

THEORY OF FINANCIAL RELATIVITY

***Unlocking Market Mysteries that
Will Make You a Better Investor***

Daniel R. Moore

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DEDICATION

In Memory of Michael J. Rider
for his endless pursuit of knowledge
through the study of history

ACKNOWLEDGMENTS

This book would not have been possible without the support of my loving wife, Susan, and my children, Erin and Connor, who provided endless words of encouragement as well as plenty of curiosity while the research, writing and publication of the book was happening.

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PROLOGUE

I was born in September 1962 in Oklahoma, the Sooner State. At the time I had no idea how making my arrival into the world in a state known for settlers who showed up early to stake first claim on land would become an appropriate analog for the first 50 years of my life. I did not stake a claim in Oklahoma. I did not stay there long, just two years. I was not born with a silver spoon in my mouth. My father was an Army ROTC cadet while earning his chemical engineer degree at Virginia Tech. His father was a railroad engineer in Appalachia, Virginia and my mother's father worked as the foreman in the coal mines in Derby, Virginia. My father landed in Fort Sill, OK to do a tour of duty after college graduation, and that was where my voyage began. The Sooner State perpetually in my blood, my life has been filled with quests. Pursuits of many things, but the two areas that stand out most are a drive to build secure wealth, but equally, if not more important, knowledge about how to do so. The latter is the reason I wrote this book – to document and share the knowledge I have gained through a very exciting and high growth time period in American history, and stake a small claim to a piece of that history in a way that will let others hopefully perpetuate the understanding and become better investors.

My earliest recollection of an important date in history was watching, on a black and white TV, Neil Armstrong become the first man to step foot on the moon on July 20, 1969. Then there were the Vietnam War reports and stories about POWs I listened to while in first and second grade when I lived in Kingsport, Tennessee. On to the long gas lines during the oil crisis in 1973, which I witnessed from a new location, the Upper Peninsula of Michigan. At the time I had no idea why the gas shortage was happening, only that foreign countries in the Middle East were involved. And even though I was still young, I can clearly recall the Nixon resignation, with Gerald Ford “clumsily” taking over. Then, euphoria overtook our household in November 1976 when Jimmy Carter was elected president. It was an elation that was short lived, however. I was in

high school in Asheville, NC during the Carter years. From that point on my memory becomes a lot clearer. Certificates of deposit rates of over 10% at times are firmly in my memory bank. And my parents' mortgage rate was at an equally high level. But they didn't seem to suffer in the process. They bought and sold houses on several occasions during the period, and each time the price of the house increased. Inflation was rampant, but not a lot of people seemed to be that concerned – until the Presidential election approached in 1980. It was a time of fast paced relative adjustment, as I would discover looking back on that point in history in researching this book.

In 1980, I struck out to obtain a college education in the sleepy town of Clemson, SC. The first event, outside of adjusting to the rigors of college level academics relative to high school, was the sweeping in of Ronald Reagan as President. I would learn in finance courses I took in my junior and senior year that the deregulation of interest rates in 1980 made it an important time in U.S. monetary history. During the time I also studied the work done by Milton Friedman and read the book “Wealth and Poverty” by George Gilder, and other economic supply-side literary works. I am a product of the social transformation known as the Reagan Revolution.

After obtaining an undergraduate degree in financial management, I began a second stage of my journey which put me in close contact with inflection points in financial history - boom times and dramatic bust. My first job coming out of college was as a credit analyst for NCNB. For those who do not know the company history, North Carolina National Bank, through mergers and acquisitions allowed by deregulation, became Bank of America when it combined with the California-based institution in 1998. When I joined the bank in 1984 the bank operated only in North Carolina. By 1998, they operated in all 50 states. The short time period I worked at the bank left a solid impression upon me. As a credit trainee, I met on several occasions the visionary behind the expansion strategy of the bank – CEO, Hugh McColl. A man with military training and high ambition, building the largest bank on the planet, or at the very least the U.S., was a quest which he was not going to be denied. But, successful execution of the strategy was not going to be born out of an academic formula. Rather, the vision was simple - build sheer size and scale advantage operationally over all of its competitors using computer technology. Little did I know at the time it was the birth of “too big to fail,” and I would revisit my early investment in the bank in 2008 under far different circumstances.

