

# RAYMOND JAMES®

## Fool on the Hill

May 23, 2013

The Beatles are the voice of several distinct eras. The tunes from Sergeant Pepper's Lonely Hearts Club Band and Magical Mystery Tour Albums opened the psychedelic era. The lyrics capture the ethos of those strange days.

The Fool on the Hill and Strawberry Fields forever are from the Magical Mystery Tour album, released in 1967. It was a very tense time; the war in Vietnam had ruptured civil society. The SIX day war sprang up in the Mideast, resulting in an Israeli victory over vastly superior forces. Finally, the summer of 1967 witnessed race riots in major cities.

1967 also ended a major bull market for US stocks. The market basically peaked in 1967 and did not move substantially above that level until 1982 – 15 years of bear and bull markets. In my opinion, the bear market ending in 1974 ranks third most severe of modern times. Only the Crash of 1929 and Crash of 2007-8 were more severe.

Do you remember the summer of 1967, or the spring of 1968? What will the 16 year olds of today remember? I'm afraid their memories will be devoid of the experiences and relative luxury afforded me in those halcyon days.

The Beatles spoke to a generation. Who has the ear of the current youths? The Beatles still speak to me from neurons imprinted 46 years ago. Let me commend these "classics" to the millennial generation.

The "Fool on the Hill" speaks volumes to the current state of politics. At the time I thought it was directed at President Lyndon Johnson<sup>1</sup>. In March of 1968, LBJ shocked the country by announcing he would not run and would pursue peace with North Vietnam. I remember the evening distinctly, because I was at a rock and roll concert at DAR Constitution Hall. It was a double bill, the WHO, in their instrument destruction days and the Troggs – Wild Thing!

*Day after day, Alone on a hill,*

*The man with the foolish grin is keeping perfectly still...*

*Well on the way, Head in a cloud,*

*The man of a thousand voices talking perfectly loud...*

*The fool on the hill ...*

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<sup>1</sup> The Beatles lyrics are the subject of numerous analysis. The Fool on the Hill is thought to refer to either the [Maharishi Mahesh Yogi](#), (Wikipedia) or a reference to a mysterious disappearing figure, with religious connotations. Others believe it refers to Buckminster Fuller.

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*Sees the sun going down,*

*And the eyes in his head,*

*See the world spinning 'round.*

Paul McCartney, 1967<sup>2</sup>

Never a dull moment: serious domestic political scandals, international disarray, mediocre economic statistics. Rising interest rates? Hard to be a “Nowhere Man” in this environment. I’d like to join the man on that hill.

Decision making is rarely linear. The human mind is far too complex to explain in such a simplistic way. Do the tunes come first? Or do you come up with the idea and then look for the songs? Well, I don’t really know. I do know the concluding stanza; from Twisted Sister – “We’re not going to take it!”

A significant new variable has emerged in the calculus of the stock markets. It is **exogenous**, coming out of the blue, upsetting assumptions. There are several burgeoning political scandals. The scope and details of the “scandals” continue to expand. The scandals seemingly have “legs” and may imperil the President’s second term agenda.

The next year promises to be one of distraction: for the Administration, the Congress, the IRS, FBI and CIA. There is a trifecta of true scandals, in every sense of the word<sup>3</sup>. The ramifications of the terrorist attack on the US consulate in Benghazi continue to evolve. Serious questions remain unanswered. Until these questions are answered this matter cannot be settled.

The IRS is under scrutiny for abuse of power. The audit by agency’s internal Inspector General specifically found that there was targeting political opponents of the administration. Yet it is not clear who ordered this targeting, who knew about the targeting and when did various senior members of the administration become involved? Today an official from the IRS refused to answer questions under oath before the Governmental Affairs committee. Apparently this is a necessary predicate to the appointment of a special, independent counsel to investigate this matter. This would ensure the matter remained an open controversy up to and through the mid-term election. Regardless, it is clear, both from the Agency Inspector General and the Committee Chairman and a bipartisan majority of the panel that the investigations will continue.

Finally, the FBI has apparently engaged in “fishing expeditions”, snooping through the phone records of journalists from the Associated Press and Fox Broadcasting. The actions, in my opinion are novel and beyond the reasonable interpretation of the laws purporting to authorize such surveillance.

This story continues to expand as well. It is unclear how many journalists have been subjects of surveillance. It appears from recent news broadcasts that the FBI agent securing the warrant made spurious allegations, as well as requesting the search remain under seal because of the “flight risk” posed by a senior political reporter of Fox News. And today, the Judge of the DC Circuit apologized

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<sup>2</sup> [http://www.youtube.com/watch?v=y0AcHR\\_0PzU](http://www.youtube.com/watch?v=y0AcHR_0PzU)

<sup>3</sup> A situation or event that causes public outrage or censure.

