

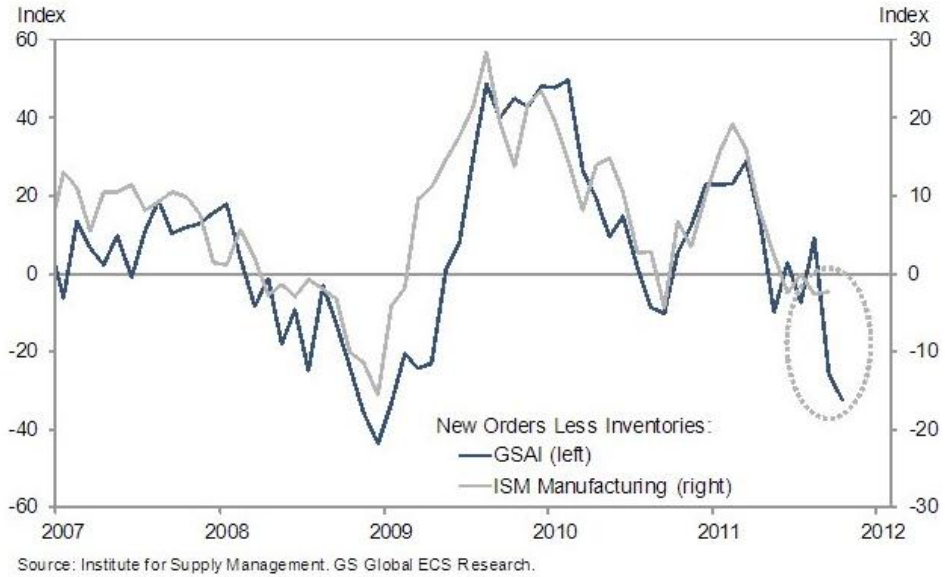
## SOVEREIGN DEBT FALLOUT

### WEB BUZZ 2011.11.07

The wonderful world of zero-sum Wall Street trading took another hit last week as ex-senator/ex-governor Jon Corzine's firm MF Global declared bankruptcy. Interestingly enough, the last time Corzine made known wrong trading decisions was Long Term Capital Management back in the 1990s. Press reports said that was the reason he was asked to leave Goldman Sachs and became a politician. If you can't do anything else go to Washington and tell us how to live - from light bulbs to toilets. It appears that MF Global had bet heavily on the sovereign debt of Italy and Spain and when it was declared improperly that the "new" bailout plan for Greece was not considered a default, the stock markets went wild and down went MF Global as collateral debt securities lost much of their value and everyone needed to cover their short positions and other hedge-type securities.

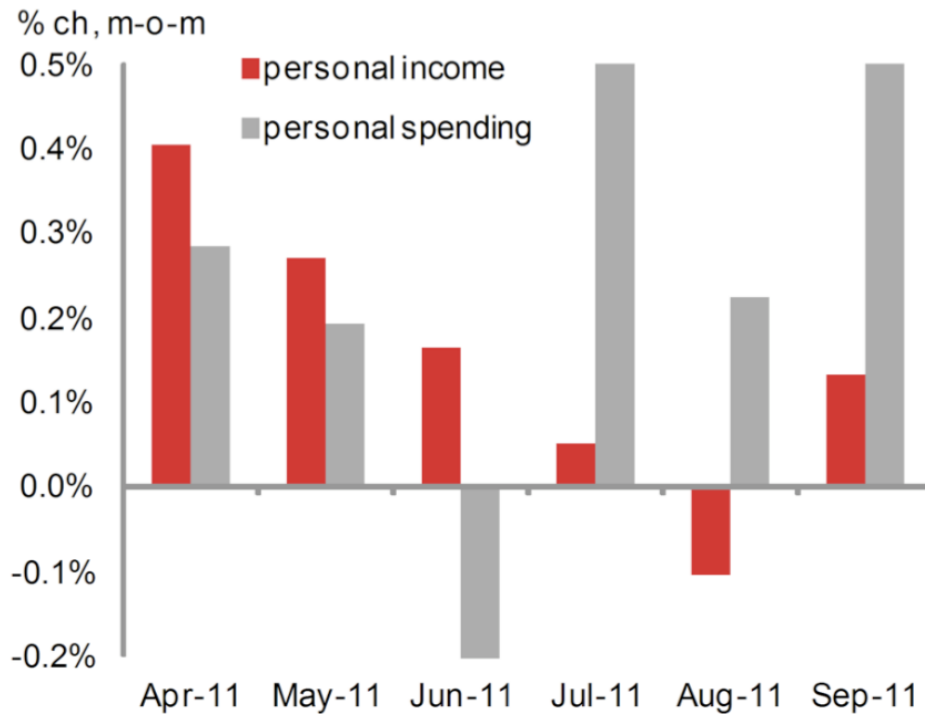
Is it not amazing what the stock market has become? Rank speculation is now dominating this market. Have you ever looked around to just see who these casino players are? Unfortunately, these are the people who determine your performance outcomes. Investors use the economic fundamentals, while traders play the momentum game. It has been estimated that those that trade frequently are something like 10-15% of the market but 70-80% of the daily volume. Prices are set on the margin and they represent that group. No wonder it is so difficult to make money in the stock market these days. A report out in early November noted that bonds outperformed stocks over the last 30 years ended 9/30/2011.

Speaking of Goldman Sachs who brought us Bob Rubin, Henry Paulson, and numerous economic and U.S. Treasury officials, please note the following chart.



Adapted from businessinsider.com

Even as the stock market roared, their economic indicator was flashing recession ahead. Along with that, please note that the third quarter GDP (2.5%) which was highlighted by strong consumer spending was due to the drawdown of savings and not from strong personal income - see the next chart.



Adapted from businessinsider.com

The second quarter witnessed about equal personal income and spending. However, the third quarter shows spending well ahead of income. This is not sustainable. Advance indications of Christmas sales do not look good.

We continue to recommend high quality bonds and avoiding the stock market, which has still not seen the recession coming.