

# SPEAKEASY



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In Search of Truth

We've been experiencing another round of market jitters in the past while, this time on the heels of a downgrade to US treasury notes. At times like this many people find it difficult to ignore the noise and distraction. As with similarly unpleasant disturbances in the past, there are remedies we've been using that make these experiences more tolerable, even beneficial.

# Speakeasy

## IN SEARCH OF TRUTH

### US DEBT DOWNGRADE

#### THE POT CALLING THE KETTLE BLACK

In this posting I'll show you what we've done to insulate ourselves from the mayhem on the street and how some will choose to apply solutions resulting in longer lasting benefits.

Before I say another word, be forewarned that it is almost certain that anything I say could be misconstrued to represent any number of horrific and unlikely conclusions. Also, in the event that something I say actually proves to be true, it will almost certainly be for reasons completely different than those I am expressing! In the passage of time what we have done will speak louder than the words we use. Markets are already bouncing back, with panic selling being replaced by panic buying!

First, it's not surprising that there is a competitive chatter from politicians seeking to hold onto the limelight of their office. The democratic process is inherently noisy with fierce deliberation often leaving quite a mess in its wake. Some respected individuals, such as Warren Buffett, have referred to the debt deliberations as political grandstanding and reckless risk taking that simply doesn't need to happen.

The downgrade of US debt is a preposterous position to take given there has NEVER been a single default or missed payment. The downgrade will do nothing to change that history, or the future. The US dollar remains the globally dominant standard, one by which all others are measured. The US has always paid its bills on time and there is no need to suggest otherwise.

Except that when it comes to lobbying, it's hard to have your voice heard without applying the one up-man-ship of escalating exaggeration to make a point. The whole exercise of deliberating over a raise to the debt ceiling is a huge distraction and a great waste of effort. It's completely unnecessary if you're going to do it anyway. Our systems seem to promote this sort of rancorous behavior among our elected officials. Cooler heads will prevail, as usual, so we *don't get sucked into the hype of negotiations.*

Next, the rating agencies lost their credibility in the wake of the financial meltdown of 2008. Failing to properly classify the risk of simple debt instruments caused their paying clients and a great many others enormous hardship. As a result, their credibility remains severely tarnished. The privilege of providing their advice is in question. Standard and Poor's, Moody's, and Fitch each want to gain an upper hand over the other in the lucrative rating agency sweepstakes.

Rating agencies operate at a fairly high level within the financial arena. Near that same level, regulators routinely apply moral suasion to restore market confidence by using demonstrative acts of punishment. Often the target is highly visible, like Martha Stewart as an example. Sending out a signal by way of a punitive action is a routine method of asserting continuing dominance and control; it's one of the tools of the trade.

The once venerable Standard and Poor's is going out on a limb targeting the US, not because of their wide eyed assessment that the US has too much debt and is spending more than it is taking in, but at least in part due to the need to reassert itself in the marketplace. Bully for them! *We don't let the tail wag the dog.*

Most people find it annoying when the capital markets rattle like they do from time to time. We have developed a system that has unleashed the power of human potential in ways like no other. We continue to advance in almost every human capacity imaginable. So, this too shall pass. We've come way too far to let a downgrade from a disgraced rating agency spoil our fun! We will muddle our way through the way we always do.

Ironically, when the market was selling off, people were flocking to the safety of the same downgraded US treasuries they were being warned about! Fear makes people do some pretty strange things, sell off in a panic one day and buy back in a panic the next. *We don't let market gyrations bounce us around; instead we let it serve us as a proxy to indicate when others are being foolish.*

Now here is the healing balm that allows the regenerative effects of capitalism to continue working for you. If you are drawing an income from your investments, we have set aside enough in fixed income that there is no need for concern. Your cash flow is uninterrupted and these episodes create demand for your income producing assets so you actually benefit from these events. The remainder of your portfolio is protected too, here is why.

We continue to own a small but beautiful collection of some of the most attractive businesses on the planet. Each of these wonderful businesses has been carefully selected, one at a time, many at deeply discounted prices. It is the discount that has provided us with a comfortable margin of safety against downside corrections. It is the enduring quality of the enterprises we own that continues to assure us we will rise on the next tide, as we always do, as sure as the sun follows the moon.

There are a couple of other things we can do to take advantage of the opportunity. The first is to top up the TFSA accounts using "in kind" transfers from your non-registered savings, if you have any. The tax treatment is likely to be favorable under the current circumstances.

The second alternative that will provide longer lasting benefits is to step up, reload, and take a step in while many others are retreating. If you have money on the sidelines that isn't doing anything, now would be a great time to invest in your future. The "lost" gains are easy to pick up during the uncertainty. We pay a hefty price for a cheery consensus and right now we can step over one foot hurdles instead of trying to leap over six foot bars in the future.

Investing with us remains a simple process, but it's not always easy. I hope this message will help you take control of your future by inspiring a call to action – be greedy when others are fearful!

*David Atwood has provided financial services for the past 25 years, and he is the President of Talisman Investment Planning, which provides mutual funds through FundEX Investments Inc. The above noted thoughts and opinions are those of David Atwood and not necessarily shared by FundEX Investments Inc. David can be reached on the web at [www.talismanip.com](http://www.talismanip.com), by E-Mail using [david@talismanip.com](mailto:david@talismanip.com), or by phone at 519-434-8807.*

