



The Smooth Illusion

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“Complex systems that have artificially suppressed volatility tend to become extremely fragile, while at the same time exhibiting no visible risks. In fact, they tend to be too calm and exhibit minimal variability as silent risks accumulate beneath the surface. Although the stated intention of political leaders and economic policymakers is to stabilize the system by inhibiting fluctuations, the result tends to be the opposite. These artificially constrained systems become prone to ‘Black Swans’ – that is, they become extremely vulnerable to large-scale events that lie far from the statistical norm and were largely unpredictable to a given set of observers.”

Nassim Nicholas Taleb and Mark Blyth¹

The dominant economic and political policy regimes followed by the United States over the last 30 years are profoundly flawed. That is the argument made in an important new article in the new issue of *Foreign Affairs* (“The Black Swan of Cairo,” May/June 2011) written by Nassim Nicholas Taleb and Brown University political scientist Mark Blyth. Rather than confronting sources of volatility, policymakers have sought to smooth out volatility at all costs. Unfortunately, these costs are proving to be very high and will ultimately prove prohibitive. Pressures build inside complex systems until they can no longer be suppressed. When these pressures can no longer be contained, they tend to erupt with far greater violence than had they been allowed to adjust earlier. In complex, non-linear systems such as human societies and economies, the only way to achieve stability is by tolerating some volatility. Attempting to micro-manage away recessions or regime changes is an approach that is not only damned to backfire but ends up increasing both the probability and intensity of such events.

¹ Nassim Nicholas Taleb and Mark Blyth, “The Black Swan of Cairo,” *Foreign Affairs*, May/June 2011, p. 33.



It is a deep-seated human tendency to delay imminent pain at any cost. We see this phenomenon at every level of human life, from the relationships and partnerships in our daily lives to the larger systems that govern society at large. Ignoring or suppressing economic imbalances, political dissent or personal differences is doomed to failure because it ignores the symptoms while allowing the underlying disease to flourish. Under the current risk management paradigm, however, measures taken to prevent these events from occurring, or minimizing the damage they cause, end up perpetuating the underlying conditions that require adjustment. Human existence is prone to unexpected events. These events are “unexpected” because they occur with low statistical frequency, but they are certain to occur from time to time. Rather than avoiding these events at all costs, we must accept that they will occur and build systems that can absorb them and minimize their damage.

The global financial crisis was largely caused by efforts of the world’s dominant central bank – the United States’ Federal Reserve – to prevent recessions at all costs by maintaining artificially low interest rates for unduly long periods of time (something it is doing again right now). Mssrs. Taleb and Blyth argue similarly that revolutions in Tunisia, Egypt, Libya, Yemen and Syria were largely the result from years of Western governments – and in particular the United States – coddling tyrants rather than confronting them. While there were certainly other factors at work in the Middle East – among them the advent of the Internet that exposed young populations in Arab states to the appeal of democracy – it is now apparent that permitting autocrats like Mubarek and Khaddafi to remain in power was doomed to failure. The application of the “Black Swan” theory to politics is compelling and places American foreign policy in an important new light. While policymakers have acted at all costs to prevent short-term crises, they have failed to absorb the lesson that the long-term effect of such measures is to exacerbate crises when they inevitably occur. Rather than reducing risk, modern risk-management ends up increasing it. Put another way, too many white swans inevitably end up breeding black swans. And we all know what big birds can drop on us while flying overhead.

The economy would be far more stable and productive had Alan Greenspan been a student of Hyman Minsky rather than Ayn Rand. Mr. Greenspan tried to eliminate booms-and-busts by adjusting interest rates downward (or otherwise increasing systemic liquidity) every time the economy slowed. Or course, all he ended up doing was insuring that boom-and-busts would proliferate. The so-called “Greenspan put” (which has been perpetuated – perfected even – by the current Federal Reserve Chairman Ben Bernanke) convinced investors that the Federal Reserve would bail them out if the economy or the markets got into serious trouble. As a result, investors engaged in increasingly reckless behavior because they believed they would be protected from the worst consequences of their behavior. It was precisely this reaction to Mr. Greenspan’s repeated bailouts that increased the likelihood of their necessity. Had Mr., Greenspan acted differently and forced the system to discipline itself, investor behavior likely would have been more



responsible. Rather than saving the markets, Mr. Greenspan's philosophy and approach guaranteed their failure.

