



HAWK | Talon

HAWK 100

Monthly News from HAWK100

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More from DC

The U.S. government continues to hold rein on the most vital news developments. The flurry of recent events within the DC Beltway are setting a torrid pace of change in the U.S. landscape.

Senator Arlen Specter (PA) fled the GOP to join Democrats on Capitol Hill. With Specter's switch to blue, Dems move closer to filibuster-proof, one-party control of Congress. Specter made his name by breaking Republican party lines on hot issues so some in the GOP faithful are not upset to bid him adieu. Nonetheless, the GOP needs every ounce of power it can muster to slow the Obama revolution.

Associate Justice David Souter plans to retire from the Supreme Court at the end of the current term. Like Specter, Souter angered conservatives for his siding with liberal views on many contentious cases brought before the court since his seating.

The Obama Administration intervened further into the corporate world. Following last month's ouster of GM CEO Wagoner, Team Obama forced Chrysler into filing for bankruptcy protection. Bond investors balked at the move because the case appears to favor claims of the United Auto Workers over other creditors.

HAWK100 holds watch on DC to measure its strategic impact on your portfolio.

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To Solve a Crisis, Go to Disney World!

This April, I had the pleasure to attend CFA Institute's Annual Conference at Walt Disney World in Orlando, Florida. The yearly tradition presents the opportunity to interact with thought leaders and noteworthy personalities in economics, finance, wealth management, and marketing. It may take a while until my family and I acclimate into our Ohio home following a week at Disney's idyllic Grand Floridian.



Together, conference speakers built opposing arguments around views for the future of financial markets. The bulls see easing credit market pressures and hope for successful stimulus policies. We call them Goofy for their faithfully fun nature. The bears see universally overreaching regulatory, fiscal, and monetary policies that may constrict capital flow. We call them Donald Duck for their unnerving, quacking and complaining.

Goofy is counting on activist central bankers from around the globe to avert an economic depression. He points to green shoots rising from the economic dust, such as a recent spike in credit applications (albeit mostly refinancing old loans), as evidence that the turn is already proceeding. Goofy interprets a bottom from the recent recovery in stock and bond prices and sees huge buying power from cash positions on balance sheets of the Federal Reserve, corporations, and investors alike. The unleashing of trillions of dollars into the system could be Goofy's bullish elixir.

Donald Duck on the contrary sees long-term damage from aggressive fiscal and monetary policy actions. With the loudest quacks, he forecasts dire, unintended consequences from the build up of the Federal Reserve balance sheet. To put this in context, consider excess reserves. This measure of actual bank reserves in excess of regulatory requirements helps gauge whether monetary policy is relatively loose or tight and is usually near \$2 billion in loose times. In the aftermath of 2001 terrorist strike at the financial heart of America, the Fed pumped excess reserves to its then record \$30 billion. In August 2007, the Fed injected liquidity to free credit markets that were locked for the first time during this crisis. Then, excess reserves were \$4.8 billion. Now, excess reserves are pegged over \$724 billion.

Donald Duck is upset that the Fed has acquired unimpeded power while amassing unprecedented trillions on its balance sheet. The Fed's enormous balance sheet may cause inflationary consumer prices and has likely inflated a bubble in treasuries. Donald Duck fears that the U.S. has waning political capacity to effectively remove the monetary and fiscal excesses without embarking on a period of hyper inflation or potentially worse outcomes.

Donald Duck is also upset that populist outcry brought politically expedient intervention that has tightened capital and constricted business practices. These strictures have caused a real downward shift in America's ability to attract capital, to invest in ventures, and to create wealth. All are needed for a lasting recovery.



While Donald Duck has the most to quack about, it remains unclear whether asset valuation levels are presently overstated or understated. HAWK100 lacks confidence in the sustainability of the recent advance in stocks (S&P 500 is up 29% since March 9). Should the rally fail, HAWK100 is looking to protect your wealth against a devastating blow.

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