# THE WALL STREET WISH LIST

By Brady Willett January 7, 2016



***In This Issue***



## When The Laughter Stops

*"Central bank interventions, first thought of as necessary and temporary measures to support the financial sector, have now turned into something quite different. They have become semipermanent measures in pursuit of stronger demand growth and the avoidance of disinflationary pressures. This is curious…"*
*Lessons from the Crisis. G30 ~ October 2015*[1]

One December 16, 2008 the U.S. Federal Reserve Board took the ultimate step and cut their target lending rate from 0.5% to 0.0%-0.25%. Judging from the transcripts of the December 2008 FOMC meeting[2], Fed members also engaged in a great deal of laughter:

MR. LOCKHART: Regarding financial markets, I would just comment that the pressures on the hedge fund sector have clearly not abated and may be intensifying. Over the weekend we picked up rumors of a Fed intervention that has not been discussed here, so I presume that it was just a rumor. Nonetheless, rumors were circulating that a major hedge fund group was about to collapse and that our people were "in," so to speak, over the weekend…
CHAIRMAN BERNANKE. Thank you, and if there has been any intervention in hedge funds, the Chairman is unaware of it. [Laughter.]
MR. LOCKHART. I am relieved to hear that.
MR. FISHER. He just wanted you to know about it, Mr. Chairman.
MR. LACKER. You said "has been"? [Laughter]

Yes, even with Greater Depression fears on the rise the chummy group of bankers at the Fed were yucking it up. The word "[Laugher]" appeared a staggering 38-times in the December 2008 transcripts. Some of the jokes, although crass/untimely, were actually quite humorous:

- MR. FISHER: One woman whom I know summarized it this way: "This is the divorce from hell. My net worth has been cut in half, but I am still stuck with my husband." [Laughter]

- [Current Chairwoman] MS. YELLEN: An accounting joke concerning the balance sheets of many financial institutions is now making the rounds, and it summarizes the situation as follows: On the left-hand side, nothing is right; and on the right-hand side, nothing is left. [Laughter]

So contagious was the jocularity that even Chairman Bernanke took a moment to grin about the Fed's ability to see this crisis coming _early_ (yes, this is the same Bernanke that up until December 2008 had been *'behind the curve at every stage of the story'*[3]).

CHAIRMAN BERNANKE: I will just note for the record here that the NBER has finally recognized that a recession began in December 2007. I said in the Christmas tree lighting ceremony that they also recognized that Christmas was on December 25 last year. [Laughter] The Committee was a little more forward-thinking. We began cutting rates, of course, in September 2007 and did 100 basis points of cuts in January 2008…

Bernanke mocking anyone for lack of 'forward thinking' is, of course, utter hogwash. After all, Bernanke completely missed seeing the housing meltdown and was still in the 'no-recession' camp as late as February 2008[4], but I digress.

Along with even more laughter, the March 2009 FOMC meeting transcripts[5] highlighted the maturation of Helicopter Ben's 'no limits!' stance on deploying monetary policy (or, in Austrian School' parlance, 'money printing'). Although some of the quotes below are lengthy, the fascinating dialogue helps depict how supposedly temporary/emergency market measures were being deliberated by FOMC participants. Let's start by looking at MBS purchases:

MR. LACKER: …I worry about the exit problem, and I worry about the optics of a situation in which, when the recovery begins, we're holding a huge portion of the Fannie Mae and Freddie Mac securities, and we're contemplating selling it off in order to tighten monetary policy. I worry about what elected political officials will have to say about that and what pressure they might bring to bear on us to forestall selling off a big agency portfolio.

With Richmond Fed, Jeffrey Lacker, starting a serious discussion about MBS purchases, others quickly joined in:

MR. REIFSCHNEIDER. I think the staff decided that buying a trillion was feasible and buying $2 trillion may be feasible. But at some point, it's more of a question for you. And what point is it just not feasible to go beyond, between the market problems you potentially create and the potential problems in setting up for exiting? I don't know what the limit is…

The discussion MBS purchase limitations continued:

MR. PLOSSER: But the question is: Wouldn't it be useful to try to get some handle on it? Suppose that limit's not $2 trillion, suppose it's $750 billion. How do I think about what that number looks like, even within some ballpark? I think it would just be very helpful for us to think about when those diminishing returns on the types of costs that the Chairman alluded to begin to kick in.

MS. MOSSER. There's a completely different set of limitations, namely, how much the payment and settlement system can handle, depending on how compressed we make these purchases. We have not done this yet for Treasuries, but for mortgage-backed securities, we think that if we tried to buy $1½ to $2 trillion more this year, we would come close to breaking it.
MR. BULLARD. It's great to know these kinds of constraints.

As 'diminishing returns', MBS purchase 'limits', and/or the potential breaking of markets were being debated, the meeting was proceeding like enthralling page-turner! Cue Bernanke:

CHAIRMAN BERNANKE. We could just acquire Fannie and Freddie directly. [Laughter]

Ahh yes…more laughter, and a joke from Bernanke that, given the ceaseless central bank shenanigans that have transpired since 2008, doesn't seem like much of a joke today.