It is precisely because imbalances have been suppressed for so long that the global economy is now so fragile. When the suppression of imbalances collapsed in the financial crisis of 2008, policymakers doubled down on their smoothing approach rather than realizing that it was the underlying cause of the problem. While certain emergency measures were necessary to prevent a complete collapse at the height of the crisis, policymakers extended these measures far longer than necessary. In retrospect, the Federal Reserve's interminable zero interest policy and its quantitative easing programs are likely to be seen not only as ineffective but damaging to the prospects for sustainable long-term economic growth. As noted below, a number of asset classes are beginning to exhibit bubble-like behavior, something that would be far less likely to occur were interest rates normalized. Recessions are not depressions, and there are far worse things in the world than negative economic growth when an economic slowdown is exactly what is needed to absorb overcapacity and other imbalances.²

Experienced observers understand that the longer it takes for an imbalance to be corrected, the more violent the correction is likely to be. In the financial markets, the best investors are those who incorporate this understanding into their strategy. Today the world is facing a number of severe imbalances that will ultimately have to adjust, with serious market repercussions. Two of the most important such imbalances are the build-up of unsustainable debt levels in major Western economies and the rapid exhaustion of many of the world's key natural resources. The longer policymakers delay in confronting these imbalances, the more volatile and destructive their corrections will be. The current regime of risk management and policymaking must be changed to insure that the mistakes of the past will not be repeated.

The economy

While the economy has stabilized, growth is sluggish. The economic data has taken the form of one-step-forward and one-step-backwards, which is better than one-step-forward and two-steps-backward but still disappointing. The trillion dollar question remains what will happen when QEII ends at the end of June. The government has been the largest purchasers of Treasuries, promulgating a Ponzi scheme of unprecedented scale. In recent day, Treasury rates have dropped further with the 10-year bond dropping to the 3.25 percent range from the 3.50 percent range that many expected to be its low for the rest of

² Japan has been in recession for twenty years and the country has not collapsed. Japan is now coming to the point (hastened by its need to rebuild after the tsunami) where it will no longer be able to sustain policies that fail to deal with its gross economic imbalances. This is what investor Kyle Bass has described as the "Keynesian end point," when total government debt service exceeds total government revenue. Japan remains, however, a far less ethnically fractured society than the United States and is likely to manage the transition without significant social instability. The United States is unlikely to enjoy that luxury.



the year. This price action suggests that the markets have profound doubts about U.S. economic growth for the remainder of the year.

The thesis that the United States is experiencing a self-sustaining recovery is going to be tested shortly. In particular, higher energy and food prices are likely to retard consumer spending and economic growth. The most recent unemployment report, which showed an unexpected increase in claims to 474,000 (the highest level since last August), is being chalked up to statistical anomalies. We would ask why the media and government spokesmen don't chalk up positive reports to similar anomalies, but we already know the answer. All of the government's numbers on employment are statistical approximations; they are most useful in showing trends, not actual numbers. Accordingly, the four week moving average has moved back up to 431,250, the highest since November. This should disturb even the most bullish among us.