I did not stake a large claim at NCNB, moving on to other territory by obtaining my MBA at Duke University from August 1986 through May 1988. It was a very interesting time to obtain an MBA degree. When I arrived on campus, the stock market was growing much faster than it had in years, and the Reagan years had produced solid, non-inflationary growth. However, a shock to the financial system

occurred in the fall of 1987. A sudden flash crash in the stock market left Wall Street wounded just as I was looking for opportunities coming out of graduate school. Although the '87 stock market decline and subsequent recovery was one of the sharpest and shortest in history, it still left a dent on my return to the financial industry upon graduation.

Given the circumstances, I landed at Northern Telecom as a management trainee out of graduate school. To be honest, I was a fish out of water. A highly trained financial professional a thousand times more versed in discounted cash flow than ASICs and equally under knowledgeable in Moore's Law and the likely path for computer technology in the communication industry. But I did have a few assets that I had accumulated along my life path that served me well in the transition. I did an internship with IBM during my junior year of undergraduate studies. Although it was in the finance department, my job during the summer was to write applications to move mainframe programs used by the department to the PC. IBM did not become the monolithic provider of personal computers in the years that followed, but they were on the leading edge of understanding how they would be best utilized. So I got nuts and bolts training on how computers worked – both mainframe and PC based. The training was not just glossy application level point and click application implementation. There was no mouse. There was no internet. There was no easy to read manual. The only available resources were the 4 floppy disk-based programs and accompanying manuals – DOS, Basic, Word and VisiCalc. I became well versed in these programs, and the knowledge gained served me well through the remainder of my education and career development.

Northern Telecom in the late 1980s was a booming company. I learned quickly that the company, based in Canada, was enjoying a major upsurge in growth because of the sales of its Digital Switching product line. The opening for the company into the U.S. was created by the confluence of two events. One was the change out of analog based telephone switching equipment across the United States. The computer age had created technology that reduced the form factor and power consumption of the analog equipment then in use by a factor of 10. The business case for changing out the old equipment was ripe. The second, and probably equally important reason was the landmark Anti-Trust decision presided over by Judge Greene in 1982 which broke up the AT&T monopoly. The consent decree, usually called the modified final judgment (MFJ), required AT&T to spin off seven Regional Bell Operating Companies (RBOCs) who maintained ownership of the access network connection to phone customers. AT&T was allowed to maintain the long distance network and inter-connecting transmission network across the country, which would eventually be a key asset for the growth of both the wireless network and the internet. The MFJ was a key court decision for Northern Telecom, eventually renamed Nortel in the 1990s, because the

RBOCs needed a second supplier in addition to AT&T in order to run their business. It also spawned competitors in the long-distance business – SPRINT and MCI – companies which Nortel became the primary telephone switching gear supplier. The laws of staking a first claim in a changing environment whatever the cause might be were becoming a little clearer to me at that point in my life.

My career development at Nortel was blessed in the early 1990s to cross paths with a brilliant scientist and developer by the name of Mike Rider. Mike was distinguished in his development work in many aspects of digital technology at the ground level, deep in the construct of application specific integrated circuits (ASICs) and embedded processors, which feed the form factor changes in the industry. He was also a visionary, probably because he studied history so thoroughly, and could project the learning's of the past to what would happen in the future. His biggest knowledge deficit, and probably what he wanted to learn the most about, was business and finance. As luck would have it, in the early 1990s the biggest challenge for Nortel was how to manage the fortune it had amassed in the transition from analog to digital in the telecom industry and evolve as the half life of the installed base of equipment became shorter and new technology was developed.

In the early 1990s I saw the first practical demonstration of internet technology – online look-up of information using a software application known as a browser on a personal computer. The significance of this meeting was that it took place in the context of a planning meeting for the star multi-billion dollar DMS-100 product line, which I was responsible for business planning in support of product evolution. In white board sessions with Mike, what he foresaw was breathtaking, but also very troubling for the Nortel business model. From a networking technology standpoint, the internet was going to become the switch, and voice was going to become a very cheap application on the net. Voice-based technology, which was the primary revenue generating service for the bulk of Nortel's customers, was going to come under severe price pressure in the next 10-20 years as the switches that supplied the service were busted apart into component pieces of the internet – leaving only a look-up database for connecting two ends of a call connection. Mike just saw one big ASIC called the network, which was once confined and controlled by a central office mainframe switch. So we set out to evolve the platform by turning the technology inside out, allowing the Nortel installed base of network equipment to transform. The change was easy to do technically, but not simple from a business perspective.