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for erroneously keeping the documents under seal well beyond the time these should have been made public<sup>4</sup>. These are matters of constitutional significance. Both the First amendment – freedom of the press, and the Fourth amendment, freedom from unreasonable searches and seizures may have been violated. This matter isn't going away overnight, either.

The impact on the markets would, at first blush, appear to be quite negative. However, the markets have been through many existential shocks. The neutering of the Executive Branch was quite beneficial for the economy after Monica Lewinsky. Not so much with President Bush in his last two years. Watergate, a quaint scandal by today's standards, from long ago, coincided with the 1974 bear market "crash".

The strength of the rally has not waned perceptibly, with the exception of the canary in the coal mine, the Dow Jones Utility average. Why have the utilities dropped 10% in the last few weeks? In the absence of divine knowledge – is it interest rates, weak demand, fuel costs, hostile utility rate setters, or punitive regulations?

Conventional wisdom is that the action in utility stocks reflects expectations of rising interest rates. And that takes us back into the thicket of monetary policy. Why have U.S. Treasury interest rates resumed an upward course? Once again rates today are pretty much the same as last year, before the FED and Treasury acted to add well over Two Trillion dollars of "fiat" money to the system.

The real question, in my mind, is not whether inflation appears, but when? The current question of the day seems to be along the lines of "When and how will the FRB begin to unwind their largesse?" NOT "Will their profligacy eventually unwind the FRB and the Treasury and our economy?" Only the fool on the hill could believe that central government policy is more "powerful" than market forces.

Consumers' confidence is rising, yet there are the unprecedented sales of precious metal coins, guns and ammunition. And shows like "Doomsday Preppers". Consumers may be confident, but the flight to precious metals and guns suggests deeper and more ominous currents.

I thought Mt. Everest was the appropriate comparison for the wall of worry the market has been mounting. Let me quote Ralph Cramden<sup>5</sup> to offer a more appropriate comparison – "To the moon Alice!"

The political climate is a very important variable in the performance of markets, but only one factor. The economy is the primary mover. Investors should take some comfort in the strength of corporate balance sheets and the deleveraging that has occurred throughout the private economy. A notable exception is students who carry education loan balances and cannot find employment. While most private balance sheets and income statements are solid, the same cannot be said for the Nation.

There is an ongoing battle of the balance sheets. The Government is insisting that large financial firms raise equity capital reserves to the highest level in modern times; at the same time presiding

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<sup>4</sup> [http://www.washingtonpost.com/world/national-security/judge-apologizes-for-lack-of-transparency-in-leak-case/2013/05/22/ad769370-c308-11e2-8c3b-0b5e9247e8ca\\_story.html](http://www.washingtonpost.com/world/national-security/judge-apologizes-for-lack-of-transparency-in-leak-case/2013/05/22/ad769370-c308-11e2-8c3b-0b5e9247e8ca_story.html)

<sup>5</sup> [https://en.wikipedia.org/wiki/The\\_Honeymooners](https://en.wikipedia.org/wiki/The_Honeymooners)

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over the largest debt hedge funds in history. FANNIE MAE and FREDDIE MAC are huge, highly leveraged mortgage hedge funds. Yet these are miniscule compared to the hedge fund known as the Federal Reserve Board of New York. At least the Board should be in possession of the ultimate in inside information; they basically control the market, almost all the time. It is the implication of the long tail<sup>6</sup>, the “almost” that we need to worry about.

Traditionally “long tail events” while inevitable, are not predictable. The growing political crises in the US are only one factor that might bring a black swan calling.

## What does it mean for investors?

Time for one of the oldest adages: “Bulls and Bears make money, pigs get slaughtered.” If you find yourself worrying about what was left on the table when something was sold, or worrying about “what to do with the cash?” then you need to take a deep breath and look at the charts of the major indexes for the last few years. Or, let’s go for another Beatles tune. Put the market and prognostication in proper perspective. We’re in Strawberry Fields territory.

*Living is easy with eyes closed, misunderstanding all you see...*

*It's getting hard to be someone but it all works out, it doesn't matter much to me...*

*No one I think is in my tree, I mean it must be high or low.*

*That is you can't you know tune in but it's all right, that is I think it's not too bad...*

*Let me take you down, 'cos I'm going to Strawberry Fields...*

*Nothing is real and nothing to get hung about.*

*I'm going to Strawberry Fields ...forever.*

The chart set contains various entries from past issues. As well as issues from recent lists with an attempt to define a level that would qualify as a “dip”.

