



RAY'S CORNER

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Economic and Market Commentary

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It's estimated that sometime during the Middle Paleolithic Age, wolves started coming closer and closer to the campfires of small bands of hunter gatherers to see what was up. Well, it wasn't too long before a special bond occurred between these two species, and they soon became inseparable. These wolves eventually were bred into what we now know as "man's best friend," the dog, *canis lupus familiaris*. These animals soon became invaluable to their human masters, first as hunting mates, then as herders, and later, as loyal companions. Throughout the millennium, dogs have never lost their natural instinct to chase and run.

Several years ago, archaeologists were working at a dig in Pakistan. Two young interns unearthed a plate of sun dried clay which bore the prints of a cat. Slightly overlapping the cat's prints were those of a dog. Think of it, these prints made over 4,000 years ago, recorded a chase through the dusty streets of a long lost city on the fertile banks of the River Indus. Some things never change.

By the time of the pharaohs, history was recording man's affection for his loyal animal friend. Murals and paintings of dogs strikingly similar to today's greyhounds and salukis adorn the tombs of Amenhotep, Thutmose and Queen Hatshepsut of ancient Egypt. Over time, the high regard for these exceptional animals spread throughout the ancient world to the great civilizations of Persia, Greece and Rome. Greyhounds were treated with honor and closely connected with royalty and nobility.

In the ancient Arab culture, greyhounds were so admired for their physical attributes and speed that they became the only dogs permitted to share the tents of their owners and ride atop their camels. In fact, the birth of a litter of greyhounds was considered only slightly less important than the birth of the owner's own son. Don't think the Arabs were in this. Greyhounds are the only breed of dog to be mentioned by name in the Bible (Proverbs 30:29-31).

Historians tell us that it was probably the Romans who introduced the sport of coursing to Britain, using dogs to chase a game animal. Throughout the centuries, greyhounds' popularity never waned. Both King Canute of England and King Howel of Wales owned them. Chaucer wrote about them, and by the 11th century, laws pre-

vented the common people from owning or raising them. It's around this period that greyhound racing started.

A Dog Like No Other

With their sleek bodies, long legs, flexible spines and their thin skin, greyhounds are extremely aerodynamic. Unlike most hunting dogs, the greyhound doesn't have an acute sense of smell. Instead of scenting quarry, it tends to chase moving objects which it can spot at long distances. In pursuit, greyhounds are capable of speeds up to 40 miles per hour.

Racing and coursing continued to develop in Britain and Europe. Two dogs were usually matched against each other to see who could chase down the game first, usually a poor hare that had been trapped for this purpose.

By the time of Queen Elizabeth I's reign, coursing rules were finally introduced, such as giving the hares a head start of a couple of hundred yards. And so things continued for the next several hundred years, and by the mid-19th century, meets could draw 75,000 spectators to the major competitions, such as "The Waterloo Cup."

Importing of greyhounds to the United States came in the late 1800s to control the jackrabbit populations, as farms spread through the Midwest and beyond after the Civil War. Cavalry officers serving in the West often kept greyhounds because they could both catch game and help scouts by detecting movement at a distance. Among the greyhound fanciers of note was Colonel George Armstrong Custer, who coursed his pack of greyhounds the night before the fateful Battle of the Little Bighorn in 1876.

A Little Humanity, Please

At the turn of the last century, a young businessman named Owen Patrick Smith was hired to lead the Chamber of Commerce in Hot Springs, South Dakota. He was asked to organize a coursing event in the hopes of attracting visitors to the town. Although the meet was successful, young Smith found the activity bloodthirsty and inhumane. As a result, he set out to improve upon the sport and spent the next seven years designing an artificial hare instead of a live one.

Considered the father of American greyhound racing, Smith promoted the first major greyhound racing meet in Emeryville, CA in 1919. At the meet, his revolutionary mechanical lure was introduced. It was a stuffed rabbit skin carried by a motorized four-wheel cart that propelled the lure on a rail around the 3/16th-of-a-mile track. The artificial rabbit soon earned the nickname "Rusty" by the viewing public, a name that has stuck to this day.

Rise and Fall

Over the next 20 years, greyhound racing spread like wildfire. Many states legalized paramutual betting and started featuring night racing. Greyhound racing quickly became an affordable and enjoyable pastime for millions, both here and in England.

By the mid-1960s, dog racing attendance started dropping off. Some attributed it to live horse racing starting to get televised, while others felt that a lack of respect for the welfare of the dogs was leading to the sport's decline. Tracks began to close, and the "sport" started to look more like a very cruel business.

