Quarterly Window Dressing - A Recurrent Wall Street Scam

"The time has come the walrus said, to talk of many things": Of corrections--portfolios--- and window dressing--- of market cycles--- wizards--- and reality.

Quarterly portfolio window dressing is one of many immortal Jaberwock-like creatures that roam the granite canyons of the Manhattan triangle, sending inappropriate signals to unwary investors and media spokespersons. Many of you, like the unsuspecting young oysters in the Lewis Carroll classic, are responding to the daily news nonsense with fear instead of embracing the new opportunities that are surely right there, cloaked, just beyond your short-term vision field.

Older and wiser mollusks who have experienced the cyclical realities of the markets tend to stick with proven strategies that are based on a solid foundation of QDI (quality, diversification, and income production). They know that corrections lead to rallies, and that rallies always give way to corrections. If only the corrections could elicit patience instead of fear; if only rallies didn't produce greed and excess. There's a lot of confusion in a world that considers commodities safer instruments than corporate bonds.

Long lasting investment portfolios are consciously asset allocated between high quality income and equity securities. Each class of securities is then diversified properly to mitigate the risk that the failure of a single security issuer will bring down the entire enterprise. Simply put, a portfolio with 100% invested in the absolute, hands-down, best company on the planet is a high-risk portfolio. There is no cure for cyclical changes in security market values--- diversified portfolios thrive on it, in the long run.

The differences between a correction in either a market (equity or debt) or a market sector (financials, drugs, transportation, etc.), and a fall from grace in a specific company are important to appreciate. Corrections are broad downward movements that affect nearly all securities in a specific market. This particular one has impacted prices in both investment markets, while creating rallies in more speculative arenas. Ten years ago, the dot-com bubble began under very similar circumstances. Ten years earlier, it was interest rates--- and on, and on. When all prices are down, opportunity is at hand.

There are approximately 450 Investment Grade Value Stocks, and at least half are down significantly from their 52-week highs; fewer than ten per cent were in this condition just over a year ago. But very few companies have thrown in the towel, or even cut their dividends. Closed end income fund prices are still well below the levels they commanded when interest rates were much higher, yet they provide the same cash flow as before the financial crises. The economy and the markets have been through much worse.

Why aren't the wizards of Wall Street assuaging our nerves by explaining the cyclical nature of the markets and pointing out that similar crises have always preceded the attainment of new all time highs? Right, because the unhappy investor is Wall Street's best friend. Why can't politicians address economic problems with capitalist-economic solutions? Fear, and the panic it evokes, creates an easy market for walruses, oyster knives in hand.

Wall Street plays to the operative emotion of the day--- greed in the commodities markets and fear in the others. Once per quarter, they trim their holdings in unpopular sectors and add to their positions in areas that have strengthened. Under current conditions in the traditional investment arena, don't be surprised by larger than usual cash holdings (certainly not "Smart Cash"). Window dressing pushes the prices of your holdings lower, in spite of their continued income production and sustained quality ratings.

How have the wizards managed to re-define the long-term investment process as a quarterly horse race against indices and averages that have no relationship to investor goals, objectives, or portfolio content? Why do these proponents of long-term investment planning and thinking religiously conspire to make short-term decisions that prey upon the emotional weaknesses of their clients? The "art of looking smart" window-dressing exercise accomplishes several things in correcting markets:

The things you own are artificially manipulated lower in price to make you even more uncomfortable with them, while the things you don't have positions in stabilize or move higher. The glossies from the new fund family your advisor is talking about show no holdings in any of the current areas of weakness. It's easy to make fearful investors change positions and/or strategies. Sic 'em boys. Brilliant!

Value investors (those who invest in IGVSI stocks, and income securities with an unbroken cash flow track record) may lapse into fearful thinking as well, and this is where the Working Capital Model comes to the rescue. By focusing on the purpose of the securities you own, their enhanced attractiveness at lower prices becomes obvious. Higher yields at lower market valuations and more shares at lower prices equal faster realized profits as the numbers move higher during the next upward movement of the cycle. That's just the way it is. A reality you can count on.

Surprisingly few investors have the courage to take advantage of market corrections. Even more surprising is how reluctant the most respected institutional walruses are to suggest buying when prices are low. The instant gratification expectation of investors combined with the infallibility expected of professionals, by both the media and their employers, is the cause. Gurus are expected to know what, when, and how much. Consequently, they prefer to manipulate their portfolios to create an illusion of past brilliance, rather than taking the chance that they may actually be in the right position a few quarters down the road. There is no know in investing.

The stock market yard sale is in full swing--- add to your retirement accounts, buy more of IGVSI stocks at bargain prices, increase your dependable income and increase current yields at the same time. Apply patience, and vote for economic solutions to economic problems.

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