

# CORE Comments

ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

January 25, 2010

## Uncivil Discourse

The week just past has provided proof--as if we needed it--that public discourse in our country is in a destructive downward spiral. President Obama's renewed attacks on banks and the Supreme Court's decision on campaign finance laws are striking reminders of how bad things are.

*The curdled political process in the United States is harmful to investments markets--and to the well-being of the country.*

Aggressive partisan baiting has become the norm over the last decade; Republicans have long recognized political advantage in attacking their opponents, using truth or falsehood as political calculus determines which is more advantageous. In the first months of Obama's administration, it appears that Republicans made the tactical decision to oppose the initiatives of the White House and Congressional Democrats, without respect to the severity of the problems under consideration or the merits of policies proposed. Thus, for example, although most Republican office holders recognize that the American health care system is inefficient and expensive, the political calculus seemed to be that outright and unified opposition to the attempt at comprehensive reform of the system was expedient. Better to defeat Obama and preserve a screwed-up medical system than to cooperate with Democrats.

*The complexity of America's problems demands nuanced discussion and co-operation. Instead, our political discourse is characterized by bitter partisanship, falsehoods and personal attacks.*

Having observed the souring public mood for its economic, financial and health care initiatives, the Obama administration has adopted much of the language and tactics of Republicans in its dealings with banks and attempts at regulatory reform of the financial system. After the striking Senate election in Massachusetts on Tuesday, the White House organized a brief speech by Obama on Thursday to announce the outlines of a plan to restrict certain activities of big banks. Obama pointedly referred to his willingness to fight the banks if they should oppose his plans. It reminded me of President Bush's language after the September 11th attacks and in the early stages of the wars in Afghanistan and Iraq, taunting Al Qaeda to "bring it on". Spoiling for fights ought to be well beneath the dignity of that office.

Last week, the Supreme Court struck down, on First Amendment grounds, long-standing campaign finance limits on corporations, overturning carefully-crafted legislation that sought to balance these First Amendment rights with an attempt to limit spending by big businesses in political campaigns. The likely effect of this ruling will be to amplify the strident voices and further to cheapen and coarsen political discourse. Our country faces complex problems, the amelioration of which is more likely in the context of civil public discussion. Civility and thoughtful debate are even less likely now.

**By**

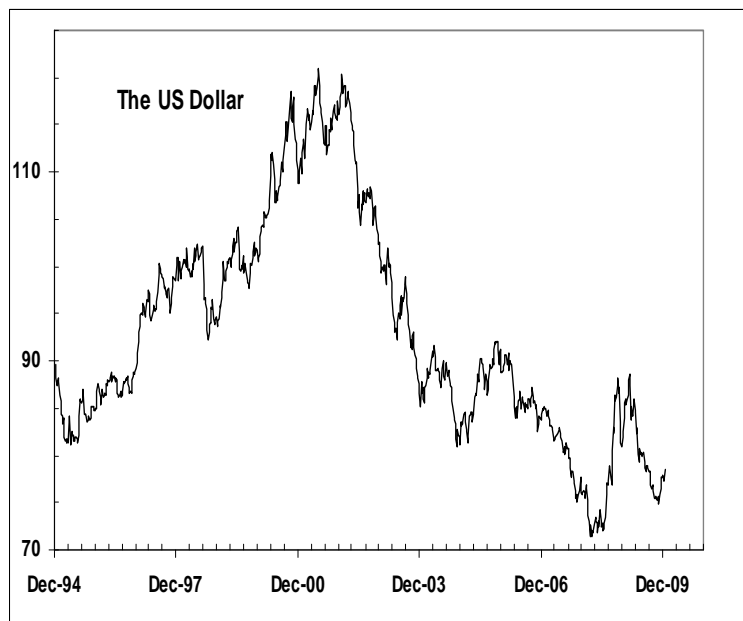
**Jack Mayberry**

For investors, stridency and belligerence are unwelcome. The miserable tone is hardly conducive to resolution of difficult fiscal, monetary, and economic

*The US dollar may be in early stages of a recovery. We have sold our position in euros, but retain investment in other currencies.*

problems or to reform of our woe-fully dysfunctional financial regulatory system. We have not fully finished with a financial crisis of unprecedented magnitude; further erosion in the functioning of our political system is destabilizing at best. Economic growth is unfolding; financial markets are recovering from their trauma; the central banks are providing very favorable monetary conditions for the markets and the economy. Would that the political environment offered support for economic growth and stable financial markets.

**Currencies.** As the markets pulled back from the abyss beginning in March last year, the value of the dollar began to fall against freely-floating foreign currencies. On a trade-weighted basis, the dollar fell by about 16% in nine months. Since Thanksgiving, the dollar has turned upwards in value, especially against the euro. It



has remained weak against the other currencies in which we have investments, namely the Canadian and Australian dollars and against currencies of many developing countries that do not peg their currencies to the dollar. Fiscal problems with countries at the periphery of the euro-zone, especially Greece, but also Spain, Portugal, Austria and Ireland, present problems for the euro. The European Central Bank may need to retain its very low interest rates and quantitative easing policies longer than does the Federal Reserve. These factors suggest that the euro, which rose to \$1.50 to the dollar in beginning of December, and now stands at \$1.41, could fall further in the months ahead. We sold our large euro position in stages beginning in late November. It is an open question, and a matter we consider closely, whether a continued rise in the dollar's value will damage a number of other investments we hold, including our remaining currency investments, commodities, and emerging market equities.

*Each year Core Asset Management files with the SEC a form ADV with information about our company. If you would like a copy of Part II of Form ADV, please contact us.*

**Trading and transaction costs.** In conversations with some clients recently, I was asked about the relatively high number of trades Core has been making. It is quite true that I have felt obliged to make changes to our portfolios at a greater rate since the financial crisis began than previously. The uncertainties, risks to the banking system, shifting policy responses, and extremely high levels of volatility have been behind these tactical investment moves. We at Core have no wish to trade your capital actively; it is very time consuming for us and, as you know, Core realizes no benefit from greater activity. Our dual responsibility, to protect and to increase your capital, has caused us to trade more actively during this crisis. When placid times return, we will certainly be able to make longer-term investments.

In this connection, it is worth noting that Schwab has recently reduced its commissions to \$9 per trade for all accounts that authorize electronic delivery of statements and trade confirmations. Previously, this \$9 rate was available only to Schwab customers with a total of \$1 million in their Schwab accounts. For accounts requiring paper statements and confirms, commissions range from \$13 to \$20. We will contact all Core clients who still receive paper statements, suggesting the switch to electronic delivery.

**CORE**Comments



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