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Trust Me

The men of the past had convictions, while we moderns have only opinions – Heinrich Heine

According to G. Gordon Liddy, gold is the only thing worth owning these days. NYU professor and economist, Nouriel Roubini, (who correctly called the latest economic meltdown) is calling for stocks to retest the lows set in the past 60 days. Mario Gabelli, legendary stock picker, says that stocks are at a generational low – he sees "10 baggers all over the place" (a 10 dollar return for 1 dollar invested). George Soros, who some consider the patriarch of the modern hedge fund, believes that anyone holding stocks for the long term is a chump. Many are anxious to give an opinion, but few hang around when proven wrong.

It always amazes me how two people can look at the same set of facts and come to exactly the opposite conclusion. I recently listened to such an argument about the state of the economy and the markets by two extremely bright individuals with brilliantly constructed arguments. The only conclusion I came to was that I had a headache.

After the aspirin kicked in I wondered - Are there fundamental truths about investing that are irrefutable? I think so.

There is no risk free investment. Government bonds have long been considered a "risk free" investment. In fact, other investments are typically benchmarked against these to judge the relative risk and return of the alternatives. Those who loaded up on Icelandic government bonds have found out though that their bond certificates may be more valuable for wrapping fish than paying interest.

Free Markets are messy. In a free market system (none truly exist by the way, but ours comes closest) assets are routinely mis-priced. Emotions about a particular investment, or for that matter the market as a whole can be wildly optimistic (remember how internet stocks were going to answer all the worlds problems in 1999?), or downright suicidal (remember the last six months?) driving prices hither and yon.

Free Markets get it right - eventually. Once the initial ebullience or depression wears off, prices reflect the true underlying value of an asset. When enough willing buyers and sellers get together they will separate the winners from the losers.

There is no system for correctly and consistently timing the market. If there were, everyone would use it and render it useless at that moment. This fact, however, does not deter folks from pitching their new and improved "system" for only 3 easy payments...

There is no system for consistently picking only winners. The "Oracle of Omaha", Warren Buffet, lost $25 Billion in net worth in 2008. I rest my case.

Stocks are scary. Need I go on?

A portfolio without stocks is scarier. In a world devoid of two things, taxes and inflation, cash investments would be sliced bread. As Mr. Liddy is quick to point out though (whilst shilling for gold in his commercial), the US dollar is worth 27% less today than it was in the year 2000. As short term shelter in a gathering storm cash is king, but keeping ahead of rising prices after taxes has never been cash's strong suit.

There will continue to be an international monetary system. As much as some folks would like to have it otherwise (see G-20 protests), money is here to stay. Money will continue to flow across borders in search of attractive investments and economies.

If you stand on the tracks long enough you will get run over. Reflecting on the events of the past year, we are currently reviewing a number of investment alternatives, judging their applicability for use in the future. Our financial system is incredibly dynamic. The trick is to recognize a truly revolutionary investment idea from a failed one with a shiny new wrapper. By the way Mr. Liddy, I guess congratulations are in order. In 2008, the price of gold eclipsed its previous high. It only took 28 years to get there.

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