



RAY'S CORNER

*Ray L. Lent Chairman,
Portsmouth Financial Services*

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Economic and Market Commentary

The Swedish botanist Eric Hultén first coined the term Beringia back in 1937. It was used to define the region surrounding the Bering Strait. This region included the land bridge that developed as a result of the Ice Age that occurred more than 20,000 years ago. Back then glaciers covered much of the northern latitudes, locking enough of the ocean's waters to cause the water level to lower to the point that the bottom of the Bering Strait was above water. This created a land bridge between Asia and North America.

Anthropologists are divided as to whether or not human migration to the Americas from Asia started during this period, or whether seagoing coastal settlers could have crossed much earlier. (Never underestimate a determined sailor.) However they came, came they did. Over the next several thousand years, these people marched south and east, following the herds in their constant hunt for game. With time, they eventually covered all of North and South America.

Somewhere around 12,000 to 14,000 years ago the glaciers started to recede. The land bridge disappeared, and new habitat developed for plants, animals and man. The Great Lakes region was formed and the Paleo-Indians used their stone weapons to hunt large animals such as woolly mammoths and mastodons to extinction. Over time, other groups of Native Americans began to settle the region.

Unlike their predecessors, these people did not move from place to place in search of game but built villages and stayed longer in one place. Around 8,000 years ago, agriculture took root (yes, I know it's a cheap pun, but sometimes I can't help myself), and these early farmers soon discovered copper in the rocks of the region. When they realized they could soften the metal by heating it, they started fashioning tools, weapons and jewelry. These people were later named the copper people by archaeologists.

Enter the Mound Builders

By 3,000 years ago, the Native Americans occupying present-day Michigan established permanent communities built around large piles of dirt or mounds. These mounds, whose purpose is not completely known, were no doubt used for ceremonies, funerals and special occasions. But like all great civilizations, the mound build-

In Search of Beaver

ers' time would also pass, and new groups would dominate the region. Around 1,000 years ago, Native Americans from the East migrated into the region, the largest of these groups being the Chippewa, the Potawatomi and the Ottawa. They called themselves "The Fires" and considered themselves to be a family. The Ottawa called the Chippewa their "older brother" and the Potawatomi their "younger brother." They shared a common culture and a common language, and they prospered for the next 600 years.

The Native Americans of modern-day Michigan lived in small villages and built dome-shaped houses called wigwams and light but sturdy birch bark canoes. The Chippewa were renowned hunters and fishermen. The Ottawa were skilled traders and the Potawatomi masterful farmers, growing squash, corn, melons, beans and tobacco. Life was good, people prospered, but this too would change.

By the mid-17th century, French fur trappers had made their way west and eventually found their way to the straits of Lake Erie, linking Lake Huron and Lake Erie. It's here that they found a stone idol venerated by the Indians, and they promptly destroyed it with an axe. By 1698, a French adventurer of humble origins with a knack for self-aggrandizing named Antoine Laumet de la Mothe, sieur de Cadillac (think of a French version of John Sutter of Sutter's Creek fame) proposed to his government in Paris that a permanent settlement be established. Paris agreed, and in 1701, 100 Frenchmen founded Fort Pontchartrain du Detroit, Ground Zero for the future city of Detroit.

In charge of the fort for the next three years, Cadillac proved to be a tyrannical profiteer, compromising France's hold on the region. He was soon removed from office and sent to New Orleans, where he served as governor of Louisiana. With Cadillac gone, the French soon offered land grants to attract families to settle in the region. Detroit prospered and grew to over 800 people by mid century. Using goods supplied by Montreal, the locals traded with the Indians for furs, growing the settlement into the largest town between Montreal and New Orleans. Fort Detroit's last commander, François Picote Belestre, surrendered the fort to the British in November of 1760 (during the period of the French and Indian Wars). The English shortened the settlement's name to Detroit.

The British had to fight to hold on to their possession. Native tribes led by Ottawa Chief Pontiacs banded together to displace the British through a bloody series of battles that came to be known as "Pontiac's Rebellion."

British soldiers suffered heavy casualties. Major installations fell at Presque Isle, Sandusky and Michilmackinac. In total, eight British forts fell, as did scores of white settlements, but Detroit endured, and eventually Pontiac's influence started to wane. A peace treaty was signed and a tentative calm returned to the region.