The competition for the network prize was fierce, both inside the company and outside. Cisco was the obvious front-running prize winner. Born out of the natural evolution of computing and networking technology, Cisco laid claim to the distributed internet-based network of the future with a fast growing installed base of routers throughout the U.S. and world. Just as I had been in contact with the “too big to fail”

banking sector formation in the mid 1980s, in the mid 1990s I found myself in the midst of the “irrational exuberance” associated with the take-off of the internet age and the dot.com boom, and I was armed with a disadvantaged set of assets. The Telecom Act of 1996 was the nail in the coffin for Nortel. At first the Act produced a major upswing in telecom because it deregulated the local telephone business, creating a rash of new competitive local exchange companies (CLECs). All of these companies needed a digital switch in order to enter the telecom exchange business. The RBOCs were required to provide access to their local customers at price advantaged rates. The new CLECs approached Nortel, and not only did the company oblige with product, they also provided “low cost financing.” The business strategy was a financial mistake, which in the market downturn post 2000 would bring the company down and eventually into bankruptcy. The CLEC business model was not sustainable, for the simple reason that it was based on the old network model, not the internet. The Telecom Act of 1996 set clear lines of regulated and deregulated communication networking businesses. Voice networking based on Nortel DMS technology was firmly entrenched in the regulated side of the RBOC business model, and investment in that part of the network was put into maintenance mode. Non-regulated activities such as internet access and wireless were the clear winners. I sold my stake in Nortel in 1999 just as the company stock peaked and did not look back. It was one of the best trades of my life.

I landed in Silicon Valley for a joy ride, which I will elaborate upon in a section of this book. But the series of life events that drove me to sell and re-invest in 1999, and then finally sell out again post 2004, provide the real life inspiration for writing *The Theory of Financial Relativity*. During my tenure in Silicon Valley, it was clear that there were forces acting upon the markets which I had become deeply intertwined from a career standpoint – that had nothing to do with technology value. There was money showing up in the market, “trucks full of money.” Where was it coming from? And then, it suddenly vanished. I had studied Adam Smith and the concept of the “invisible hand” in college. However, this force seemed to be more of a magician than an invisible hand. With a bent for financial puzzles, this one seemed worth solving.

When I finally cashed out of California in 2004, selling real estate that had magically doubled in value from the point in time I arrived, and also profitably exiting a technology business that I helped to stabilize in the market correction, I undertook a new challenge. The first part of the challenge was to successfully make a living primarily as an investor rather than a worker or manager. The second part of the test was to solve the confounding problem of explaining what causes major market moves, and become better equipped to take advantage of those moves as they inevitably occur over the course of time. This quest consumed ten years of my life from 2004 thru 2013, and is not over. It involved investing money through very tumultuous market

times – but then again, as I have learned in doing the research for this book, market volatility is the norm not the exception.

This book documents ten years of research focused on exploring the forces that underpin major market moves from WWII through 2013. The one thing I learned in the computing industry is that real knowledge is gained at the extremes when dealing with systems. Using this technique, the historical analysis focuses heavily on major market inflection points – when stocks corrected downward significantly, and then recovered. Fourteen (14) market corrections are studied between WWII and 2013, starting with the 1946 downturn. Based on the gathered knowledge surrounding these major market events, a research framework for understanding was created, which I have named the Theory of Financial Relativity. 8 Guiding Principles have been formulated from the research, as well as market signals which can be utilized by investors to warn of both good and bad impending change in the market. The implications for portfolio allocations are also reviewed.

To understand why the market moves, having anecdotal stories of what works at a particular time was not good enough for me. I thank my mentor in the telecom industry for his love of history, for guiding me to reach back into time and review the data within the context of financial market history in order to gain true insight. For this reason, this book is dedicated to him. He passed away in July of 2013 after a five year fight with cancer. I had many discussions with him over those five years in which I would use him as a sounding board for concepts I planned to put forward in the book. The discussions often rambled in many directions, but always circled back to “the only constant is change” and “the laws of physics apply to everybody equally.” Colorful metaphors about “when pigs break the sound-barrier” were often used.

