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HAWK 100

Monthly News from Hawk100

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What the Market is Saying

Stocks continued their upward tear during November. This month, the S&P 500 Index rose 5.7%, and the MSCI EAFE index of international stocks jumped 3.9%. What is the rise in stock prices during the last nine months telling us?

First, risk is back in vogue. The oft-quoted "investor fear index" or VIX measures implied volatility in option prices. Since March 9, VIX has declined 50.7%, so both hedgers and speculators are less afraid of volatility, or risk, in recent months.

Second, monetary supply is enormous. In its last report, November 18, the Federal Reserve shows bank reserves exceed required reserves by \$1.046 trillion. Banks have never had so much idle cash, and it has leaked into the stock market.

Third, the dollar is worth less (though not worthless). Dollar-based financial assets are appreciating rapidly in nominal terms, but not in real terms. Adjusting stock returns for purchase power parity, which considers the change in domestic currency prices relative to foreign currency prices, recent stock returns appear less severe, though still quite high.

Last, don't expect it to last. The Fed has frittered away its capital and political pressures are changing its purpose. This inflated bubble may soon burst.

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Falling Walls and Economic Tides.

November 9, 2009 marked the 20th anniversary of the Berlin Wall falling. That event has been viewed as the defining moment in the end of the Cold War. While significant, it was but the crest of a wave during a rising tide of economic and political freedom. That tide ushered an era of global prosperity as the former Soviet block of Eastern European nations opened their minds to capitalism and democracy.

I personally celebrated the Berlin Wall collapse by reading Romesh Ratnesar's *Tear Down This Wall*, a poignant tribute to U.S. President Ronald Reagan. Ratnesar explores the complex President and his administration, his relationship with former U.S.S.R. General Secretary Mikhail Gorbachev, and his boldly prescient 1987 speech at Berlin's Brandenburg Gate which helped bring down the Wall. I recommend the book to Reagan fans and foes alike.

In another prescient speech, his 1967 gubernatorial inaugural address in California, Reagan notes freedom is "never more than one generation away from extinction ... Knowing this, it is hard to explain those who even today would question the people's capacity for self rule ... If no one among us is capable of governing himself, then who among us has the capacity to govern someone else? ... An increasing number lately have sought to control the means of production as if this could be done without eventually controlling those who produce. Always this is explained as necessary to the people's welfare. But, 'The deterioration of every government begins with the decay of the principle upon which it was founded.' This is true today as it was when it was written in 1748."

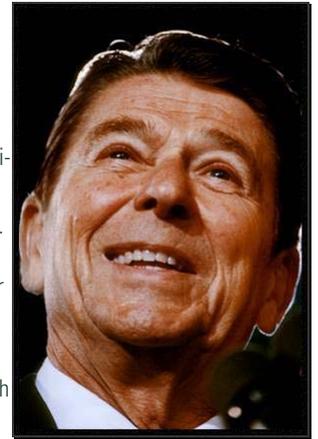
Now a generation after the Berlin Wall crumbled, freedom's tide appears to be receding. Since September 2001, increasing protectionism has tightened borders and trade, and the War on Terror has erased the "peace dividend" that helped finance economic growth in the 1990s. Since the 2008 financial crisis peak, government has wrested control of capitalism in a way resembling Reagan's 1967 description. Meanwhile, U.S. stocks receded 22% since November '99.

As a wealth adviser, I am aware that the current situation has left much to be desired economically and in the marketplace. In light of the troubled waters in the financial sea, Hawk100 remains cautious in aligning wealth.

Yet, we optimistically search for signals of another rising economic tide. Peace and freedom among global societies and unleashed employment of women and minorities, together with a technological revolution, helped rise the tide for the better part of the last 20 years. What will bring about the next wave of prosperity?



We await the return to promoting the values espoused by capitalism. Institutes of government should free their people to decide their fate. Though painful on rare occasions when the free fail, "prosperity can come about only when the farmer and businessman enjoy economic freedom," as Ronald Reagan affirmed at the gate to the Berlin Wall. When governments tear down regulations and other interventions which have barricaded prosperity, the tides will rise and a new dawn will shine.



By Richard Clemens, CFA, President

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