The April job figure mercifully showed an increase of 244,000 jobs (including 268,000 new private sector jobs and 24,000 fewer government jobs), although 175,000 of these jobs were created by the birth-death model rather than by the economy. The number of Americans who have been jobless for more than six months also declined by 283,000, although the long-term unemployed still comprise a high 43.4 percent of the jobless army. There was other disappointing news as well. The unemployment rate returned to 9.0 percent from 8.8 percent in March; the labor participation rate remained unchanged at a disappointing 64.2 percent; and the actual number of people out of work stayed at 13.7 million. U6 – the "real" unemployment rate – rose by 0.2 percent to 15.9 percent; the average workweek didn't budge from 34.3 hours; and wages only edged up by 0.1 percent to \$22.95 (and by only 1.9 percent over the past year). Finally, only 16.3 percent of people on unemployment in March found work in April, a disappointing number. While the headline looked good, the truth is that this report was nothing to write home about. At best it can give rise to relief that the jobs picture didn't deteriorate along with other economic statistics such as housing. While the establishment is desperate to paint a positive picture on jobs, the reality remains much more troubling.

An area of deep concern remains housing, which is increasingly looking like it is experiencing a double dip. Lower prices are being driven by the inordinate number of bank-owned (i.e. foreclosed) properties for sale. Sales of these properties comprised 34.5 percent of the market according to a survey by Clear Capital, a prominent real estate consulting firm, resulting in a nationwide price drop of 4.9 percent for 1Q11, 5 percent year-over-year in March 2011, and 11.5 percent over the past nine months. This is the sharpest rate of price deterioration since 2008. In 2008, however, the government (as usual) came to the rescue with housing tax credits, a program that had limited success. Another plan is (fortunately) not in the cards, which suggests that prices will fall further until the inventory of foreclosed and other distressed properties is absorbed. Housing is a sector that still suffers from gross overcapacity and is clearly not contributing to any self-sustaining recovery. The best thing that could happen to the housing industry, although it would obviously cause short-term collateral damage in terms of job losses, is a complete



moratorium on new housing starts until the backlog of unsold properties is reduced significantly. Why anybody concerned with the long-term recovery of the American economy would cheer good housing start numbers today is a complete mystery to us.

Doubt about asset prices is fortified if one looks at the context in which prices are rising. The deflationary blow suffered by the global economy during the financial crisis was softened and then reversed by Everests of liquidity and other forms of government support rushed into the system. The trading low on the stock market in March 2009 reversed when the Federal Reserve made it clear that it would do everything in its power (and more) to reflate the system and prevent a calamitous collapse. While that was the correct policy response at the time, it has been kept in place far longer than necessary. More than two years of zero interest rates and two quantitative easing projects have created liquidity conditions that are inconsistent with an economy still suffering from huge overcapacity in a number of important sectors such as residential and commercial real estate. Moreover, while debts have shifted from the private to the public sector, the private sector is grossly over-indebted and public sector balance sheets in the United States, Japan, China and certain European countries are weighed down with impossible debt burdens. Consumers are hardly under-indebted and many corporations continue to carry large debt burdens even if they are lower than they were. The combination of overcapacity and over-indebtedness assured the world of below-trend economic growth and economic and political instability. What cannot continue will not continue, and the present economic course cannot continue without defying the laws of economic gravity.

Investment recommendations

To put it plainly, a belief in conventional investment strategies today requires a belief in the dominant economic policy paradigm of the last thirty years. This paradigm can be summed up as “the central bank put.” Central banks, led by the Federal Reserve, have come to the rescue of investors whenever the time came to deal with the consequences of profligate spending and borrowing. As experience has taught us, however, this paradigm has resulted in a boom-and-bust cycle in which investors are like the hobo taking the perennial nap on a railroad track, or the turkey that enjoys a wonderful life for a couple of years until the day before Thanksgiving arrives. Failure to recognize the boom-and-bust cycle and position oneself to avoid the busts – whose warning signs are readily apparent – has prevented investors (particularly institutions) from realizing robust returns over long periods of time. In order for this cycle to be broken, the thinking that reinforces this cycle must be changed. *The Credit Strategist* is intended to contribute to this change.