Ironic how things can turn full circle. During the reign of King Canute, it was a crime punishable by death to kill a greyhound. Today, thousands of greyhounds are killed

each year when they prove to no longer be economically viable. Others are used in laboratory testing while some are shipped overseas as a food source. Others still wind up as food fodder in commercial dog chow.

Bottom line, greyhounds are quiet, gentle and friendly animals, and even though reputable adoption groups around the country do a remarkable job trying to find homes for retired racers, the only way to ultimately end greyhound abuse is to put an end to racing them.

You guessed it. It doesn't pay to chase Rusty. Most of my professional life has been spent reminding clients not to chase performance, a.k.a. "Rusty." Chasing performance is dangerous, and investors, retail as well as institutional, fall into the trap far too often. And why not: It's easy, performance sells, and that is the unfortunate reality. People wind up buying what they wish they owned last year.

If you make investment decisions based on last year's performance, more often than not, you'll be in for a rude surprise. Investments that perform well one year may not do as well the next. Let me give you an example. International stocks from 2007 to 2008 were the best performing asset class, earning an annualized return in excess of 11%. But the very next year, (2008-2009), their performance dropped to the worst performing asset class, losing more than 43% of their value.

Here's another example: During the year 1999-2000, small cap stocks were the leading asset class, with returns in excess of 40%. What happened the next year? You guessed it. They became the worst performing asset class, losing almost 30%. What is it they always say on prospectuses? "Past performance is not a guarantee of future results."

The challenge for most becomes one of discipline and balance, or basing your investment decisions on strategy and research and not on emotions and impulse. This doesn't always come easily for many. Remembering that a properly diversified portfolio will frequently have components that underperform from time to time is a hard concept for some to grasp. Always chasing Rusty can be a hard habit to break.

When it comes to managing my clients' portfolios, I've always applied a bias toward protecting against downside risk. In other words, if I can do a good job limiting my losses in the down markets, and a decent job (or better) in the up markets, my long-term numbers will always be strong. This isn't voodoo economics here. It's simple math. Think of it: If I have a million dollars in the market, and it goes down 30% the first year and up 40% the next, I'm still in the red.

For me, I'd rather take a disciplined approach to limit my downside risk and not try to be a hero. My clients sleep better for it. Don't get me wrong—I'm no pessimist. For me the glass is always half full, but over time, I've learned that optimism isn't a strategy.

My entire life I've been a voracious reader. A voracious reader and a terrible speller. Most days I'll read at least three papers cover to cover. I mean cover to cover, everything from the hard news to finance, obits to classifieds and everything in between. On any given day, depending upon one's perspective, you could think the world is coming apart at the seams or a new golden age is dawning— before you get to the sports section. The government does its own version of newspaper scanning which

What Do Greyhounds and Investors Have In Common?

Always Mixed Messages

they call the Beige Book. I've told you about it before. Eight times a year, each Federal Reserve Bank gathers anecdotal information on the current economic conditions in its district. Representatives go out into the field and interview key business contacts, bankers, market experts and regular folks like you and me. They want to know what's going on in our world and what trends we are seeing. The Beige Book then summarizes this information by district and sector, after which an overall summary of the 12 district reports is prepared by a designated Federal Reserve Bank on a rotating basis.

When I read the papers, I formulate my own beige book which helps me put things in perspective. Let me give you two sets of examples, one academic on the macro level and one empirical on the human interest level.

In the Very Same Issue

Two weeks ago, the Department of Labor released their March unemployment statistics, reporting that unemployment had hit a 4-year low at 7.6%. Unfortunately, it was as a result of more people stopping their search for work and no longer being counted as unemployed. In fact, the 88,000 gain in jobs for the period was the lowest in nine months. This is important because it ties into a figure economists call the participation rate, which means the percentage of working adults with a job or looking for one. At 63.3%, it's the lowest since 1979, when Jimmy Carter was President and we had double-digit inflation, double-digit unemployment and double-digit interest rates. Clearly, this is not good news.

But then, there it was, just three pages deeper into the newspaper, an article about how the American energy boom has "gotten cracking with fracking." Fracking is the recently developed process in which pressurized fluids are pumped through rock formations, often a mile or more underground, to extract oil and gas.

Over the past six years, U. S. production of petroleum and natural gas has jumped from 15 million barrels of oil equivalent a day to almost 21 million a day, a 20-year high. Over the same period, imports have fallen from 14 million barrels a day to below eight million, a 25-year low. It's estimated that by 2020, the U. S. will become the world's biggest oil producer according to the International Energy Agency. Further, it's predicted that by 2025, North America will be a net energy exporter. Come on, you've got to admit it, that's huge positive news. But the question begs to be asked: What trumps what? Is it bigger news that five to ten years from now, America will be totally energy independent? Or that the country's at the lowest percentage of employed adults since the Iran hostage crisis and the misery index of double-digit inflation, double-digit interest rates and double-digit unemployment?