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<sup>6</sup> In statistics, a long tail of some distributions of numbers is the portion of the distribution having a large number of occurrences far from the "head" or central part of the distribution. [http://en.wikipedia.org/wiki/Long\\_tail](http://en.wikipedia.org/wiki/Long_tail)

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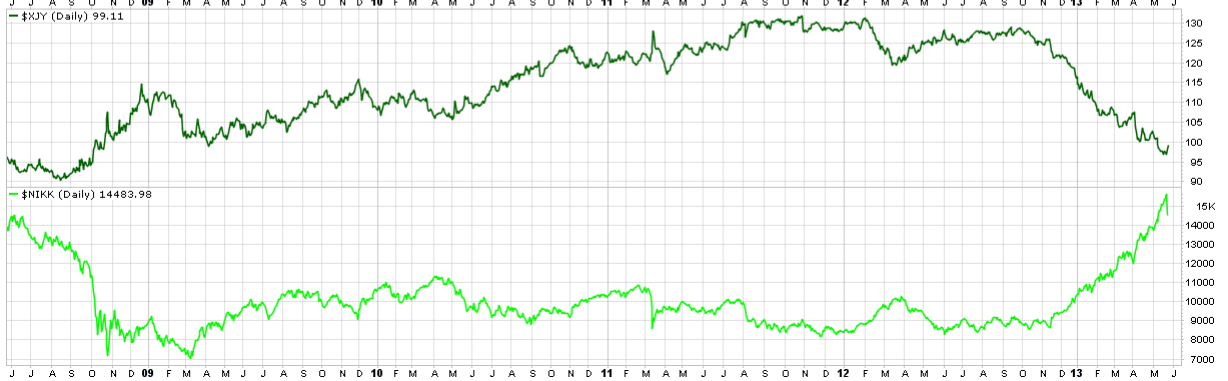
Raymond James & Associates, Inc., member New York Stock Exchange, makes a market in AAPL and BAC



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**\$DAX** German DAX Composite (EOD) DEUT

23-May-2013  
\$DAX (Daily) 8351.98  
MA(50) 7561.89  
MA(200) 7554.15  
Volume undef

Open 8410.06 High 8412.26 Low 8281.11 Close 8351.98 Chg -179.91 (-2.10%)



**A secular bull market in Germany and by extension the Euro-Zone?**

**\$NIKK** Tokyo Nikkei Average (EOD) INDX

23-May-2013  
\$NIKK (Daily) 14483.98  
MA(50) 13487.66  
MA(200) 10646.42  
Volume undef

Open 15739.98 High 15942.60 Low 14483.98 Close 14483.98 Chg -1143.28 (-7.32%)



