

FISCAL FITNESS



Vorpahl Wing Securities
505 W. Riverside Ave., Ste 205
Spokane, WA 99201
509-747-1749

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Dennis Roginski
denniscr@vorpahlwing.com

Is the DOW Throwing Us a Curve Ball?

For those of you who know me, you know I like baseball, especially in October. "Legends are born in October" are the words we baseball screwballs wait for as the baseball season moves into "extra innings." However, my passion for the game does not end with spectating. I play in a 35-year-old and older wood-bat league. I will confess up front that I'm a bum when it comes to hitting. Defensively I have bragging rights, but when I step in the batter's box, well I'm surprised the coach even gives me a bat! I have a terrible habit, developed when I was a kid, of pulling my front shoulder out too soon and thrusting my bat head ahead of my hands. This puts me in a weak hitting position and usually results in a softly hit grounder or an infield blooper for an out. This habit has been difficult to break. Sometimes, though, I actually hit the ball hard and chalk up a few RBIs (Runs Batted In); however, these occasional I-feel-like-a-major-leaguer-hitter moments are just that—occasional—and not enough to boost my terrible batting average.

THE IPC

When the Investment Policy Committee (IPC) at Vorpahl Wing Securities meets every other Wednesday, we discuss macroeconomic thoughts, theories, and trends along with current geopolitical events and how they might affect the markets. During the baseball playoffs, my co-members have some fun with me by putting these economic trends into baseball analogies; I guess they think I'm so focused on October baseball that I won't hear what they're saying. Here is the latest one: Just because the markets hit the ball hard a few times, the fundamentals remain very weak.

SURPRISED BY THE RUN UP

The IPC members are surprised at the DOW's run up: Six percent over the last three months and up over nine percent since the beginning of the year. We ask ourselves why? Unemployment has been hovering around 8% and higher for almost four years; the national debt is over \$16 trillion (that's over \$51,000 per U.S. citizen); the U.S. deficit

hit a record \$1.4 trillion; the dollar, according to the U.S. Dollar Currency Index, is approaching pre-financial crisis lows; and the International Monetary Fund (IMF) has lowered the global GDP for the next two years. Occasionally the markets get a surprise like the purchasing managers' index showing more growth than predicted or the Fed's plan to institute QE3 (Quantitative Easing #3). But these occasional "hits" do not correct the fundamental flaws in the economy. At times the defense needs to shine until the offense can correct its flaws.

GET OFF STEROIDS

We at Vorpahl Wing Securities think the same way about investment portfolios. We believe in a portfolio that is not only positioned for the upside but also positioned for any market correction. Don't forget the lessons of 2007 & 2008. A market on steroids is similar to Barry Bonds and Mark McGwire on steroids: records won't be pumped up artificially but will come down to reasonable levels based on solid fundamentals!