## Bernanke's Bubble Blueprint Takes Shape

Prior to becoming Fed boss Ben Bernanke noted on numerous occasions that the Fed would never allow another Great Depression to transpire and/or Japanese style deflation to take root. On these fronts, two of Bernanke's most provocative speeches arrived in 2002:

I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we [The Federal Reserve] did it. We're very sorry. But thanks to you, we won't do it again.[6]

…the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost…We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation.[7]

Keeping the above speeches in mind, at the December 2008 meeting Bernanke tried to differentiate his money printing style from that of Japan's **[bolds added]**:

…I would argue that what we are doing is different from quantitative easing because, unlike the Japanese focus on the liability side of the balance sheet, we are focused on the asset side of the balance sheet. In particular, we have adopted a series of programs, all of which involve **some type of lending or asset purchase**, which has brought onto our balance sheet securities other than the typical Treasuries that we usually transact in. You are all aware of the lending facilities for banks and dealers, the swaps with foreign central banks, **the promised purchases of MBS**, the various credit facilities for which even I do not know all the acronyms anymore. **[Laughter]** In this case, rather than being a target of policy, the quantity of excess reserves in the system is a byproduct of the decisions to make these various types of credit available.

In other words, rather than simply *"providing enormous amounts of very cheap liquidity to banks"*, Bernanke believed that the Fed buying stuff directly was the best way to go. He continued:

I think that's a very different strategy, and Bill gave some evidence—we can debate it further—**that these different policies have had some effects on the markets at which they're aimed.**

Just to be clear on the above, the leader of the central bank charged with printing a currency that is held, pegged, and/or seemingly adored by all the world, actually took time to point out that when they print money and buy something prices tend to move. Wow! Needless to say, pointing at short-term movements in market prices as vindication for his experiment policies is something Bernanke would repeat ad nausea in the years after 2008, but I, again, digress.

Finally, Bernanke, in perhaps his most pointless soliloquy, strained to differentiate his style of money printing to that of Japan. The below is worth reading simply for pure fascination about how the mind of a money printer meanders and crazily seeks out a validation:

Again, to distinguish between the balance-sheet, quantitative-easing, liability-side approach and the asset-side approach that we have been using, I do not think—**and I feel this quite strongly**—that it makes any sense for us to have or try to describe monetary policy with a single number, which is the size of the balance sheet or the size of our liabilities, as the Japanese did. There are a number of reasons for this, but the least important reason is probably just the fact that many of our programs don't have fixed sizes. They are open-ended—like the swap programs, for example. Also, many of the programs have different timing, different durations, maturities, beginning points, ending points, and the like, and so in that respect I think it would be difficult to put in a single number. More important, the programs on the asset side of our balance sheet serve different purposes and have different structures and aggregating a dollar of MBS purchase, a dollar of commercial paper purchase, and a dollar of swaps to make three dollars strikes me as being apples and oranges.

Bernanke's point about aggregating the innumerable bailout programs to come up with a single tally does, if you are in the business of concealing and/or are uncomfortable of your actions, make a lot of sense. Otherwise the very idea that the Fed needed to battle endlessly about who and how much it was on the hook for during the crisis lacks the stink test. To be sure, when (well after the above ramble) you spend more than 2-years fighting to keep your bailout-related data secret, clearly the aggregate total the Fed was on the hook was more than a little embarrassing.

The Fed didn't tell anyone which banks were in trouble so deep they required a combined $1.2 trillion on Dec. 5, 2008, their single neediest day. Bankers didn't mention that they took tens of billions of dollars in emergency loans at the same time they were assuring investors their firms were healthy. And no one calculated until now that banks reaped an estimated $13 billion of income by taking advantage of the Fed's below-market rates… Bloomberg. November 27, 2011[8]

Suffice to say, with other Fed members hinting and even stating quite openly that new Fed-backed purchase programs required specific numbers and limits, the minutes are replete with King Bernanke decreeing monetary limits be damned! For better or worse, this was Bernanke being compelled by market forces to make good on his previously outrageous pledges that central banks must strive to be masterful money printers.

And, for the record, the Fed *"committed $7.77 trillion as of March 2009 to rescuing the financial system"*[9], and, per the Levy Institute, was ultimately on the hook for $29+ trillion[10] at the height of the crisis. Whatever ridiculously large number you care to focus on one thing is clear: after a trillion here, a trillion there, and a trillion over there, the Fed was all in…

## Central Planning Demolishes Common Sense

"We led the cows to water, but they didn't drink it, even though we told them it tasted good…So we thought we should drink it ourselves, showing them it was tasty." Former BOJ Board Member, Miyako Suda, 2014[11]

The eloquence of Mr. Suda aside, while using the Japanese bust to validate newfangled policies what Mr. Bernanke conveniently neglected to mention was that Japan started purchasing *stocks* more than 13-years ago[12], and today the Bank of Japan is more active than any other central bank, including the Fed, at trying to rig markets.