**Compelling evidence that the depreciation of a country's currency flows directly into equities.**

**\$DJCHINA** Dow Jones China Broad Market Index (EOD) INDX

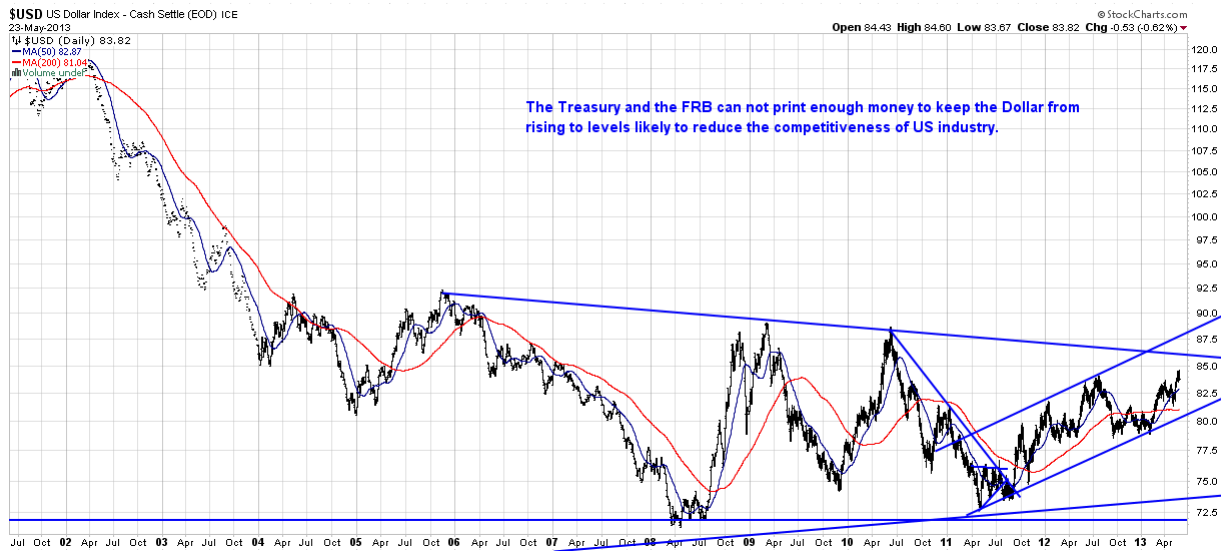
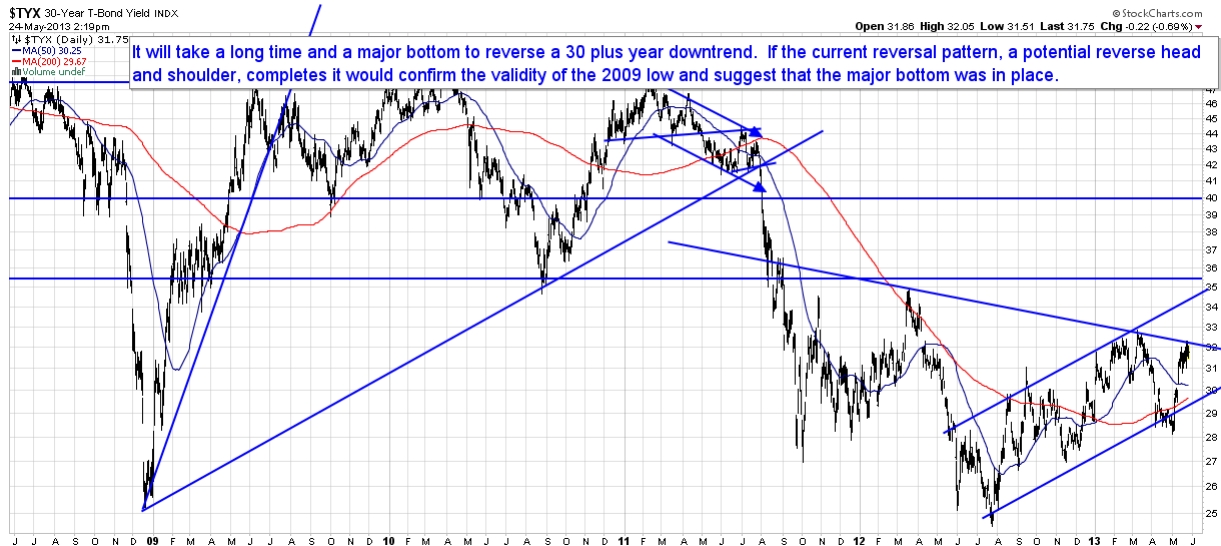
23-May-2013  
\$DJCHINA (Daily) 288.76  
MA(50) 279.39  
MA(200) 245.21  
CYB (Daily) 25.07  
Volume undef

Open 290.71 High 293.20 Low 288.35 Close 288.76 Chg -3.38 (-1.16%)



**Crossing the 300 threshold, as well as the long term down trend line would turn this market bullish Call me cynical, but I expect the Yuan to begin depreciating in response to the Japanese devaluation**







### 06.5 \$GOLD - Daily HLC Bars, 900

\$GOLD Gold - Spot Price (EOD) CME

23-May-2013

Open 1367.90 High 1397.10 Low 1355.00 Close 1389.00 Volume 204.9K Chg +20.00 (+1.46%) ▲

MA(50) 1490.17

MA(200) 1638.15

Volume 204,913

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### 07 \$WTIC - Default Style