The data utilized in this book is not proprietary or created through primary research. The laboratory for the research is the market itself. The majority of the historical data can be located and downloaded on the [Federal Reserve Bank of St Louis \(FRED\)](#), [USTreasury.gov](#), and [TreasuryDirect.gov](#) websites. The ongoing market statistics are reported continuously on the major business media web pages such as [CNBC.com](#) and [Bloomberg.com](#). All the data utilized is consistently compiled when possible to reflect the month-end closing trade value. The analysis and presentation of the data is not intended to be overly complicated so as to make it understandable by many – that is my goal. Enjoy!

THEORY PHILOSOPHY

SECTION I



1 VALUE IS RELATIVE, NOT ABSOLUTE

When you shop for groceries or clothes or almost any consumer good, do you find yourself drawn to higher priced items because you believe that a lower price means an item is “cheap”? When you buy a car, do you feel the need to buy the latest edition or the one with the most features or one that is exactly the right color? In purchasing a home, would you feel uncomfortable buying a foreclosed property?

These emotions are driven by people’s belief in their own self worth. If you answered yes to any of the above questions, you are entirely rational in the sense that when you spend money if you feel uncomfortable with the purchase, you are “losing” something more in your mind in terms of self-worth, in exchange for dollars saved. If the dollars saved are not worth all that much to you, then take the comfortable route. Consumer brand-based companies are masters at positioning products which play on people’s emotions. And many people, in turn, have been very good at branding themselves, and therefore need the positive reinforcement that spending more gives them.

If you are psychologically geared in this fashion, investing very likely is a confusing foreign language.

A necessary tenet for good long-term investing, as opposed to speculating, is being able to spot good value at a relatively low price. “Buying low” is a difficult concept if you equate higher prices with being more valuable. To make matters more confusing, buying an investment just because it is low priced does not mean it is a good value either.

To become a smart investor, you need to minimize any emotion in an investment decision when comparing alternatives and be able to discern the relative value between multiple alternatives. Investing is accumulating assets that are undervalued today, which over time the value will be maintained and potentially hidden value can be realized. Emotional purchases, on the other hand, are just spending and value is lost

almost immediately when a transaction is made.

Learning the Concept of Relativity

According to the dictionary, relativity is defined as a “state of dependence in which the existence or significance of one entity is solely dependent on that of another.”

As my kids have grown up, I have worked hard to instill the basic concept of relativity through the purchase of everyday living items. The learning moment is created when they have to make a judgment between the purchase of two seemingly similar items, where the choice can result in either spending less money and possibly getting equal or in some cases more “value,” or just spending money to feel good. Teaching the value of money is tough to do, and many times it can come off as looking “cheap,” particularly when the kids are in middle school, as my son is now, or in high school which my daughter was a few years ago.

There have been constant battles over getting the latest Apple gadget, or the highest priced shoes. Having worked in telecom in the 1990s, I am very aware of AT&T, Verizon and SPRINT’s constant desire to raise the RPS (revenue per subscriber) in an industry that is essentially a commodity. They have been very effective in doing this by making the smart phone a must have status symbol. In the process, texting, which technologically is a cryptic form of communication that is essentially noise on a data network, becomes a high dollar feature offered by the big service providers. Value is definitely in the eye of the beholder. I am constantly asking when the bill is being paid, “whose kids am I putting through college with this purchase?” I haven’t won a lot of battles in the smart phone value purchase decisions in the household.

My fear has always been that my kids are growing up in a world where they are taught to spend rather than invest and demand value. So, I constantly use special tactics to get the kids to grow up being more critical in their decisions about what something is truly worth. Purchasing cereal is a very basic way to teach kids the concept of relative value. Our local grocery store always carries a brand name and store brand cereal. When the kids want to try a new cereal, I usually get the store brand in place of the brand name first. They will try it and usually not complain. Then when the brand name goes on sale, the alternative (brand name) comes into the house for a test (but never the brand name first).

Not unexpectedly, I rarely hear a complaint when the next week the store brand is purchased. But on more than one occasion, my kids have actually complained that the brand name was actually worse in taste – and directed that it should no longer be purchased.

My kids are still developing the ability to understand the concept of price relative to value – and this will come as they have to spend their own money to buy things. But,

by making sure they test a product without getting attached to it for emotional reasons, I have given them basic training in one of the fundamentals of being a smart investor – review investments side by side on a relative basis, and do not become attached to just one alternative.