The British, now spooked by years of frontier fighting, issued the Proclamation of 1763, which was a measure designed to shut down white settlement of the West until such time that organizational reforms could be implemented. Americans took great issue with this proclamation, limiting their ability to farm new lands and create opportunity for themselves. In little more than a decade, shots would be fired at Lexington and Concord signaling the start of the American Revolutionary War. As a result of the signing of the Treaty of Paris in 1783 ending the war, the British were obligated to cede Detroit to the United States. Since Detroit occupied such a strategic position in the heart of the continent, the British were slow to relinquish control, only reluctantly returning it over to the United States' control in 1796.

Turning the Park's southwest corner, we walked back toward the apartment house, past the chess players, past the fountain, past the Garibaldi statue until we were right back where we started from, neither of us talking, but both deep in our own thoughts. Back at the apartment building, looking out over the Park, the Colonel broke the silence when he said, "Ulmus Procera." Not knowing what that meant, I asked him to explain, at which point he directed my attention to the very large tree across the street and told me that was the scientific name for the English Elm that we were looking at. He went on to tell me that this particular elm is reported to be the oldest tree in Manhattan, more than 300 years old, and its name was the "Hangman's Elm." Now he really had my attention.

Westward Ho

With the war now over, American expansion resumed. Congress established the Northwest Territory encompassing lands west of the Ohio River Valley. Detroit was incorporated as a town in 1802 and then promptly burned to the ground in 1805. The following year, territorial officials convinced Congress to authorize them to expand the town's boundaries by an additional 10,000 acres to allow for future development. Congress approved, and a new city was about to be launched.

The plan called for building out the city along the lines of newly designed Washington, D.C. Monumental avenues would fan out in radial fashion from the city's heart at Grand Circus Park. The streets would be tree-lined with numerous parks and traffic circles to relieve congestion. Easterners started pouring in—merchants, tradesmen, laborers—opening businesses and building a city.

By the time the War of 1812 came around, the city was quickly developing into a center of commerce and industry. The British, with the help of their Indian allies, forced the city to surrender to British occupation, and American control did not resume until 1815. Then things really took off. For the next 40 years, a thriving city flourished. Businesses were built, civic institutions were formed and political parties engaged in rough-hewn politics as polite society developed cultural resources. By 1860, the city boasted a population of nearly 50,000 and was a main stop for run-away slaves along the Underground Railroad.

At the start of the American Civil War, thousands of Detroiters formed volunteer regiments in the Union Army. One such Detroit Regiment was the 24th Michigan Volunteer Infantry Regiment, part of the legendary Iron Brigade. And off to war they went.

Three Days in July

On a hot July 1, 150 years ago, Robert E. Lee, an emboldened Confederate General, amassed his army of northern Virginia on the outskirts of a small and prosperous town in southern Pennsylvania. The town's name: Gettysburg. From the north came the opposing General George G. Meade and his Union forces. The battle began with the Confederates driving the Union forces through Gettysburg out to Cemetery Hill. Next day, Lee struck on the flanks, resulting in severe fighting at Devil's Den, the Wheatfield, Little Round Top, the Peach Orchard, Culp's Hill and East Cemetery Hill. Southerners gained ground but could not dislodge the Union host.

Day Three of the battle broke hot again, with Union forces retaking lost ground at Culp's Hill. By afternoon, the landscape was baking, and a massive artillery bombardment ensued. Lee attacked the Union Center on Cemetery Ridge and was repelled with heavy losses in what's known as Pickett's Charge. Lee's second inva-

sion of the North had failed. As for the 24th Michigan volunteers? They found themselves in the thick of things those three days, locked in battle with the 26th Regiment of North Carolina in the brambly thickets of McPherson's Woods. They fought with distinction and suffered 82% casualties. They had five color bearers killed, with all the color guard either killed or wounded.

Throughout the rest of the War, the 24th participated in all major battles in which the Army of the Potomac was engaged. The Regiment was selected as the escort for the funeral of President Lincoln and mustered out of service June 30, 1865. Many of those who survived the war headed back to their homes in Detroit.

Let the Good Times Roll

But before they do, let me share some subtle subtext with you. Detroit, from its earliest days, has been a magnet for immigrants—French, English, Irish, German and Polish. Just four months prior to the Battle of Gettysburg, where Detroiters demonstrated such valor and courage, their brethren back home participated in the deadly Detroit Race Riot of 1863. The riots started when Irish and German laborers resisted the mandatory draft laws then in place. By nightfall, mayhem reigned: Fires consumed scores of buildings, many were injured and several were killed, most of them African American.