\$WTIC Light Crude Oil - Spot Price (EOD) CME

23-May-2013

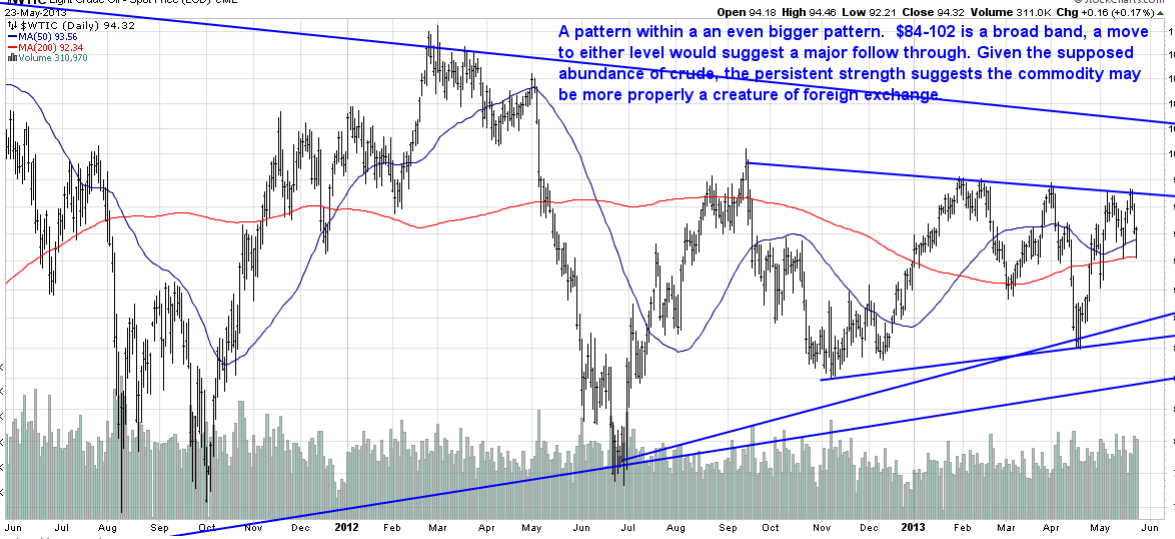
Open 94.18 High 94.46 Low 92.21 Close 94.32 Volume 311.0K Chg +0.16 (+0.17%) ▲

MA(50) 93.56

MA(200) 92.34

Volume 310,970

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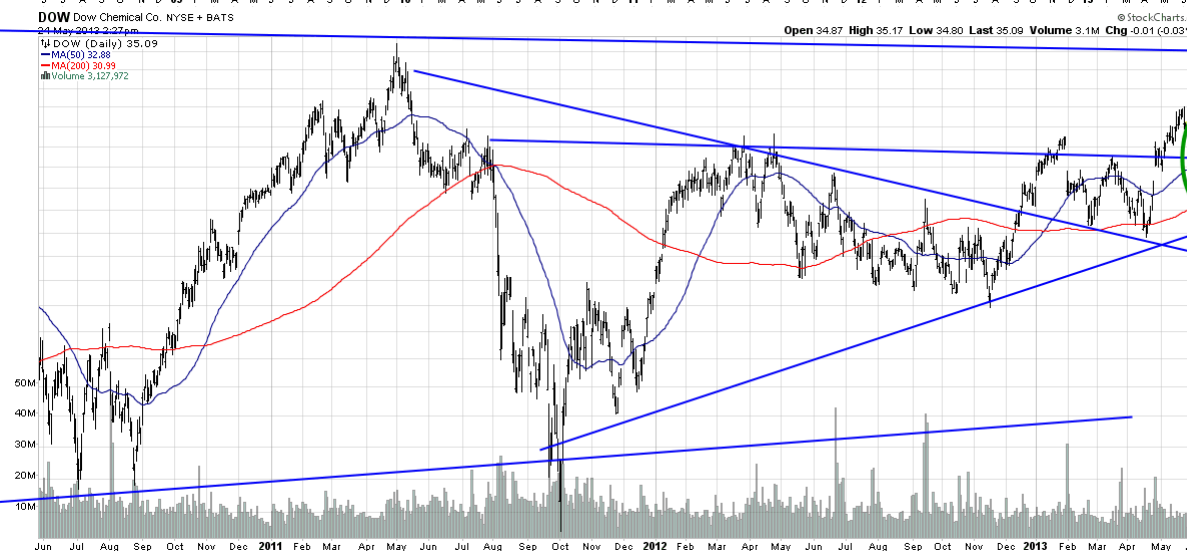
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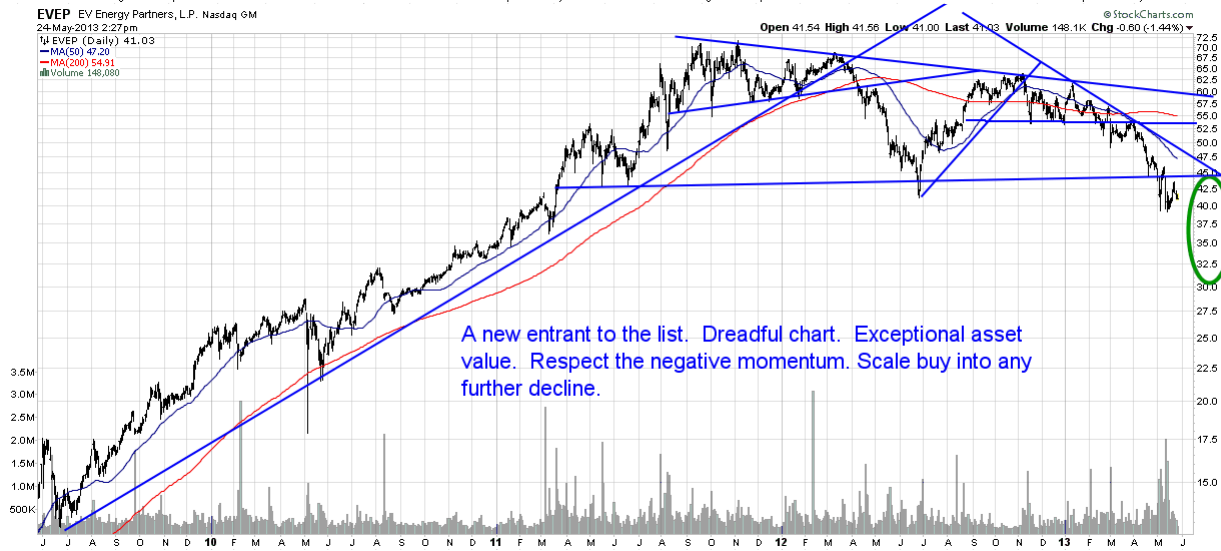


