

Competition: Bring It On

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We have written about this before and want to again emphasize the point that watching markets day-to-day throws off more misinformation than good. Those of us who are long-term investors are very much in the minority. There is bad news and good news about this. The bad news is that the stated above day-to-day markets tells one nothing about what the market is going to do or why it is doing what it is doing. Note the following information we obtained from the Internet under a title of “churn and burn”. NYSE dollar volume has averaged about \$55 billion per day so far in 2005. On the other hand, there was overall securities trading in the amount of \$1 quad trillion (that’s 15 zeros) in 2004. Also it was noted that Goldman Sachs accounted for 1.2 Billion shares of 8.8 Billion traded the week of June 24, 2005.

Does anyone really believe that all of this is fundamentally investment oriented? Of course not. Much of it is LTCM and Harvard MBA financial crumbs sophisticated computer modeled black boxes that hopes to pick up some crown intraday. It is reported that only 2 to 3% of the 2004 trades actually settled for cash. That my friends is day trading of the first order. Now the good news. If one has the correct economic model and the discipline to block out the “chatter” of the market place, good and even superior returns can be obtained.

Much of the above applies to short-term traders. Now lets take a look at long-term investment people and their approach to the market. Here again, if one correctly understands the economy properly an edge can be obtained, if in fact day to day or even year to year movements in markets do not lead one to get involved with the killer of investment returns – fear and greed.

The following are some of the various approaches used by long term investors.

1. Technical analysis
2. Relative value
3. Sector rotation
4. Index Arbitrage
5. Asset allocation
6. Derivative or convertible arbitrage
7. Black box
8. Fundament analysis

Most of the above refer to equities, but off shoots are used in managing fixed income securities. Many of the above approaches have nothing to do with number 8, which is CPAI’s approach. Our observation: The more other than fundamental models are used the better for us. They will create many opportunities. We are happy to go head to head with others who use fundamental analysis. Why? We believe we have a better model.