Now back to our time line. The post-Civil War era proved to be a dynamic time for Detroit's growth and prosperity. Capitalizing on its central location in the Great Lakes region, Detroit became a major commercial center. As a transportation hub, it linked the Great Lakes to the Erie Canal with easy access to New York's harbor and global trade. It had rail lines and waterways to aid in commerce.

With great natural resources (remember the copper people), an able labor force and ready access to transportation, it's only natural that manufacturing would thrive. Coachworks and railroad car production flourished, pharmaceutical firms opened up, and a generation of industrialists, entrepreneurs and professionals used their wealth and influence to build fine mansions and churches, form exclusive clubs and promote cultural events. It was a good time to be a Detroiter.

The Dawn of a New Century

Party politics had long been a full contact sport in Detroit. Towards the last part of the 19th century, Democrat John Pridgeon, Jr. held the mayor's office after having trounced his Republican opponent who ran on a prohibition ticket (not a good idea in a city with more breweries than hospitals). It didn't take long before the Pridgeon administration ran amok. Plagued with scandals and indictments, Pridgeon was voted out of office in favor of a crusading young Republican named Hazen Pingree, a man destined to leave his mark on the American political landscape.

A tireless worker, Pingree fought the trusts and monopolies of his day. An ardent sponsor of municipal-owned utilities and streetcars, he won election to four consecutive terms as mayor, eventually leaving office to serve as governor of Michigan. One of the country's worst financial disasters occurred around the panic of 1893 when the stock market crashed and the country was thrown into a deep depression. Food was scarce amongst many Detroit families, and Pingree opened up vacant lots for vegetable farming. The lots came to be known as "Pingree's Potato Patches."

The city survived the panic, and by 1910 it was full speed ahead. Remember, the city already had a well-established carriage trade and coachwork manufacturing base. When Henry Ford introduced the idea of assembly-line production at his Ford plant

in Highland Park, it revolutionized the automobile manufacturing business. With his competition soon following suit, it didn't take long for Detroit to become the world's car capital and to boast of having one of the highest standards of living in the world.

Fordism

Henry Ford not only revolutionized manufacturing, but he revolutionized labor relations as well. He long despised labor unions and felt he could keep them out of his plants by treating his workers generously. At the time the first Model-T rolled off the assembly line, Ford was paying his workers \$5 per day, twice what his competitors were paying. Ford had the best and most reliable workers with the lowest turnover rate, raised productivity and lowered overall labor cost.

Detroit boomed during the first quarter of the 20th century. Its population exploded over that same period of time, from a quarter of 1 million people to over 1.5 million. Apartment houses went up to house the new middle class, and luxurious movie theaters went up to entertain them. Skyscrapers went up along with fashionable hotels and shopping emporiums. During one five-year period, the city opened up a world class symphony hall, art museum and public library. In the mid-1920s, it was a good time to be a Detroiter.

Buddy, Can You Spare a Dime?

After the stock market crash of 1929, Detroit was hit hard by the depression. No one was buying new cars, so the life's blood of Detroit, the auto industry, resorted to massive layoffs. Hundreds of thousands of workers with no work. Soup kitchens became commonplace as did "potato gardens," as they had back in '93. City tax revenues plummeted, and city government resorted to paying their teachers, police and firemen with script (read that IOUs). Eventually the city defaulted on its bonds. Is it starting to sound familiar?

Against this backdrop of poverty and massive layoffs, labor unions in the 1930s started to gain strength. Pandering for votes, politicians formed alliances with the United Auto Workers Union (UAW) and the Teamsters, locally led by a young Jimmy Hoffa.

In 1935, President Roosevelt's allies in Congress passed the Landmark National Labor Relations Act, establishing workers' rights to collective bargaining and attempting to regulate unfair practices by employers, employees and unions. By 1937, after successful sit-down strikes during which time workers remained inside the factory so that strikebreakers were unable to enter, both General Motors and Chrysler made deals with the young UAW. Ford followed suit in 1941. The camel's nose was now under the tent.

The Arsenal of Democracy

When the United States entered World War II, it marked a monumental change for the city of Detroit. Auto making stopped completely, and all energies were applied to the war effort. Tens of thousands of workers streamed into the city, many from the deep South, filling jobs in the factories which were operating 24 hours a day building jeeps, M-5 tanks and the B-24 Liberator.

