

THE VIEW FROM PRINCETON

Market Commentary ♦ March 4, 2011

The toast, “May you live in interesting times” is fulfilled, and much more.

When in memory has the world been so fluid and so indeterminate? Have you talked to experts recently regarding the popular uprisings against the installed order in Middle Eastern states, and in states beyond? Reporting of events daily by media, and editorially in broader sweeps or deeper considerations, has no doubt taken a good portion of your attention, as it has ours. No matter. Predictions of experts and predictions of the ignorant seem to have almost equal status in terms of probability. Yet, stay in touch with the experts. Their understanding can plumb the depths of loyalties and passions, generations in forming, that underlie so much of what is unfolding before our eyes, ears, minds, and hearts. It is all beyond description, let alone prediction. There are no boundaries for the passions, long latent, now energized, and the consequences.

Notwithstanding the incomprehensibility, this cannot — must not — be minimized. Think big is the only advice that we would have for another. This genie is not going back into the bottle, and the influences and consequences are not ephemeral. Reformation is not likely to happen in orchestrated cadences or gentleness. The cacophony will sound more like an orchestra with powerful instruments and gusto without clear direction.

It is necessary, however early and difficult, to look beyond the events and the noise to that which could and might follow. It is all about a better world. The questions really relate to how the pace and discomfort will be expressed in the processes from here to there, by sequential events occurring for years. Remember, there was a greater France after the bloody horrors of firepower and the guillotine than before. Let’s not attempt to fit closely a comparison with the French Revolution, for the cultures, locales, and facilities are so different. Yet, human longings and aspirations are the central forces at work, and these have universal similarities, exploding sometimes violently if these have been long suppressed. *Libertie, egalité, and fraternité* are universal words. These have triumphed through great stress and agony in many languages and places.

So we would remind clients that we shall be attentive, but we shall be ever reminded that expectations have too many challenges to predict the pathways to significantly different orders.

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Meanwhile, we must welcome change when the evident objectives are hopefully worthy, and, as investment managers, cope with the consequences of uncontrollable change. Our daily duty on behalf of clients requires observations of events, perception of their possible consequences, and intelligent responses, whatever the degree of uncertainty. So, setting aside passions and fears for the moment, we scanned the farther outskirts of these uprisings to see what the influences mean to certain industries and investments by way of cost increases or constraints upon purchasing. We illustrate in three columns.

<u>Negatively exposed</u>	<u>Pluses and Minuses Largely Neutralizing</u>	<u>Industries which benefit (few)</u>
Tourism	Providers of products for infrastructure	Fuel production
Airlines	Providers of a variety of specialized products	Agriculture (impervious)
Restaurants		
Theatres	Markets in Latin America, and in other southern hemispheres	
Casinos		
Israeli based	The use of telecommunications facilities	
Food processors	Electric utilities get harmed with the cost of fuels, but should receive some increase in product revenues as being cheaper than energy from hydrocarbon fuels	
Varieties of consumer discretionary items		
Hydrocarbon based chemical companies		

The most significant of far-reaching aspects are seen in the breadth of the generalized effects of higher fuel prices and higher food prices, simultaneously compounding. These so constrain household budgets as to be preemptive to expenditures for other things. This will slow economic growth in North America, in much of Europe, and in many other regions. Also, the rise in fuel prices will be highly beneficial to those who are still providing fuel, but will be very costly to industries that use oil based feedstocks, of which there are very many. For many others, fuel costs are a high percentage of total production cost. Moreover, there will be generalized fears that are derived from the whirlwinds that can be spawned out of the greater winds originating in Middle Eastern nations. These will have some imposition on comfort, ease and optimism that will be impossible to measure; yet all shall feel and know their presence.

The geopolitical scale will also be altered, leaving winners, the not affected, and the losers. But it is fairly clear that those nations with whom cordiality with America is suffused with tensions (Iran, Russia, China and others) will have more positives than negatives as compared with the US and Britain. These two will have portions of both, but will have to cope with the embedded resentments in this part of the world that the chicane aspects of their policies have caused through generations. Whether these were good policies, or whether these were bad policies, is not the moment's issue. The issue is that there is evidently more resentment against the United States and Britain than there is against most other major nations, conditioning relative opportunities for influencing change. To some extent this is just a part of being big and leading. To some extent it is part of the process that did not begin just this year. For Britain, it began over a hundred years ago, and with America it began with short sightedness and excessively self-serving policies that followed World War II.

For the time being, we advise staying the course in fully invested positions strengthened with well-established vigorous companies.