Macro Comments: A number of asset classes are beginning to exhibit the characteristics of a bubble. Examples include the absurd valuations being placed on the new generation of Internet businesses (mostly but not exclusively those involved in so-called “social media” – and by the way, we thought all media was social) such as Facebook, Groupon, Twitter and stocks of companies like Netflix, Inc. (NFLX); the price of silver and other commodities (but gold is not in a bubble); new issues of corporate debt with lax protections

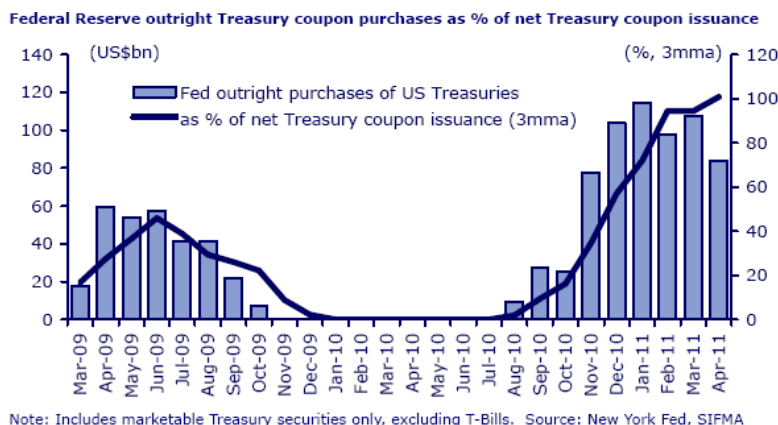


for lenders; and artificially low yielding U.S. government, corporate and mortgage bonds. The prices of these asset classes bear little relationship to their fundamental or intrinsic value and are being driven upward by momentum thinking and investing. For that reason, investors should avoid these assets even if they keep rising in price because they will reverse sharply sooner rather than later (for example, the bottom has already fallen out of silver). Bulls will dismiss our view and argue that prices are justified for each of these assets classes based on their individual characteristics, but *The Credit Strategist* believes that all asset classes have been inflated by the unprecedented infusion of liquidity into the global economy by the Federal Reserve. Some are just more out of control than others.

Investors should be prepared for a scenario in which economic growth is sluggish, paper currencies are devalued, hard assets hold their value, and financial markets continue to experience booms-and-busts. The busts will become more pronounced as the system moves further away from equilibrium because the markets will overwhelm the ability of governments to prevent the necessary adjustments in interest rates, currencies and asset values from occurring.

Fixed Income: In terms of fixed income assets, bank loans remain sound defensive investments through mutual funds (known as “Prime Funds”) or the two stocks that *The Credit Strategist* has recommended before: Kohlberg Kravis Financial Holdings LLC (KFN) and Tetrakon Financial Group (TFG1.EU). Both of these stocks continue to increase their book value and dividends and benefit from low-cost liabilities incurred before the financial crisis. While KFN trades close to book value, TFG1 trades at a sharp discount to its \$10.85/share book value primarily due to concerns about the quality of management. KFN is paying a dividend at a 6 percent annual rate, while TFG1 is paying dividends at about 4.5 percent annually, which is stingy compared to its earnings but still attractive.

Figure 1
The Treasury Eats Its Own





U.S. government bonds remain certificates of confiscation and should be avoided at all costs (and shorted by those with the stomach and capital to wait out the Federal Reserve). The recent sharp drop to a 3.15 percent yield on the 10-year Treasury bond suggests that the market believes the economy is weakening. A weak economy can only bode poorly for corporate and mortgage bonds that already fail to compensate investors for the interest rate and credit risk they carry. It should also be noted that the Federal Reserve has accounted for 101 percent of the net Treasury bond issuance during the first four months of 2011, as shown in Figure 1 above. A new set of buyers willing to be paid virtually nothing for lending to a country that is drowning in debt and debauching its currency will have to be found once the Federal Reserve ends its purchases at the end of June.