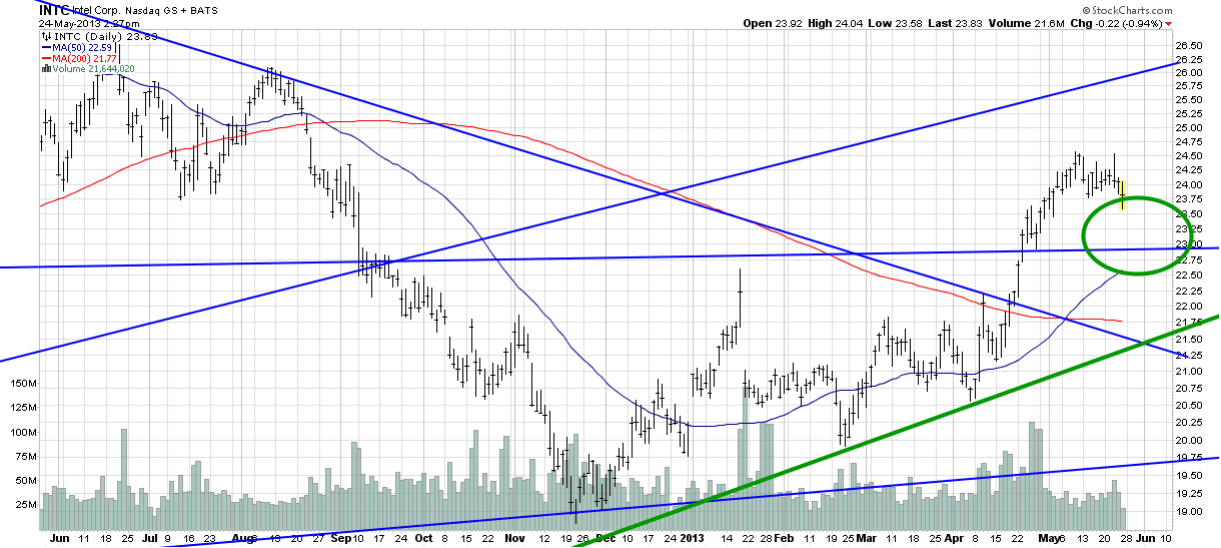
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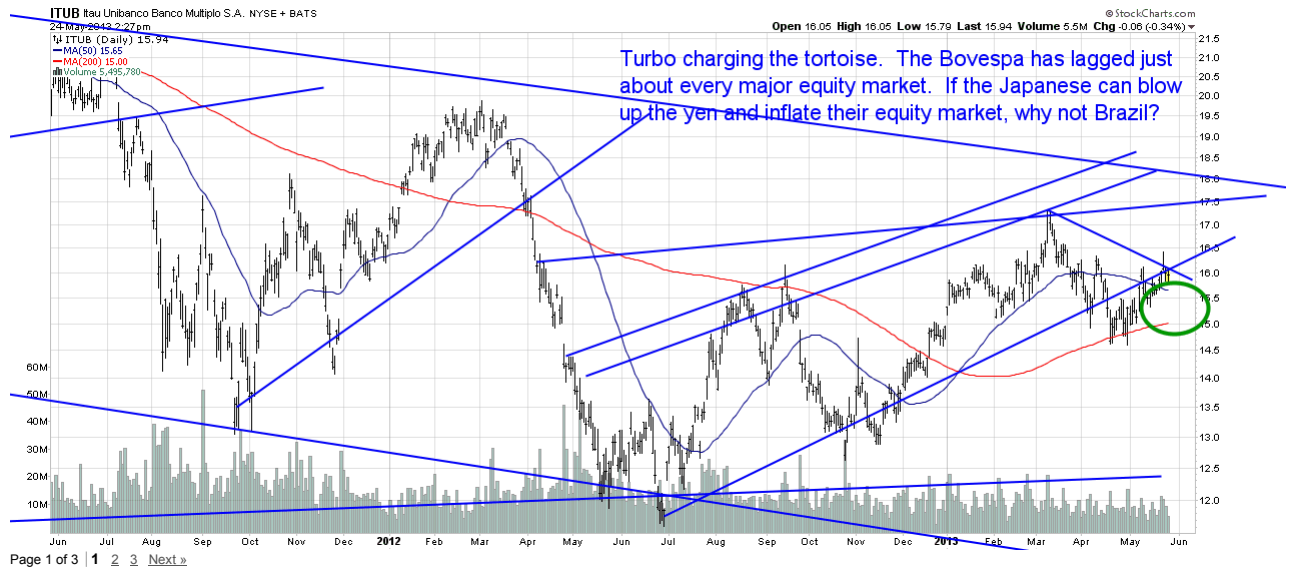
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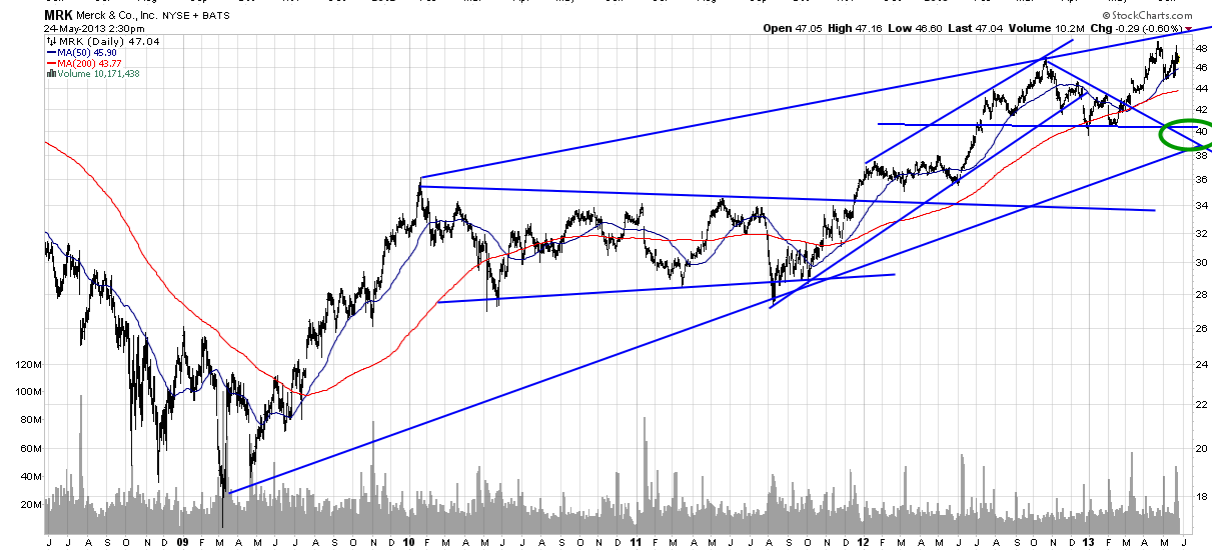