The high paying jobs continue to attract migration from other parts of the country. Housing shortages exacerbated the problem. Racial tensions grew and then, as was the case 100 years prior, the lid blew, and a riot ensued. For three days, in June of 1943, blacks and whites fought in the streets. Fires raged, scores were killed and hundreds injured. In the end, the army was called in to regain order.

The Postwar Boom

The quarter century of following the end of World War II would have to be seen as the zenith for modern Detroit. The auto industry was operating on all cylinders (there I go again). America was building highways, and Detroit was building its cars. Union membership soared, not just in the auto industry, but in every facet of metropolitan life. City worker contracts were designed to mirror auto worker contracts. Even crossing guards have their own union in Detroit. By the early 1970s, America felt the pain of the Arab oil embargo. A worldwide energy crisis ensued. Gas prices increased dramatically and high mileage foreign imports, built with skilled labor at a fraction of U.S. labor costs, became an ever increasing threat. Would Detroit be up for the challenge?

Let Me Bring It Home

How ironic with this July seeing equity market records set weekly, Detroit filed for Chapter 9 municipal bankruptcy on July 18, 2013--the largest U.S. city to ever do so. At present, city retiree benefits are eating up one third of Detroit's budget. Both the city's population, as well as services, are declining monthly. Detroit's bankruptcy is historic, not only in its size, but in the manner in which courts may wind up dealing with Detroit's bondholders. (As if the bond market isn't precarious enough, as evidenced by the spike up in interest rates over late May and June, resulting in a blood bath amongst fixed income security holders.)

Economists, politicians and cultural anthropologists will continue to debate the reasons for Detroit's decline. How could America's fourth largest city decline from a population of two million people to little more than a half million people in such a short time? And the bigger question begs to be asked: If it can happen in Detroit, where else can it happen? Is St. Louis immune? How about Chicago, Pittsburgh, Cleveland or Spokane?

Detroit will submit a restructuring plan to the courts, which could set precedence for bondholders. Detroit's emergency manager, Kevin Orr, says, "There is no way to reasonably pay all of the unsecured debt." As a result, Orr is proposing to lump 600 million in general obligation bonds with the debt of unsecured creditors who are owed over \$11 billion dollars by the city. This leaves the Muni bondholders (bedrock of the bond market) fighting it out with lower level creditors for pennies on the dollar. That's not how it should work.

Without a doubt, volatility in financial markets has risen dramatically in recent decades. Increased volatility spooks investors and money managers alike, causing them to seek ways of dampening volatility. One traditional method is the inclusion of fixed income securities (bonds) into a portfolio. If you look at the 10-year Treasury rate at the beginning of the last quarter, it was approximately 1.6%. By the end of the quarter, it was just under 2.7%. That's almost a 69% increase over 90 days, which proved to wreak havoc in the bond market. Our balanced portfolios were not immune from these pressures but recovered handsomely in July (please see your July versus June inventory of investments).

These broad swings speak volumes to the market's volatile nature and the necessity of investors (not traders) to take a balanced approach and not chase market indices.

This quarter's column started with the story of one Cadillac, Antoine Laumet de la Mothe, sieur de Cadillac, and will end with the story of another Cadillac, a pink one. Last month my dear friend and colleague, Joe Niederkorn, told us here at the office that he was taking off for a couple of days and would be returning the following

Coming Full Circle

What a Difference a Month Makes

week. A bit tired but broadly grinning upon his return, he told us he had rented a pink Cadillac, found his way into a wedding chapel in Las Vegas (the same one that both Elvis and Elizabeth Taylor were married in) and tied the knot with his lovely long time fiancée, Jill. Needless to say, we were all thrilled for him, as I know you will be too.

To enjoy fully Joe's new state of matrimonial bliss, he'll be taking more time away from the office. At summer's end, Joe will be entering into semi-retirement. I am delighted to report his continued affiliation with the firm, and although he will not be meeting with clients directly in the future, he will continue to train and mentor our younger associates and serve as a trusted advisor and counsel to the firm as he has been since the firm's founding. Please share your good wishes with him next time you see him at the office.

As always, thank you for listening.

Best Regards,



Ray Lent



PORTSMOUTH
FINANCIAL SERVICES

RayLent@portsmouthfinancial.com
www.portsmouthfinancial.com

Toll Free: 800.443.2227
Phone: 415.543.8500
Fax: 415.764.1064

250 Montgomery St
Ste 200
San Francisco
CA 94104