Finding such buyers may not be as difficult as some suppose, however. Our friend Christopher Wood, who is always ahead of the curve, notes that the share of US banks' assets in Treasuries is near historic levels, with only 2.1 percent of U.S. commercial banks' total financial assets consisting of these confiscatory pieces of paper at the end of 2010.³ This suggests not only that there is scope for the banks to step into the breach and significantly add to their Treasury holdings, but in order for them to do so and earn an adequate spread over their cost of funds, Mr. Bernanke and Co. will wait as long as possible to raise rates so that the massive Ponzi scheme that funds the U.S. government can continue.

Mr. Wood also notes that contrary to what many have expected, Treasuries are rallying sharply into the end of QEII just as they did at the end of QEI. Between April 11 and May 6, 10-year Treasuries rallied by 44 basis points from 3.59 percent to 3.15 percent. At the end of QEI, between August 8, 2009 and October 7, 2009, Treasuries rallied from 3.85 percent to 3.18 percent. Mr. Wood concludes – correctly in our view – that this drop in yields suggests that the market is not yet trading on supply concerns.⁴ But it is also apparent that the market is losing little sleep over inflation and is instead sending a deflationary signal to the Federal Reserve that will strengthen its resolve to leave its zero interest rate policy untouched and, if it believes the economy is weakening, engage in some version of QEIII. While the Federal Reserve will likely continue to do everything possible to sustain economic growth, *The Credit Strategist* believes that further Federal Reserve smoothing would be precisely the wrong thing to do. If in fact the economy demonstrates further weakness, it would suggest that previous policy steps to avoid a correction of the gross imbalances plaguing the economy was misguided (or ineffective, or both). The failure to shift out of its crisis mode has primarily shifted the systemic debt burden from the private to the public sector when what was really needed was a reduction in that burden through the tough medicine of write-offs and defaults.

This scenario is also being played out in Europe, whose central bank once battled the ghosts of Weimar. The recent 25 basis point hike in rates by the European Central Bank (ECB) appears unlikely to be repeated in the near-term after ECB President Jean-Claude

³ Christopher Wood, *GREED & fear*, May 6, 2011, p. 4.

⁴ *Ibid.*, 2.



Trichet's comments to the press on May 6. Mr. Trichet is facing a divided Continent whose wealthy members such as Finland are resisting the bailout of Portugal. And as the Portugal rescue package is being assembled, there are increasing signs that Ireland and Greece need additional assistance. The temptation to kick the can down the road can only be satisfied if there is an open road down which to kick the can. In Europe's case, the road is increasingly clogged up with the carcasses of bankrupt nations and their inability to print their own currencies. Rather than try to boot the can down the wrong road, policymakers should do the right thing and aim it down the road of radically restructuring the economic policies and priorities of European states. Any other course is going to fail.

Equities (and another warning about ETFs): The stock market is still enjoying favorable liquidity conditions that should persist even after the end of QEII. In particular, interest rates are likely to remain very low for the foreseeable future. But the market is filled with traps. Margin borrowing has increased to extremely high levels and momentum trading rules the day. Trading in ETFs is clearly influencing the prices of underlying shares and commodities. In fact, it appears that ETFs and their underlying assets are creating feedback loops in which price changes in the ETF distort the prices in the underlying constituents and vice versa. This is particularly true with ETFs like SLV (iShares Silver Trust) and GLD (SPDR Gold Trust) that own the underlying commodity and are constantly adjusting their holdings in reaction to flows into the ETF. The complex interaction between these investment vehicles and their underlying holdings not only increases volatility but often leads investors to chase their own tails.

