

Date - July 27, 2010

QUESTION: Boy did I miss the mark by selling out too soon. What do you make of this market?

ANSWER: My sense is that this is a sideways market for the remainder of the summer, with a downward bias. For now, we just let the market tell us what it is going to do, because there are no good guidelines telling us that the economy is getting better. Almost every indicator I read about and follow says that there are too many variables with potential negatives, to allow for reliable predictability - at least for the next several months. Interestingly, the Financial Model is showing growth. However, this model is very data dependent and I am sure that there is more going on than what is being captured in that model - particularly within the shadow banking system. My sense is that private equity is pretty tentative today, with the greatest concern being the serious government debt problem - how to reduce debt while not creating a serious drag on economic growth.

In the "for what it is worth" column, early or late on the timing of trades won't hurt much in the long run. We may get whipsawed by this market in our attempts to find the long term market trend, but in the long run, early - and seemingly bad timing choices - transactions will be offset by the long term positioning. These will offset and will not be noticeable in the long run.

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