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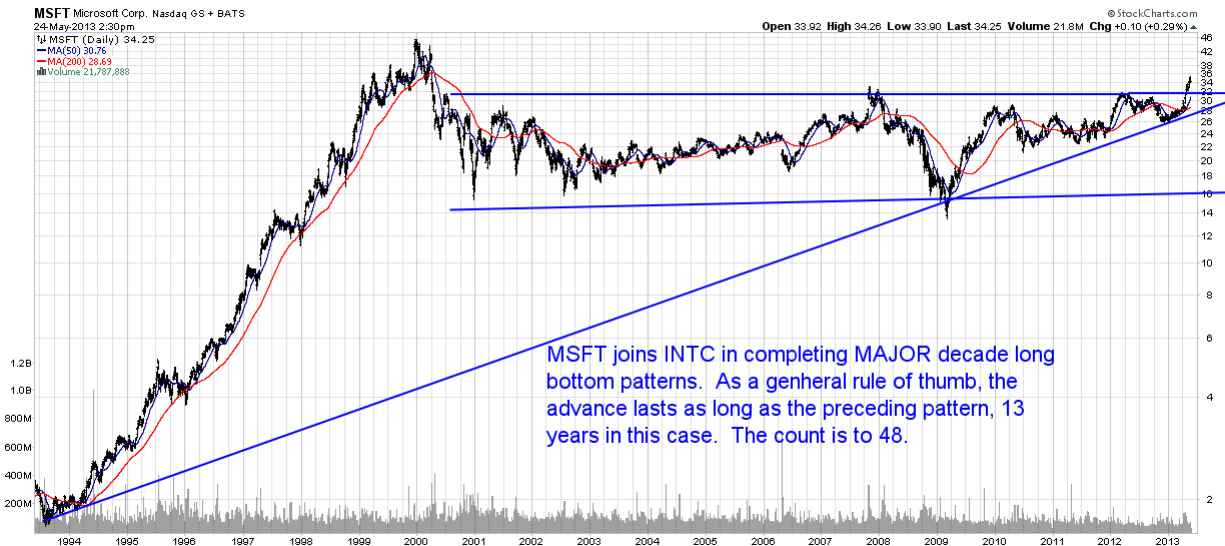


