

## Sell in May and Go Away

The hottest initial public offering in years, Facebook (FB), was and continues to be a total debacle. We did not participate in the IPO and have not considered the stock as an investment. Facebook continues to decline some 40% from its opening day high. The financial engineers at Morgan Stanley and Nasdaq have lost a great amount of what little credibility they have remaining with small investors.

The May debacles did not end with Facebook. J.P. Morgan Chase (JPM), the largest bank in America, revealed they had incurred \$2 billion in derivative losses and reports now have the number exceeding \$4 billion. The blood sport of derivatives trading is back and those trading against J.P. Morgan are profiting handsomely. Jamie Dimon, CEO of J. P. Morgan, hinted it might be another year before they are able to unwind their losing derivative bet. We thought the regulators had put an end to those types of leveraged bets Morgan's "London Whale" had been making. JPM declined 23% for the month of May.

As for the S&P 500, it completed a 20% round trip. Rising 10% from January 1st and then giving it all back as of May 31st. This is now the third year in a row where the market has peaked in the Spring only to be followed by a summer swoon. Oddly enough, if that is happening again it will be for many of the same reasons the market declined during the last two summers.

In Europe, the political and financial engineers have let a bad situation get extraordinarily worse. Greek, Spanish and Italian banks are on the verge of "runs" unless they can be recapitalized. Europeans in these countries are desperately trying to get their money out of these countries. The following is a conversation we read on a blog recently between a U.S. money manager and a Swiss banker in Geneva:

**US** – Are you guys still seeing boatloads of money coming in from outside the country?

**Geneva** – Yes, the money is still coming. In the past two weeks the Swiss National Bank (SNB) was forced to intervene in support of the 1.20 peg. The amounts were big, over EUR 20 billion was purchased.

**US** – What is going on at the borders? Is money still coming in by car?

**Geneva** – Yes. The border guards can't search every car. The latest development is that the Border Guards are now searching some of the cars that are leaving Switzerland.

**US** – Why would border guards stop cars that are leaving Switzerland? What are they looking for?

**Geneva** – Mules. Professionals who smuggle money. It is very easy for a Swiss to go to a bank and withdraw a large amount of paper money. The mules bring the cash over the border to French and Italians who want Swiss Francs. The Mules also bring Euros into Germany for those who have private accounts in Switzerland who want cash to spend.

**US** – Is the paper money coming in and out of the country being done in large amounts?

**Geneva** – Yes this is big, but compared to the bank transfers that go on, or the amounts held in Euro Swiss (rolling FX positions) this is much much larger.

**US** – Where is the money coming from?

**Geneva** – From all over the globe, but not the USA. If an American comes in, we just show them the door.

**US** - Where does the most money come from, France or Italy?

**Geneva**- In the past few weeks we have seen more inflows from Russians than any other country.

**BK** – Russians? That’s surprising. What do you attribute this to?

**Geneva** – It’s politics and economics together. People are afraid.

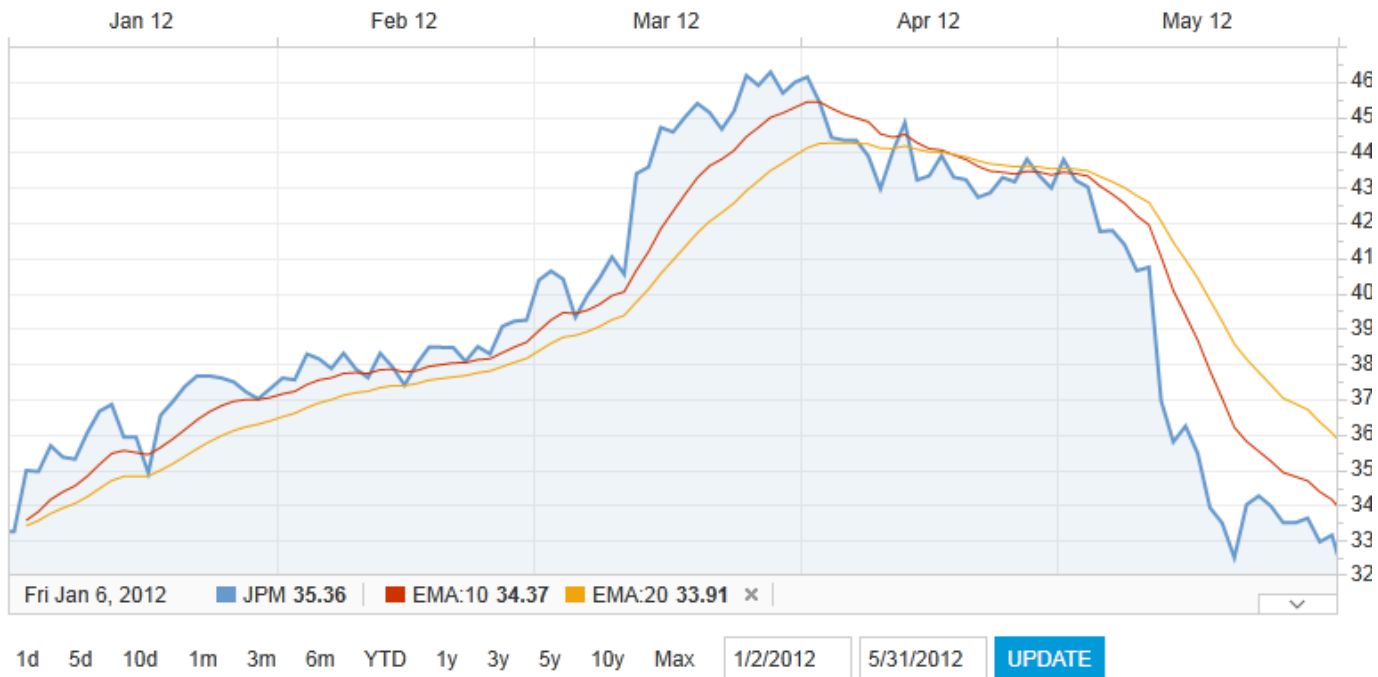
To end on a positive note, stocks are cheap and getting cheaper. The bond market is dangerously overpriced and should be avoided (maturities over 10 years or greater.) Trillions of dollars are sitting idle in banks and on corporate balance sheets earning a return of zero %. If we can get a change in political leadership in Washington this Fall we think that could provide the needed psychological boost to get investors back into the stock market.

A massive bull market is lurking somewhere in the future. Unless we get a change in the dysfunctional politics in Washington that bull market shall remain elusive. We shall see.

### SP500 Year to Date



## J. P. Morgan Chase Year to Date



Facebook IPO date May 18 to June 8, 2012



FB [NASDAQ]  
 Facebook, Inc.