ORCAM | ALTERNATIVE PERSPECTIVES

Macro Strategy & Research

August 29, 2013

Embrace the Fear

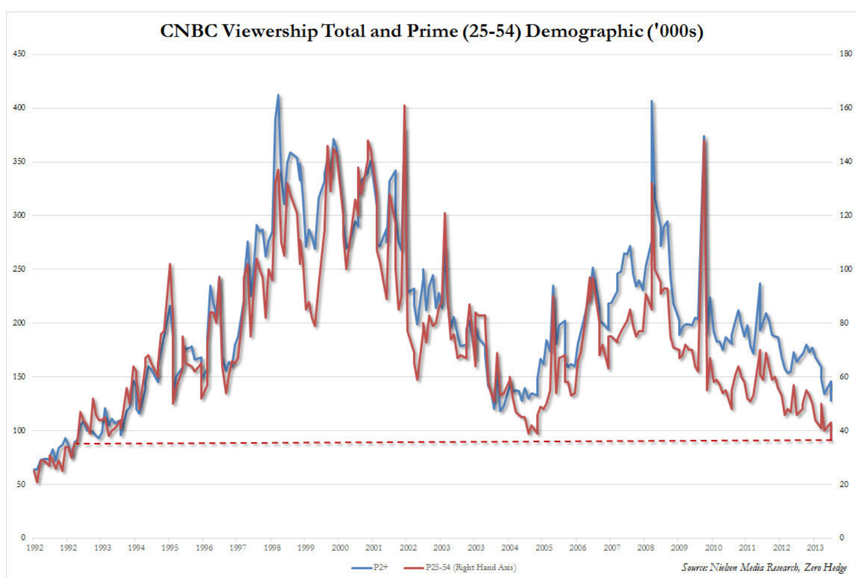
Cullen O. Roche
Founder
Orcam Financial Group, LLC
cullenroche@orcamgroup.com

Fear is a powerful and dangerous emotion.

Don't Let the Media Get You Down

If you've been paying attention to the media lately you might be inclined to think that the world is starting to fall apart. The USA is going to war with Syria, oil prices are spiking, the debt ceiling debate is back, there's a currency crisis in Asia, interest rates are about to send the economy into a tailspin, etc, etc. But we have to remember that the media is in the business of generating attention.

If the financial world was made out to be as boring as it really is then no one would bother watching the news and CNBC, Bloomberg and all the other financial news networks would be out of business. But sensationalism sells. The chart below shows CNBC ratings since 1992 (which, ironically, was posted by the most sensational finance site on the net, Zero Hedge). The two big spikes you see in the data are just before the Nasdaq bubble and crash and then the financial crisis in 2008. As you can see, CNBC prefers for there to be something catastrophic going on. That's just the way the business is. And I should know. I run a rather popular financial website and traffic is down 50%+ in recent years. That's probably because the content is terrible, but it's also because the recovery has made markets a lot less sexy than they once were. And that's a good thing!



Anyhow, is everything that's going on worth getting worked up over? Well, it could be, but let's take a look.

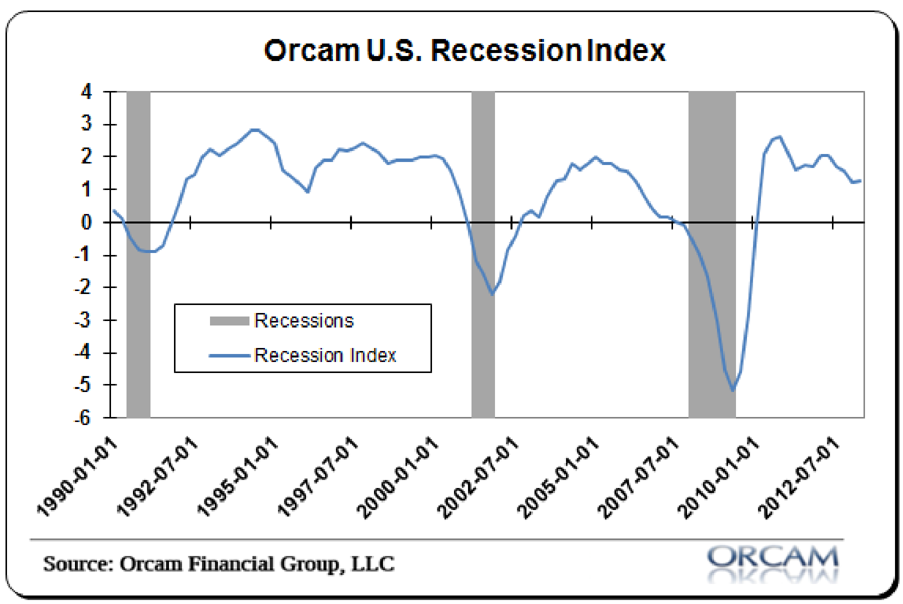
First of all, the war with Syria sounds very similar to some of the saber rattling that occurred around Libya. I am highly skeptical that the Assad regime is going to step up chemical attacks and enrage the world's largest and most powerful military to the point where a sustained war ensues. So I see the odds of a long and highly disruptive war in the Middle East as a relatively low probability event. And that means the recent spikes in oil are probably temporary events that will mostly likely correct to the downside as fears ease.

The debt ceiling debate is old news. We've seen this movie and we all know how it ends. Congress will do the usual grandstanding and an agreement will be made that raises the debt ceiling and eases fears.

I touched on the interest rate issue in the last note. I don't see higher interest rates as sustainable or problematic at present. Additionally, we're only back to levels seen just a few years ago so let's try to maintain some perspective when discussing "rising" rates.

Concerns about a currency crisis in parts of Asia are back in the headlines and fears of a 1997 repeat are rampant. A lot of this is reverberating from the weaker Chinese economy, but there's a big difference between today and 1997—the countries involved in this "crisis" do not have pegged currencies and do not need to protect the exchange rate to the same degree that countries did when the Asian currency crisis struck in 1997. This doesn't mean there aren't risks in the region and I still see weak Chinese growth as a major hurdle through most of Asia. But I don't see a repeat of the Asian currency crisis unfolding here.

That said, the story in the USA hasn't changed all that much. Recent data continues to be fairly positive and this morning's GDP revision showed a fairly healthy 2.5% growth rate. The Orcam Recession Index continues to point to a "risk on" strategic view. We're in an environment where things aren't great, but it's not nearly as bad as the media might have you believe.



In short, be careful about feeding the media beast too much. They want you to be scared. They rely on you being scared. But 9 times out of 10, when you step back and keep your wits about you you'll realize that the media is mostly just a big noise machine feeding you more information than you need and trying to incite emotion to make you feel like you need them when most of the time you're better off just tuning them out.

As I mentioned in the most recent QD update, I would be a buyer of downside in equities here. I don't see a major change in the macro trend and the QD is at its most favorable levels since late June.