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POT Potash Corp. Sasketch, Inc. NYSE + BATS

24-May-2013 2:30pm  
POT (Daily) 41.14  
MA(50) 40.67  
MA(200) 40.70

Open 41.42 High 41.51 Low 40.95 Last 41.14 Volume 3.5M Chg -0.65 (-1.56%)

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The only thing missing is a surge in volume - otherwise an exemplary reversal pattern. Count is to 54.

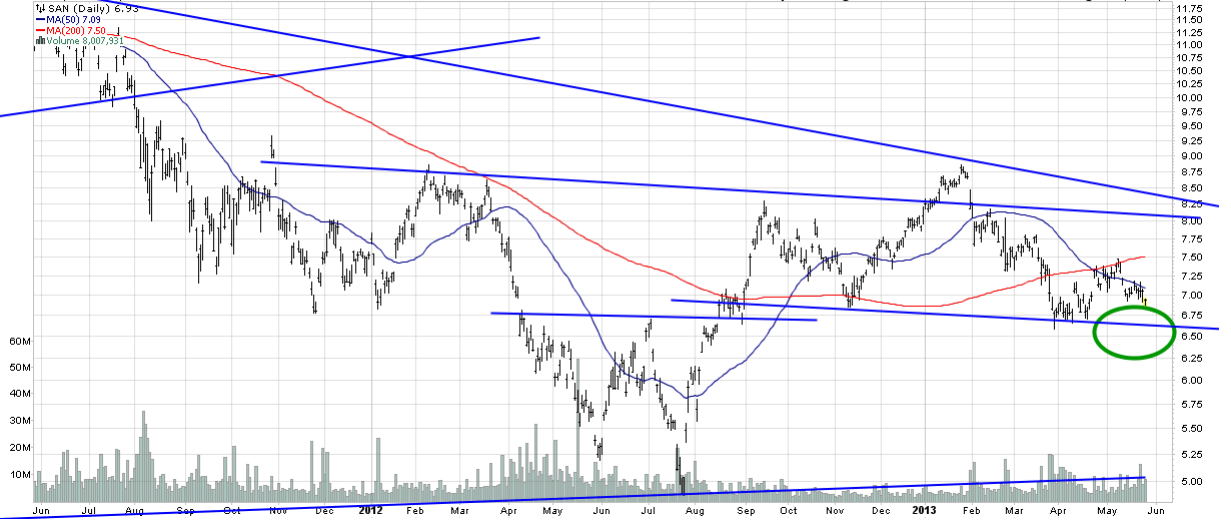


SAN Banco Santander SA NYSE + BATS

24-May-2013 2:30pm  
SAN (Daily) 6.93  
MA(50) 7.09  
MA(200) 7.50

Open 6.91 High 6.95 Low 6.87 Last 6.93 Volume 8.0M Chg -0.12 (-1.63%)

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VE Veolia Environnement SA NYSE

Open 12.50 High 12.54 Low 12.38 Last 12.45 Volume 95.6K Chg -0.32 (-2.51%)



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