



HAWK | Talon

HAWK 100

Monthly Insights from Hawk100

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Mirror Lake.

Ohio State athletics often serves a useful purpose in Central Ohio as a diversion from the world of finance, particularly for an ardent football fan and OSU alumnus.

The recent trials of OSU football remind us that ethics and integrity, including a commitment to uphold laws, are vital. The unfortunate series of lapses in ethical judgment by Coach Tressel led to his resignation. This man built his career on a foundation of integrity. He now faces a tattered career and shattered reputation.

My children would recognize the allegory integrity and reputation as a mirror. A mirror reflects who you are. The cleaner the mirror, the truer the image it reflects.

Everyone makes mistakes that smudge the mirror. To restore a clear reflection, we need to gently clean the smudges.

Letting dirt remain a long time might permanently fade the mirror surface. A serious stain may need scrubbing so hard that it scratches the mirror.

Some mistakes are so serious that the mirror cracks, permanently distorting the image so it can never reflect a perfect image again. Too many cracks shatter the mirror into painful and dangerous shards.

A shattered mirror is useless.

Best wishes to Tress's mirror restoration.

Your wealth.
Your life.
Aligned.

Loch Sloy!

Rather than cling to rescue funds from the IMF or central banks, companies and nations should wisely heed the words of "Loch Sloy!" by poet Dottie Walters. "Whenever trouble hits ye, let it roll past til it's fled. Then rise and knock ye'r dust off. 'Springtime's comin!' Just Ahead!" According to the poem, Loch Sloy, the Scottish battle cry means Spring is coming and hope for better days.

I recently returned from Edinburgh, Scotland where I represented the Midwest US investment profession at CFA Institute's 64th annual conference. Diverging from past conferences where a thematic consensus developed. This year's conference speakers offered disparate views about the condition and direction of financial markets. No single theory rose to consensus.

Still in my opinion, the winning case was brought by James Grant, author of *Bonfire of the Currencies* and regarded penman for *Grant's Interest Rate Observer*, who presented compelling support for a gold standard. He also joined several delegates who spoke favorably of investment in US Midwest farmland.

Mission creep. In that phrase, Grant described the workings of global central banks like the US Federal Reserve. In Grant's view, "central banks no longer follow markets ... they beat them into submission." The Fed struggles with its dual mandate, officially, maintaining stable prices and full employment. Those mandates are often in conflict. For example, higher rates may stabilize prices yet cause unemployment. Events and circumstances of recent years have expanded the Fed mandate and regulatory reach. The Fed ability to successfully manage its larger role is suspect. It has failed to prevent bubbles in dot-com stocks, commodities, and real estate. It overlooked lax activities of lenders and mortgagees. It is overloaded and lacks the fortitude to withdraw inflationary stimulus. We trust the Fed when it says, "it does not worry about inflation." If the Fed isn't worried about inflation, we are.

As to the gold standard, globally, central banks have abandoned principles of value underpinning currencies. In lock-step, central bankers seem to walk off a cliff rather than take hard steps to legitimize currency. They rescue debts of politically connected corporations and fund deficits of bankrupt sovereign nations. Meanwhile, gold marches upward.



Two years of prices of GLD, a popular gold ETF. SOURCE: Fidelity

Preventing stupid things. Troublingly, the wealth of nations has fallen upon IMF discretion. Formerly headed by the disgraced Dominique Strauss Kahn, the IMF has also disgraced economic sensibility. Rescuing European sovereign debts is again proving you cannot prevent stupid people from doing stupid things.

Adam Smith is entombed in Edinburgh. During my stay, I sensed occasional rumblings explained by construction at the adjacent train station. Methinks the author of *The Wealth of Nations* must be turning in his grave or yelling, "Loch Sloy!" as a battle cry for economic sensibility.



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