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To: Our Clients  
From: Peter Cavelti

### The Delta Reminder

Dear Client:

Not long ago, on a beautiful August day, Delta Air Lines, the world's second largest carrier, suspended all its flights. Thousands of passengers world-wide were grounded. The company was quick to blame its electrical utility, but was soon forced to admit that the problem was a single computer router in Dallas that had malfunctioned. We've since also learned that Delta's IT system is ancient and has been in desperate need of an overhaul for years.

Sadly, the same could be said of countless other infrastructural assets in the United States. Bridges are crumbling, highways pot-holed, airports antiquated. Perhaps most important, America's electricity grid now suffers more disruptions than that of any other developed nation, according to the Department of Energy. Experts say that a comprehensive grid failure could result in a power outage that could last several days, and perhaps weeks. Imagine, not being able to withdraw money, use your credit card, tank up your car, or use your devices. Chances are that your water supply would be compromised, too. By comparison, having your Delta flight cancelled wouldn't seem all that bad.

Yet, a badly aging infrastructure is only one legacy the politicians leave us with. Other examples are a health care regime that's unsustainable, an educational system that's inadequate, and social welfare and pension systems that are close to collapse. What's truly astonishing is that all this occurs in the wake of the largest revenue collection binge the government has ever enjoyed: an entire generation of baby boomers enjoying full employment, reaching their most productive years, and—yes—handing an ever growing share of their earnings to Uncle Sam. And what did Washington do with all that money? Under Republican and Democratic administrations alike, the proceeds were primarily used to expand the role of government.

## It's As Bad Elsewhere

At this point, it's important to say that the problem of living it up today at tomorrow's expense is not confined to the United States, nor has the idea been espoused by politicians alone. The corporate elite has been frantically raising equity capital and borrowing, then using the proceeds to buy back shares. Not too many years ago, investors demanded that companies invest their profits productively. Today, investment analysts and the financial media cheer on any means to boost short-term performance, supported by an increasingly corrupted academic establishment.

As we all know, when things started to go wrong in 2008, the political classes ignored demands to resort to painful structural reforms. This left the central banks stuck with their mandate to prevent a meltdown of the financial system and, by extension, an economic calamity of the first order. Now central bankers are at the end of their tether. Nearly a decade of unprecedented, multi-trillion-dollar intervention later, zero interest rate policies (and in the case of much of Europe and Japan, negative interest regimes) have failed to kick-start the various national economies. Other than stock market and property price miracles, which have benefited the privileged, little of value has transpired.

## Inflection Point Reached

There is an inflection point to everything. In past missives, while I wrote about the absolute idiocy of what the central bankers call unconventional monetary policy, mainstream opinion makers were mostly complimentary. That has changed. The Bank of International Settlements and the International Monetary Fund are now both critical, advising that the continuation of the current experiment may cause far graver problems to the world economy than its abandonment. Private sector operatives have chimed in; alarmingly, some multi-billion successful hedge fund managers have closed down their operations, stating that central banks have effectively disabled their analytical training and tools, and that without them, investing has become a futile enterprise. Increasingly many of the largest investment managers are more pragmatic—they're unapologetically short the market, convinced that a bad correction lies ahead, so far at the expense of investors.


Well, when will the seemingly inevitable correction occur? No one can know, because it depends on the central banks and the level of comfort the investing public feels with the world's greatest monetary experiment ever. Forecasting the exact end of a bull market, as I concluded in my last letter, is an impossibility, which is why we continue along our course of retaining market exposure, but with an eye on vastly different possible outcomes.

## Our Unchanged Strategy: Prepare For A Variety of Outcomes

During the past quarter, we've used the significant changes in sentiment to actively trade the market. Admittedly, it is difficult to justify such activity as investing, but we believe pragmatism is a cornerstone of success in the current environment. The bottom line is that trading in and out of investments has considerably added to our performance, which has been quite elevated when compared to benchmarks.

We are very pleased with this result, especially given the difficult investment environment. If you have concerns or questions, please let Melissa or me know.

Kind regards,

A handwritten signature in black ink, consisting of a large, stylized capital letter 'P' followed by a cursive name that appears to be 'P. [unclear]'. The signature is written on a white background.