

361 Capital Weekly Research Briefing

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Timely perspectives from the 361 Capital research & portfolio management team

By Blaine Rollins, CFA

Financial market barometers continue toward the positive...

- Jobless claims continued their steady march downward coming in Thursday at 358,000 and putting the 4 week average at 366,000, which is the lowest level since April 2008.
- This was one of the better earnings weeks of the Q1 reporting season versus the previous 3 weeks with the % of reporting companies beating earnings lifting to 61%. Several stocks across many different sectors moved higher after their earnings reports, including: Akamai, Visa, Disney, Wyndham, Whole Foods, Buffalo Wild Wings, Philip Morris, Ralph Lauren, and Equifax.
- The Long U.S. Treasury ETF (TLT) made a new 3 month low price on Thursday continuing its slow motion rollover.

The Greek Parliament just voted for severe austerity (and thus a Euro bailout) while 1/7th of Athens riots.

Fires were being set at Starbucks, banks and even the Acropolis as a large minority of the population let it be known that they will not accept the government's decision. So while the government buys some time to put off the upcoming March 20th debt payment, will any Greek leader be able to stand up and educate the public as to why austerity is necessary? If the Greek public does not quickly get on board, the 70% losses on restructured Greek Bonds will turn to 100% losses and the Greek Treasury had better find some paper and ink and get the Drachma printing press running.

Two well-known investors who won't be sending Valentine chocolates to the U.S. Bond Market on Tuesday...

- "We are literally running out of superlatives to describe how much we hate bonds. Yields are pitiful, dangers of even a slight recovery that could wreak havoc for long-duration portfolios loom, and monetary policies globally certainly have added to the specter of rising yields." (Jeremy Grantham, GMO)
- During the same 47-year period, continuous rolling of U.S. Treasury bills produced 5.7% annually. That sounds satisfactory. But if an individual investor paid personal income taxes at a rate averaging 25%, this 5.7% return would have yielded nothing in the way of real income. This investor's visible income tax would have stripped him of 1.4 points of the stated yield, and the invisible inflation tax would have devoured the remaining 4.3 points. It's noteworthy that the implicit inflation "tax" was more than triple the explicit income tax that our investor probably thought of as his main burden. "In God We Trust" may be imprinted on our currency, but the hand that activates our government's printing press has been all too human.

High interest rates, of course, can compensate purchasers for the inflation risk they face with currency-based investments — and indeed, rates in the early 1980s did that job nicely. Current rates, however, do not come close to offsetting the purchasing-power risk that investors assume. Right now bonds should come with a warning label.

(Warren Buffett – [*Fortune/Berkshire Shareholder Letter*](#))

If you are a Contrarian Investor, this week was a bell ringer for you...

- Larry Fink, CEO of BlackRock Inc. and a White House favorite to be the next Treasury Secretary, suggested that investors have 100% of their assets in equities. ([Bloomberg](#))
- “The perennially negative Nouriel Roubini – nicknamed Dr. Doom for his usually critical views – is turning bullish.” ([CNBC](#))
- “We have a genuine, honest to goodness, bona fide bull market here,” Jim Cramer said Tuesday. ([CNBC](#))
- For the first time in a year, the Dow Jones Industrials Average marked its 30th day without a 100 point decline.
- Barron’s Cover story says there is a 2/3 chance of the DJIA hitting 15,000 over the next 2 years and the odds are 50% for 17,000. ([Barron’s](#))



Luxury Auto sales in Italy fell 53% in January as only 66 supercars were sold.

As the Euro tax authorities continue to target roadblocks and raids on high end car and SUV drivers, will the soccer Mom minivan soon become the top seller in Europe? Maybe this is how Clint Eastwood figures that America will win the 2nd half? ([Bloomberg Video](#))

58% of Swiss Franc notes in circulation are for 1,000 Swiss Francs each (US\$1,100).

Think about that. This is not about the Swiss citizenry rolling around Zurich throwing out monster tips. This note has clearly become the store of value for paper currency and is sitting in safes, bank deposit boxes and buried sealed containers all around the world. ([Bruce Krasting](#))



Looks like The World islands of Dubai have become a poor store of value.

The islands were intended to be developed with tailor-made hotel complexes and luxury villas, and sold to millionaires. They are off the coast of Dubai and accessible by yacht or motor boat. Now their sands are eroding and the navigational channels between them are silting up, the British lawyer for a company bringing a case against the state-run developer, Nakheel, has told judges. "The islands are gradually falling back into the sea," Richard Wilmot-Smith QC, for Penguin Marine, said. The evidence showed "erosion and deterioration of The World islands," he added. ([Telegraph](#))

An interesting experiment for the kids...Zebra Stripes = Insect Repellent.

Their first discovery was that stripes attracted fewer flies than solid, uniform colors. As intriguingly, though, they also found that the least attractive pattern of stripes was precisely those of the sort of width found on zebra hides. Zebra stripes do, therefore, seem to repel horseflies. Exactly why is unclear. But Dr. Horvath thinks it might be related to a horsefly's ability to see polarized light, which imposes a sense of horizontal and vertical on an image. Horseflies are known to prefer horizontal polarized light. Possibly, the mostly vertical stripes on a zebra confuse the fly's tiny brain and thus stop it from seeing the animal. ([The Economist](#))

And all New York Knicks fans are happy that he picked up the orange ball...

Jeremy Lin's high school coach, Peter Diepenbrock, said that people without meaning any harm assume since Lin is Asian that he is not a basketball player. The first time Lin went to a Pro-Am game in Kezar Pavilion in San Francisco, his coach said, someone there informed him: "Sorry, sir, there's no volleyball here tonight. It's basketball." ([Wikipedia](#))

361 Capital LLC

email: 361info@361capital.com

phone: 303.224.3900

web: www.361capital.com

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