You Want More?

So I shared with you an example of the type of conundrums we encounter daily on a macroeconomic basis. Now let me give you a beige-book type example on a humanistic basis. A few days ago, in the front section of the San Francisco Chronicle on one single page was a human interest article about the beautiful horses of Spain, the "Pura Raza Espanola." Bred in the Southern Andalusian region of Spain, these pure-bred horses once carried conquistadors into battle in the Americas. More recently, these noble beasts, known for their intelligence and affection for humans, became trophy acquisitions for Spaniards during the giddy economic boom of the late 1990s.

The spike in demand for these spectacular animals triggered a breeding frenzy, causing their numbers to swell by hundreds of thousands. "Spain's newly-minted affluent classes couldn't get enough of them." Then reality set in, in the form of Spain's

property bubble bursting. Demand for the animals dried up and many of those who already had them couldn't afford to feed them. The number of horses sent to slaughter in Spain by owners and breeders last year hit 70,000, two and one half times the number slaughtered in 2008. I'll spare you the description of the article's accompanying photo of cured horse sausages hung near a picture of the Virgin of "El Rocio" at a horse butcher in Camas, Spain.

Now For Something Positive, I Think

On the very same page of the Chronicle, just underneath the article, "Horses Head For Slaughter," was an interview with a local mortuary owner down in Millbrae. The crux of the article was that this gentleman was "sensing greater confidence" in the decisions loved ones were making over the funeral arrangements of their departed. More limos, finer caskets, less talk about "shopping cost" and "greater thrift." The funeral director went on to say, "Lately the trend with families and their funeral choices remind me of the days way before the recession hit. Something in the economic climate is changing compared to not too long ago." I guess we can all rest easier now, no pun intended.

When I did my initial draft for this essay, it was my original intention to go straight to my conclusion, but at this point in editing my piece, there was no way in the world I could conclude my humanistic glass half full component resting on the upbeat observations of our Millbrae funeral director. Especially after subjecting you, dear reader, to the plight of greyhounds and Andalusian horses. So I went back to the same paper hoping for a positive, maybe even a humorous human interest story. It didn't take long to find one.

Shortly after revisiting the paper, I came across an article that featured a most clever Smartphone application that embraces the age-old adage, "necessity is the mother of invention." Here are the facts: Iceland was settled by the Norse around 874 A.D. Their descendants liked it there and never left. Today, the population is somewhere around 320,000 people, and almost all of them are related to each other in one form or another.

"Iceland: Smartphone App Helps Cousins Avoid Kissin' —Or Worse"

Sometimes this can lead to awkward social situations. Fortunately for Icelanders, there is the *Islendingabók*, or Book of Icelanders, an online database of residents and their family trees stretching back 1200 years. So when three smart software engineering students from the University of Iceland put their heads together, they came up with a most ingenious Smartphone app to enter into a contest calling for "new creative uses" of the *Islendingabók*. They designed the "Islendinga-app" for Icelanders.

This new app is designed to help Icelanders avoid accidental incest. When users "bump" phones, the app emits a warning alarm if they are closely related. "Bump the app before you bump in bed" is their slogan. Not bad. Clever use of existing data brought forward in an efficient 21st century delivery system. Definitely glass half-full type stuff.

Conclusion

Two weeks ago, Americans were reminded in the starkest of terms that the world can be a dangerous place, and in the blink of an eye, we can become one family bonded in grief and outrage. The Boston Marathon has been held since 1897 and is the oldest modern day marathon. This year, more than 22,000 runners turned out, cheered on by tens of thousands of family, friends and volunteers. At around 2:45 EDT, ter-

rorist bombs went off, and in an instant, the world was reminded of the fragility of life and the cowardliness of those who would take it away so blindly. Yet moments later, first responders ran selflessly to those stricken by the blasts, blind to personal peril, reminding us of the true nobility of man at a time when one might otherwise question man's inhumanity to man. Sadly, it's moments like these that put yield curves and market matrixes into their proper perspective. The world has always been and will continue to be a dangerous place. Complacency and blind optimism are never virtues.

As a boy, one of my great heroes in life was Winston Churchill. I read everything of his that I could get my hands on. In a speech he gave in 1941 at the Harrow School, he reminded the world, "Never give in, never give in—never, never, never, in nothing great or small, large or petty, never give in except to convictions of honour and good sense," words that galvanized a nation during the dark days of World War II, the same way they inspire a world today to press on and push the envelope of civilization and compassion forward regardless of obstacles and challenges.

As always, thank you for listening.

Best Regards,



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