



The Polar Letter

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**Only government can take perfectly good paper, cover it with perfectly
Good ink and make the combination worthless.**

Milton Friedman

WHAT SOME ARE THINKING

Some analysts (such as Trimtabs) believe that last year's US equity market rally was not created by investor demand. Indeed, we do not know the source of the funds that have pushed up the market cap of US stocks by roughly \$7 trillion over the course of the past year. Some credible data seems to indicate that companies, retail investors, foreign investors, hedge funds pension funds and so forth did not have nearly the capital to boost market cap so significantly.

This being the case, the only explanation we are able to offer is that some entity or group of entities is boosting equity prices by accumulating stock index futures. Some speculate this is being done at the behest of the Federal Reserve or the Treasury. Shocking, well not really, such actions were widely rumored during the Clinton years. In any event, we are faced with the fact that the market has rallied substantially and with average daily volume falling, certainly not a technically healthy situation.

The purpose of such manipulation, of course, would be an attempt to create a "wealth effect" sufficient to stimulate the economy. As individuals review their monthly statements and perceive themselves as wealthier, they spend money. We believe this was precisely the thesis of Ronald Regan's advisors during the summer of 1982 and thereafter. The problem (then) was that greed roared out of control and was unchecked by its enablers and regulators (government).

Our views concerning both the debt and equity markets remain unchanged. With the limited exceptions noted in recent letters, we would avoid both of these areas. Additionally, we are reducing our exposure in some of our trend following futures programs due to our belief that market volatility (in general) will increase for any number of reasons. In our view, "asset preservation" is presently the prudent strategy.

Michael C. Jordan
President

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