

THE VIEW FROM PRINCETON

Market Commentary ♦ December 2012

THE BEAR WENT OVER THE MOUNTAIN

Recalling that our last (November) *View from Princeton* was broad-gauged, ponderous, and long, pertaining to foundation strategic guidelines, this communiqué intends to proceed in a lighter turn-of-the-year vein that might be more considerate of the reader. And, when meditatively looking into 2013, what should come to mind but that childhood limerick *The Bear Went Over the Mountain (to See What He Could See)*. Surely you remember this, but here it is again for current application.

*The bear went over the mountain,
The bear went over the mountain,
The bear went over the mountain,
To see what he could see*

*And, all that he could see was
The other side of the mountain,
The other side of the mountain,
The other side of the mountain,
Was all that he could see*

It is easy to feel sympathy for the bears when considering the circumstances of 2012. There were reiterated expectations of a “double dip” in economic activity, and the perennially extended Greek crisis would not go away. There were prevalent rumors of a fiscal cliff below, and — who knows — beaver dams might flood the valleys when the warming earth releases glacial avalanches. For creating anxieties, these formed attitudes into something like TV sitcoms, with instilled tensions comparable to the attraction that the lamp once had for the moths (according to the dull metaphoric economic literature on which many of us cut our teeth, so to speak). Thus it is not surprising that bears felt better all huddled together for mutuality of comfort — that is, huddled until the realities of the other side of the mountain are made evident.

When the winds of discord ebb so as to no longer drive aloft the debris of misconceptions, the eyes of bears will perceive how abundantly money truly is available, and at the lowest cost since the necessitously sponsored financing during World War II. Paradoxically, the landscape presents, also, the most prevalent mispricing of shares in the memory of living professionals. This is not easy to explain, but surely it is at least partially attributable to the evident heightened trading activity by managers (with other peoples’ money) that deal mostly in categories, indices, and derivative securities. Many of these “bundles” and derivative securities might be regarded as substitutes for discernment, thus, blunting the expression of discernment item-by-item, security-by-security. The conforming to inline pricing that balanced markets can provide item-by-item does not happen as before. These bundled substitutes for discernment and differentiation facilitate the computer deployments of such huge sums of money that general volatility in the marketplace happens more swiftly and less circumspectly, adding to volatility. Frequently, volatility is cited by rank-and-file investors as a cause of fear and reluctance to reenter their traditional practice of investing in equity securities.

Apparently, bears could not see so well from the 2012 side of the mountain owing to the acrid smoke of doubt, distrust, dissent, discord, and disappointment. Hope seems to have been suppressed deep within the visceras of the bears, or possibly just diluted by a lack of trust of the unforeseen. Without hope, all animal life is lacking. Thus, at this time of year we could benefit in renewal from verse as written in crestfallen sorrow by Alfred Lord Tennyson: *Ring Out, Wild Bells*. (You probably know, this is publicly read for broadcast in Sweden each New Year's Eve.)

*Ring out, wild bells, to the wild sky,
The flying cloud, the frosty light;
The year is dying in the night;
Ring out, wild bells, and let him die.*

*Ring out the want, the care the sin,
The faithless coldness of the times;
Ring out, ring out my mournful rhymes,
But ring the fuller minstrel in.*

*Ring out the old, ring in the new,
Ring, happy bells, across the snow:
The year is going, let him go;
Ring out the false, ring in the true.*

*Ring out false pride in place and blood,
The civic slander and the spite;
Ring in the love of truth and right,
Ring in the common love of good.*

*Ring out the grief that saps the mind,
For those that here we see no more,
Ring out the feud of rich and poor,
Ring in redress to all mankind.*

*Ring out old shapes of foul disease,
Ring out the narrowing lust of gold;
Ring out the thousand wars of old,
Ring in the thousand years of peace.*

*Ring out a slowly dying cause,
And ancient forms of party strife;
Ring in the nobler modes of life,
With sweeter manners, purer laws.*

*Ring in the valiant man and free,
The larger heart, the kindlier hand;
Ring out the darkness of the land,
Ring in the Christ that is to be.*

The 2013 side of the mountain has the potential to bring dramatic change in the misconceptions that laced the 2012 backside of the mountain, but probably only gradual change in the basic realities. On a worldwide scale, growth continues, and America's position in the worldwide growth pattern should sustain its recently regained position in the forefront of the parade. This, together with the resource-rich leading nations (Brazil, Russia, and China), will be beneficial to Europe, which appears to be capable of working out its difficulties of the past several years, now helped by rising exports. The underpinnings to the American stock market that enabled price advances during 2012 to exceed retreats will not merely be present, but will find greater expression in prices of equity shares and of many commodities, as the constraints of anxieties and doubts subside.

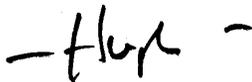
The most conspicuous, and one of the most important of anticipated changes will be the extended downward slope of prices of fossil fuels. This would be in striking contrast to the two-decades rise (illustrated by \$12 per barrel of crude to \$120 per barrel). Otherwise, the cheapness of money is likely to express itself more generally upward throughout materials, aided by persisting growth in most of the world. As another reversal of pattern (both welcome), valuations in real estate will generally increase. Residential values would support new building and help extend the turnaround which is but a few months old. We hope the outstanding show of virility of the resuscitated American automobile industry will continue; yet, such seems too good to be true. Having performed so well, just maintaining present volumes would be helpful.

It is the pervasiveness and persistence of gains, as contrasted with the strength and rapidity of gains, that is likely to be the key characteristic of the overall condition of commercial and industrial activity. Meanwhile, governmental expenditures at state and local level will increase slowly, following the rarely experienced contraction in such expenditures as that during the past several years. Federal expenditures will be trimmed in some areas, notably in military matters beyond America's boundaries, and probably will increase coordinate with state and local government expenditures for much needed infrastructure. Surely, that must be the hope of everyone who spends hours idling when traversing metropolitan areas by car, or irritated by air traffic delays at major terminals. And, it is surely not too much to hope for that some of the inefficiencies of public expenditures might be squeezed out of the healthcare programs — and for other subsidies, especially in agriculture and related, where subsidies are no longer appropriate. This could do so very much to allow debt reduction or the financing of infrastructure improvements. Of course, this is made to seem wishful and wistful by the congressional politics that created and supports such waste for the Nation, for sake of revenues to home states; yet, the opportunity is so obviously large it ever remains on a list of hopes.

Thus, it seems valid to celebrate the coming year with the good feeling of anticipation. Enjoy this perennial celebration which essentially is not so much a boast as it is a celebration of hope. Let's go with what we sing, and possibly find ourselves anew, in Katharine Lee Bates' poem, "America the Beautiful":

*Oh beautiful, for patriots' dream that sees beyond the years,
Thine alabasters cities gleam undimmed by human tears.
America, America, God shed his grace on thee,
And crown thy good with brotherhood from sea to shining sea*

HAPPY NEW YEAR!



Hugh Fitzpatrick



Ken Berents



Jim Fitzpatrick