhaps more accurately, when it does, it works for

special interests and not the American people. Washington consistently stoops to legislate 10,000 pages which are clearly perversions of healthcare, regulatory reform, defense, and budgetary mandates overflowing with earmarks that serve a monied minority as opposed to an all too silent majority. A recent NBC/*Wall Street Journal* poll reported that over 65% of Americans trust their government to do the right thing “only some of the time” and a stunning 19% said “never.”

Bill Gross, Pimco founder and co-CIO

Policies which bring back memories of...

A quick glance at the current administration’s tax plans shows us this. **Item:** faced with a 23+% capital gains tax, high income investors will avoid realizing gains in taxable accounts unless they had offsetting losses. **Item:** in looking at history we will find the evidence is clear that when marginal tax rates go up, the amount of reported income goes down. Why doesn’t someone in either party recognize that? Economists call that “the elasticity of taxable income” the evidence of expert research studies have found that the fraction of tax revenue lost from *behavioral responses* would be 43.1%. Does Washington, actually believe when productive Americans face a 45% to 55% marginal tax rate, they simply pay it and not do something about it?

Does anyone, besides me, remember what a relief it was to know that the tax rate during the Reagan era went from 70% - 90% down to 28%; how much more money we had in our pockets and how much harder we worked and how much more productivity resulted?

The belief that higher tax rates on the rich could eventually raise significant sums of money over the next decade is a dangerous and deadly delusion because it means the already horrific estimates of long term deficits are seriously understated.

And so you’ll know that we’ve never seen a glass half empty, here’s a quote we agree on.

Quote of the month

”The US is on the verge of a demographic, economic and social revival, built on its historic

strengths....and good at disruptive change, America always excelled at decentralized community building. It’s has that moral-materialism that creates meaning-rich products. Surely a country with this much going for it is not going to wait around passively and let a rotten political culture drag it down.”

David Brooks, *New York Times Op Ed page*
Tuesday April 6, 2010

Joseph E. Hawley

John Dickers

Tom Hawley

Sammy Byrd



“OK BOYS. HERE’S THE DEAL. WE’VE GOT A PANEL OF WALL STREET FAT CATS WHO KNOW 20 TIMES WHAT WE KNOW ABOUT THE STOCK AND BOND MARKETS. THEY’RE FABULOUSLY RICH AND WE’VE GOT TO FIND SOMEWAY TO GET OUR HANDS IN THEIR POCKETS OTHER THAN CAMPAIGN CONTRIBUTIONS. I WANT SOME ACCUSING SPEECHES THAT WILL MAKE THE PUBLIC THINK THAT GOLDMAN SACHS IS IN CAHOOTS WITH AL-QAEDA.”

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