Great Investors Seek Relative Value Opportunities

The wisdom instilled in the advice of the most revered investors like Warren Buffett or Benjamin Graham is worth the time to review. The common thread in their advice is to find relative value. Mr. Graham's counsel is to research a company and base your investment decision on sound fundamentals, investing when the metrics point to an under-valued situation. Warren Buffett uses much the same formula, with the added perspective that in the long run stocks always out-perform. If you have a well-diversified portfolio, usually meaning about 20 stocks of well managed companies across a broad range of markets, you can outperform the average market return.

No one can argue with the results of these legendary investors. They steadily out-performed the market average over time. To follow this methodology of picking winners in the universe of stocks and bonds, a plethora of information is available to assess the value of traded securities. The internet makes information much more readily accessible to investors, and you no longer are limited to sell-side analyst reports from major brokerage firms to get opinions on value.

The number one rule in picking stocks and bonds – you have to do your own homework. If someone is pushing an investment, many times they have an alternative agenda. Your conclusion about value must be based on your investment objectives and your understanding of what value you will receive from the investment.

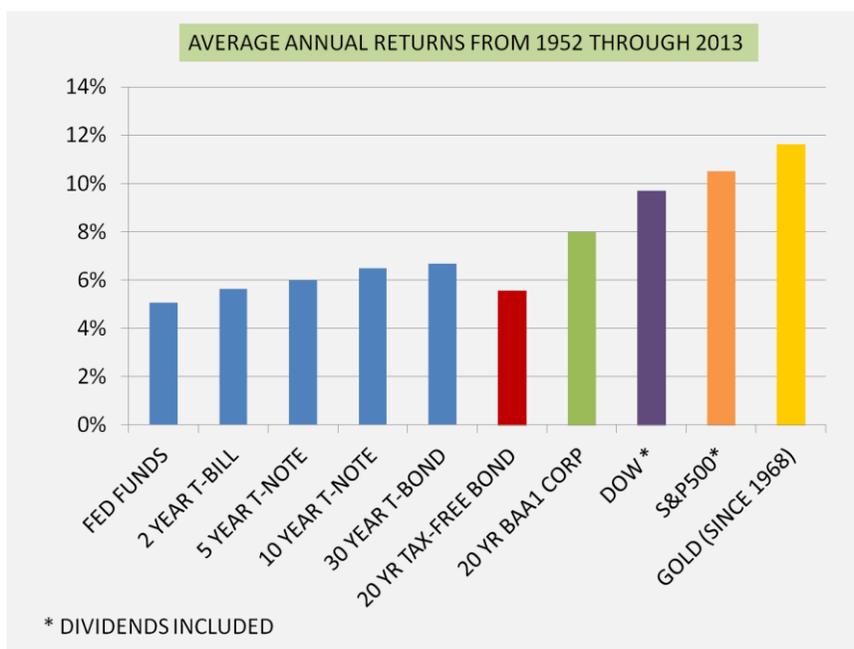
To assess an investment, the best source of public data for stocks is [EDGAR online](#), which is the SEC government repository of all public filings by a company, including its 10-K (annual Report), 10-Qs, (quarterly reports) and 8-K (material press releases and other information). Business web-sites also give easy access to financial information about stocks. For bonds, the FINRA site tracks all traded issues in the U.S. market – corporate, municipal and government. Assessing a bond, however, requires an in-depth analysis of the same financial information as assessing a stock. The only difference is you look at the information from the perspective of being a lender to the company rather than whether you want to be an owner of the business.

Due diligence for an individual investment can be extensive, and this book is not intended to dwell on the techniques for digging into the data on individual companies. The most important aspect of security analysis is creating a relative framework for assessing whether a company's stock price is inexpensive (buy) or expensive (sell). This framework should include ratio measures that allow you to compare across a

number of investments in the category you are looking at buying or selling. You must look at more than one investment in a particular category in order to get a relative feel for value. All great investors have a knack for understanding the concept that the value of an investment is always relative.

