

April 2015

Whistle Happy

“Who are you going to believe, me or your lying eyes?” – Groucho Marx

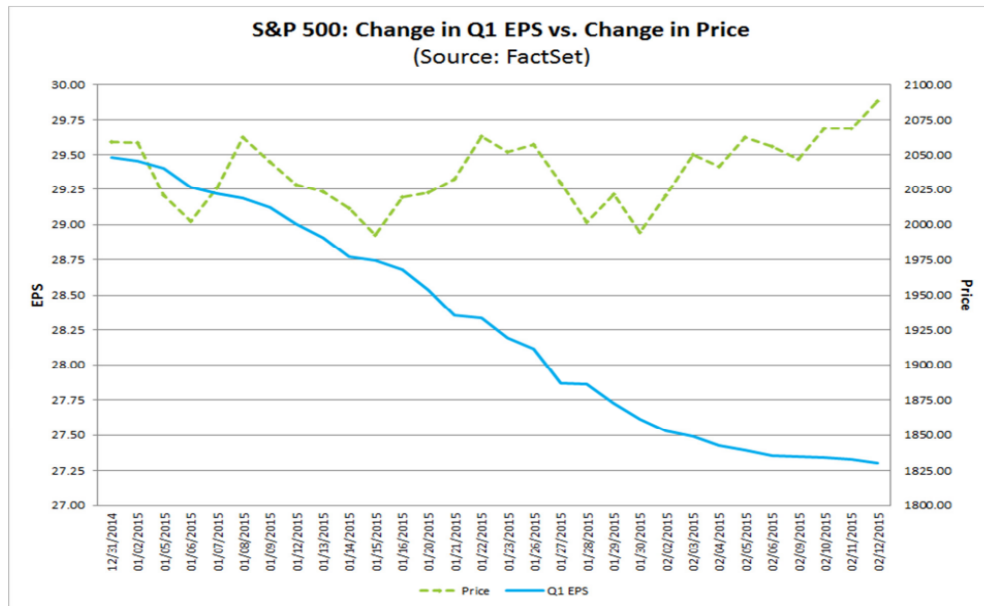
I wasn't the only one who witnessed it. Even *USA Today* saw it. It's headline this morning, “Duke's title was aided by awful officiating down the stretch”. We all saw it on replay, Winslow's finger touching the ball before it sailed out of bounds – me screaming at the TV, Kris looking away in disgust. Then she said it. “It looks like the refs are going to take over this game”. The officials awarded Duke the ball. They charged down the floor, hit a “three”, and the fat lady stood up courtside in full throated contralto. Now for the disclaimer; I'm a UW Madison grad, and a die-hard Wisconsin sports fan. Conflict disclosed.

Why do we need referees in the first place? I remember playing hundreds of pick-up games in my youth officiated by those of us on the court. When you made a bogus call, you were immediately dogged by the other team (and sometimes even by your own mates) until the call was reversed. The problem is, when the stakes get high enough, we get a nagging feeling that there should be an unbiased arbiter to keep things fair. The tricky part for the official is knowing when to step in to make a call and when to “let them play”.

Even more troubling is when an official favors one team over another purposefully. Enter Janet Yellin, in striped shirt, black tennis shoes, and whistle clamped tightly in her teeth. The Federal Reserve is convinced it knows who the winners should be, and will do all in its power to influence the game. It's a rigged game. The players know it, the spectators know it, but it's the only game in town.

Not convinced? Last Friday the federal government reported that the economy added 126,000 jobs in March. Not bad you say. It is, however, quite bad when compared to the average for the previous year of close to 270,000 jobs created per month. Air ball. Anyone that even slept through Econ 101 would have predicted that when the stock market opened on Monday, it would not be pleased with the news of a slowing economy, and stocks would fall. Cue the instant replay. Monday's markets closed with a nice rally for the S&P – up .65% for the day. (over)

OK, but that's just one measure. What else? How about earnings. Below is a comparison of the value of S&P 500 index versus the earnings expectations for the companies in the index, from the beginning of this year to February 12th (the most recent data I could find). The earnings expectation is the blue line and the value of the S&P 500 is the green line. Earnings are falling while the stock market is climbing. Ball touched.



When the referees are in on the fix, it's hard to know how to play the game. Players in this market have come to expect that bad news is really good news; that the Fed will likely continue its loose money, low interest rate policy for as long as it is able, and along the way pump up the price of stocks and real estate. Who is going to complain about a bad call when the call goes your way? The only losers are those that have sat on the sidelines, scratching their heads at the calls being made on the court, refusing to play. It will be interesting to watch how the players react when the Fed reverses its call.