On May 6, *Financial Times* columnist Gillian Tett wrote that "the ETF sector – just like those 'boring' CDOs five years ago – is currently in the grip of a wave of investor enthusiasm that risks turning a fundamentally sensible innovation bad."⁵ *The Credit Strategist* has written before about concerns that imbalances between ETFs and their underlying assets could cause systemic problems. Ms. Tett drew the comparison between ETFs and CDOs, but a better comparison is between ETFs and CDS (credit default swaps). Like the CDS market, the ETF market has been permitted to grow to enormous size with relatively little regulatory oversight. Run-of-the-mill ETFs are unlikely to cause significant problems although the proliferation of too many of them owning the same stocks could cause market runs if investors all rush for the exits simultaneously. But the same is true of mutual funds. Commodity ETFs that take ownership of the underlying asset, such as SLV and GLD, pose a different and more troubling problem. The action in SLV this past two weeks was particularly interesting because it involved the purchase and sale of large volumes of physical silver. On Wednesday, May 4, for example, silver holdings of ETFs fell by 520 tons, the second largest drop on record. Over a seven day period, investors withdrew a total of 1,105 tons of silver from ETFs, a decline of about 10 percent.⁶ In view of the movement of such large volumes of metal, it is apparent that the creation of ETFs has distorted the short-term demand for silver. This results in greater volatility in silver

⁵ Gillian Tett, "Why exchange-traded funds give uneasy feeling of déjà vu," *Financial Times*, May 6, 2011, p. 20.

⁶ *Financial Times*, May 6, 2011, "Silver plunges amid rush for the exit," p. 20.



prices and a detachment of price from fundamental value (a phenomenon shared by many asset classes).

Investors are back to their Internet-era ways, chasing certain hot stocks into the stratosphere. Netflix is a case in point. While those shorting NFLX have been carried out in boxes, it is mathematically impossible for the company and its stock to continue growing at its current rate. Investors cast away considerations such as logic during the Internet Bubble and they are doing it again today. Other sectors, like restaurants, are also trading at unsupportable valuations.⁷ I like to eat as much as the next guy, but that doesn't mean that stocks like Chipotle Mexican Grill Inc. (CMG) are worth 40x earnings. No restaurant company has ever been worth 40x earnings. Finally, the valuation being placed on commodity giant Glencore International AG for its IPO is highly questionable, and many are pointing to this IPO as a sign that the commodity market has peaked (just like the IPO of Blackstone Group L.P., whose stock is still trading more than 40 percent below its IPO price, signaled the height of the private equity business).

Investors should stick to high quality, dividend-paying stocks of large capitalization companies, preferably those with strong non-dollar revenues and earnings. While the weak dollar is clearly helping sustain the market, *The Credit Strategist* questions the conventional wisdom that holds that a weak dollar is good for U.S. stocks. Ultimately an asset denominated in a deteriorating currency is bound to falter as well.

Currencies: Speaking of currencies, the dollar/Euro relationship remains puzzling only in the sense that the two currencies are engaged in a race to the bottom in terms of fundamentals. The Euro, however, remains the only currency capacious enough to absorb large capital flows from global investors such as China that are searching for alternatives to the U.S. dollar. For that reason, the Euro could stay strong against the U.S. dollar far longer than is justified by fundamental forces. Perhaps the Euro's May 5-6 sell-off from \$1.48 to \$1.43 will break the trend whereby the dollar has proved to be the least ugly sister. Indications from ECB President Trichet that the market's expectations for another imminent interest rate hike are likely to be disappointed may, at least temporarily, force the Euro/Dollar trade to focus again on fundamentals, which bodes better for the dollar than the Euro. But nobody should ignore the fact that both currencies are being so actively debauched by their respective central banks that investors are much better trading out of both of them into alternatives such as gold or Asian currencies. Portugal has joined Greece and Ireland on the critical list, and Spain remains a serious worry for the European Union. The European Central Bank's balance sheet has become as bloated as the Federal Reserve's and faces even more difficult structural headwinds than the Fed. Moreover, austerity measures imposed on defaulting countries are having serious slowing effects on those countries' economies. For an excellent article describing the wages of