Higher Returns Come with Higher Volatility

I have benefited as an investor over the years from using the perspective that Warren Buffett and Benjamin Graham, and others like them have taken. But personally I have never felt the simplicity in their advice was ever quite the essence of investing. For sure diversified, value based stock selection is good fundamental advice for investors who pick stocks. Stocks over the long-run have done better than bonds. The following chart comparing 60 years of returns of various investments proves the point empirically:

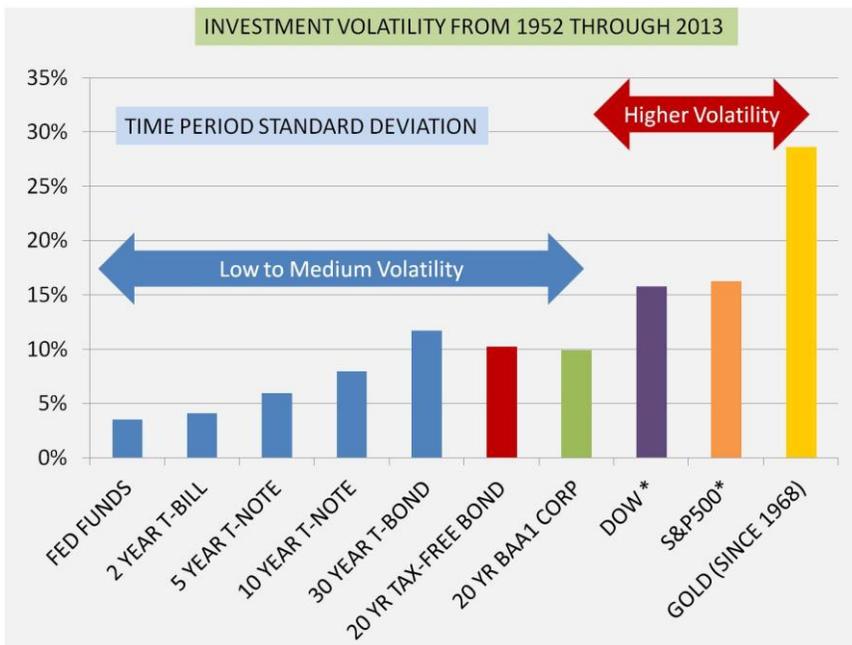


I began studying the market in the early 1980s in college, just as Paul Volcker was breaking the back of persistent inflation with a change in Federal Reserve policy using the growth in money supply rather than pegging of interest rates to manage the financial system in the United States. Interest rates increased dramatically while I was in high school in the late 1970s and college in the early 1980s. Times were tough and the “misery index” political terminology coined by Ronald Reagan became the focal point of the markets and people across the nation. Since I was in college, the best four years of my life spent in poverty, I was able to escape virtually unscathed from all of the changes in the market at the time. Once out of college, I began to build wealth

through the market as many in my generation have done. The stock market exploded upward through the 80s, with the exception of the brief dramatic crash in the fall of 1987. Lucky for me again, I was in graduate school at Duke University during the crash, escaping the wrath of the market on my personal assets for the most part.

The 90s were a mix of war early in the decade that weighed on the market, and a major expansionary force driven by internet technology in the latter half of the decade. Post the millennium parties, however, the shine of the market assent definitely and vividly, in my recollection, changed to a dull finish. With the election of George W. Bush and the 9/11 attacks, the market economy switched from peace time to war. From that point forward, the micro-management of the financial markets by Washington bureaucrats got progressively more evident and aggressive. Active investors through this time period, of which I was one, saw a country driven not so much by technology as in the 1990s, but by oil & gas, the defense industry, and the most memorable sector – real estate. This economic concoction, when combined with substantial consumer and investment banking over-leveraging, led to the liquidity driven market crash in 2008, highlighted by the bankruptcy of Lehman Brothers. Post the 2008 crisis, the investment markets were fixated on the liquidity supplied by the Federal Reserve as the primary driver for increases in the stock market. The market rocketed to new all-time highs in 2013 as the Fed continuously supplied more and more liquidity into the financial market. Many prominent investing figures of our time were lining up behind the momentum led market returns, espousing the long-term advantages of stock investing.

The returns in a well diversified portfolio of company stocks clearly beat the bond market over the long-term. But the road to achieving higher returns is fraught with increased volatility, as the graph below illustrates.



Using the standard deviation of the returns to measure volatility, the stock market is 3-5 times higher in volatility through time than the short-term bond market, and about 1.5 times more volatile than the long-term bond market. Stock returns are very dependent upon capital gains for return and are perpetual, meaning that value is derived from the going concern nature of the companies in the stock market. Buying and selling over time can create wide swings in value in the short and intermediate term, which can cause severe changes in the value of a particular stock, and even the stock market as a whole. On the other hand, bonds by definition have a defined maturity date. As the data show, deriving return from the ongoing interest rate of a bond is far less volatile than assets such as stocks and commodities like gold. The trade-off from being able to withstand the volatility, or “hold the risk,” is a key to achieving higher returns. The risk reward trade-off is a fundamental premise in modern financial theory. Theoretically, if an investor wants to lower the volatility in his / her portfolio, by creating a mix of stocks, bonds and alternative assets, the overall volatility goes down, and the risk-return ratio improves to a point where the investor can sleep well at night.

Market Portfolio Theory Incomplete

One critique of the “buy and hold” strategy centers on the fact that investing in this manner does not provide the optimal result. This strategy does produce decent results for disciplined, long-term investors. Over time you have a high probability of getting better returns in stocks if you can buy and hold them through thick and thin. My

biggest issue with the theory is that the market is volatile, and the risk taken versus the reward is relatively small. In addition most equity assets are highly correlated with each other. These issues beg the question - why is it so? And, is there a better strategy?

How many people do you know who are disciplined enough to follow the buy and hold stocks long-term strategy? A large portion of market participants do not follow this discipline when it comes to stock investing. Therein lays the missing element in market theory that I have struggled with over the years. Different market participants have different perspectives and strategies, and expect different outcomes. Differing expectations is what makes a market. Investing is a relative game. Some players in the game are much bigger in relative size than others; and certain market participants do not always have the same goals as the rational investor assumed by many theories of modern finance. Two such players or forces as I refer to them in this book, usually have a different goal than the rational investor - the U.S. Government and the Federal Reserve Bank. Portfolio theory assumes the effect of the government and Fed on market returns is systemic, not diversifiable, and therefore should not encumber long-term investment decision making. After all, any action by the government bodies should affect the market as whole equally overtime, right? The data is quite interesting with respect to this question.

At my 25th Duke Fuqua School class reunion, I asked a classmate of mine who was responsible for managing a very large equity portfolio what he thought of the stock market in the spring of 2013. Our discussion ranged across many areas, but one comment that stuck with me, because it came from someone who actively manages equity investments for very wealthy clients, and I am paraphrasing - “over the years I see movements in the markets that are always and everywhere done with a purpose and for the benefit of someone.”

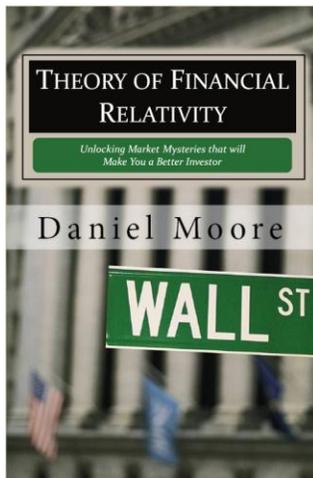
It was a rather bold, but not unusual statement – quite distant from the random walk theory learned in one of the classrooms at Fuqua. When I speak with many people about the market, the conversation leads to a perspective that forces are at work driving market value, most of which don’t meet the definition of “free market forces.” The staunch believers in diversified portfolio theory would call this activity noise, meant only to line the pockets of those who profit from the churn in the market. For the most part, I agree with the noise factor, and being able to deaden the noise is important. But, thankfully because of computer technology and the growing availability of data available for research, a new dimension about the market is coming into focus for me, and I will share some of the more compelling information I have uncovered in the remainder of this book.

My research laid out in this book points to the interaction between Wall Street, Main Street, Washington D.C. and foreign trading partners as an ever present relative force

influencing market returns in ways that can and should be gauged through time to produce higher portfolio returns with lower volatility. The first signal that led me to do this research is the volatility data provided in the chart shown earlier in this chapter. Oddly, when the standard deviations of fixed income investments are measured over the 60 year time period, short-term interest rates are more volatile than long-term rates when reviewed only in terms of rates (the chart is stated in terms of total return, the rate deviation only is shown later in the book). This interest rate pattern does not reflect a rational market. It reveals a market responding to human behavior and actions, many of which are only rational when viewed with the context of the political sphere. The non-random pattern is a clear indication that government meddling increases volatility and lowers returns for the unsuspecting, exhibited by chain reaction market collapses that are more than noise. The human action produces predictable events, ones that although I have not determined can be totally avoided, most certainly can be better managed by knowledgeable investors.

Thanks to the growing wealth of historical data now publicly available, the overriding market forces in the market can be examined in more detail for better understanding. The question that is examined in the remainder of this book is whether this dimension of the investment market functions in a particular relative fashion which, if better understood and monitored by investors, can produce superior investment results.

End of Sample.



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