⁷ In the high yield bond portfolios that I have managed over the years, I have always avoided the bonds of restaurant companies. The restaurant industry has few barriers to entry, possesses a significant fashion element that can render a specific chain's attractiveness fleeting, and has experienced among the highest corporate bond default rates of any sector. Restaurant operators tend to exhibit an almost pathological compulsion to keep expanding until they burst.

austerity in Greece, readers should grab the April 11, 2011 issue of *The Economist* and read “The labours of austerity” on p. 82. Unless Federal Reserve and ECB policies change radically, the dollar and Euro will continue to deteriorate against Asian (ex-Japan) currencies and the Swiss franc.

Figure 2
The Incredible Shrinking Dollar



Alternative Assets: Since the Federal Reserve and ECB seem hell-bent on trashing their currencies, *The Credit Strategist* continues to recommend that investors hold more of their assets outside of the U.S. dollar and Euro. The management of these two fiat currencies is both a cynical manipulation and a disgrace. Alternative holdings should include gold (which unlike silver is not in a bubble), the Swiss franc (even though it has already rallied sharply against the dollar – heck, what currency hasn’t?), Singapore dollar and Chinese renminbi.⁸ Real estate – especially at current distressed values – is also a sensible holding, particularly if you believe that central bank policies will ignite inflation sooner or later (likely later). Finally, hedge fund strategies that focus on special situations and rely on strong research should continue to do well.

General Motors

General Motors announced first quarter 2011 earnings whose headline, like the April employment report’s, looked much better than the underlying details. GM’s earnings did triple for the quarter from \$865 million (\$0.55/share) a year ago to \$3.2 billion (\$1.77/share). Unfortunately, however, \$1.5 billion of these profits were one-time gains on the sale of its interests in Delphi Automotive LLP and Ally Financial. Absent those gains, EBIT (earnings before interest and taxes) rose by a far more modest 18 percent, and North American profit increased by only 8 percent to \$1.3 billion. Overall revenue did increase

⁸ Readers interested in owning the Chinese currency can walk into The Bank of China in New York or Los Angeles and open a renminbi-denominated account. While these accounts originally had limits on size, *The Credit Strategist* understands that these limits have now been lifted and meaningful amounts of money can be invested. These accounts are insured up to \$250,000 by the FDIC (there must be some irony in that).



by 15 percent to \$36.2 billion from \$31.5 billion a year ago. GM once again lost money in Europe, although the loss narrowed to \$390 million from \$477 million. Even worse, international operations that include China, India and Russia saw a huge drop in EBIT to \$480 million from \$908 million. South American earnings declined to \$90 million from \$265 million a year ago. So much for the theory that economic growth outside the U.S. and Europe is robust! While GM's balance sheet was significantly improved by its bankruptcy, operations still need to demonstrate significant improvement. As *The Credit Strategist* has written repeatedly, GM was pushed into a premature IPO by the U.S. government. At the time of the IPO, the company had qualified financial statements, which is almost unheard of. The stock has struggled to keep its head above its IPO price; with high gasoline prices and the likelihood of slower economic growth through the rest of 2011, investors would do well to avoid the stock.

Osama Bin Laden RIP

By the time Osama Bin Laden was killed by Navy Seals, his message had lost its appeal for the so-called "Arab Street." People rallying for regime change in the Middle East are squarely rejecting his medieval ideology in favor of the ideals of freedom, democracy and self-realization. The media, in typical liberal fashion, is devoting endless attention to whether Bin Laden and his housemates were armed, and whether the brave men who eliminated him with extreme prejudice acted properly in killing rather than capturing him. What were they supposed to do – ask him to tea? The death of Bin Laden is an unreservedly good thing for the world. The day he died was the best days for freedom since the day that Saddam Hussein met the gibbet. It may also open the way for the United States to exit the expensive war in Afghanistan, which should be a component of any long-term U.S. deficit reduction plan.

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Disclosure Appendix

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