Japan's central bank already owns more than half of the nation's market for exchange-traded stock funds, and that might just be the start... October 28, 2015[13]

The BOJ is planning to buy all new JGBs issued next year, and owns about 30% of the outstanding supply, raising questions about how long it can continue buying at the current pace. December 18, 2015[14]

Accordingly, while the Japanese experience and Bernanke's blundering may have led the money printing charge, it is worth noting that since 2008 other central banks have started buying stocks directly in record amounts[15], still others have pledged to 'whatever it takes' to combat deflation, and still others have already done so and/or threatened to unleash negative interest rates in the future. For better or worse, the Keynesian/ common sense battle has been fought and lost. A recent recap from Satyajit Das notes:

Since Lehman Brothers left the mortal coil, there have been more than 600 rate cuts. Over the same period, central banks have injected over US$12 trillion under QE (Quantitative Easing) programs into money markets. Over US$26 trillion of government bonds are now trading at yields of below 1% with over US$6 trillion currently yielding less than 0%.[16]

In short, by being more aggressive than Japan was initially (not to mention having the *unique* privilege of printing the world's reserve currency), the Fed started a chain reaction that has resulted in gigantic central bank interventions across the globe. Common sense may say that not every central bank is able to freely print and purchase stuff with their fiat currencies without severe consequences eventually arising, but common sense has proved to be a jammed cannon against the fear of not following the herd.

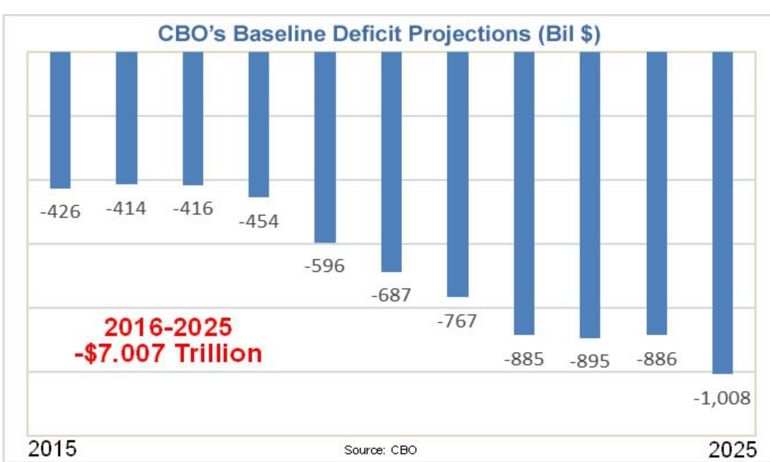
## We Are The World

The most remarkable thing about the period from 2008-today is how some of the most objectionable and enraging policy choices of yesterday have slowly come to be accepted as standard practice. Take for example the 'too big to fail' financial institutions, which many believe were responsible for the crisis and have come to epitomize the insatiable and reckless greed of the richest 1%. The "Occupy Wall Street" movement, which at its peak in 2011-2013 was sparking protests outside financial centres around the globe, is now regarded as a 'constructive failure' - even as the largest institutions have grown much larger than they were before the crisis! The still angry "99%" mob – who have watched the 1% reap almost all of the benefits from the Fed's post-2008 policies – will find the following at the Occupy Wall Street website today[17]:

Is protest broken? Micah White, co-creator of Occupy Wall Street, thinks so. Recent years have witnessed the largest protests in human history. Yet these mass mobilizations no longer change society.

Sadly, the deoccupation of a corrupt and contagion-infested Wall Street happened so steadily that it is difficult to fixate on exactly when and why the mobs dissipated.

As for the Fed buying Treasury Securities or MBS, lending at 0% to the financial behemoths, appointing financial players to police themselves, etc., akin to the Occupy movement, the majority of dissenters have simply grown tired of moaning and gone home. Take, for example, those that worried about who would buy U.S. debt when the Fed stopped its purchases. Akin to a cult after their Armageddon forecast doesn't transpire, much of the 'U.S. debt is doomed!' crowd has taken a vow of silence because the market didn't immediately collapse.



Incidentally, on this idea of U.S. debt fears slowly disappearing, has everyone forgotten that the Fed still owns more than $2.4 trillion in Treasury Securities and that the U.S. government isn't about to start logging surplus' anytime soon?
Assuming no recessions arise from now until 2025 and also that the U.S. can maintain a 4+% growth trajectory (I would wager quite a lot it will not), the government is *only* expected to tally up an additional $7 trillion in deficits. Prior to the 2008 meltdown these types of numbers would have been cause for window-ledge-walking style panic. Today it is difficult to find anyone on the mainstream who even mentions it, much less frets about high government debt levels sparking the next financial conflagration.

Finally, there is the example of central bank liquidity swaps (CBLS), which started with little fanfare in 1962 *"as a mechanism to forestall claims on U.S gold reserves under Bretton Woods"*[18], and evolved, rather swiftly, into a key crisis fighting weapon in 2007. This time looking at the September 2008 FOMC minutes, we can glean how these policy ideas came to fruition. Not surprisingly, there was a pit pull called Bernanke leading the charge and, as you might expect, a great deal of [Laughter]:

CHAIRMAN BERNANKE: …I would like to put on the table a request for authorization for swap lines**. I prefer not to put a limit on it, so I know I've got my own bazooka here. [Laughter] There is a Foreign Currency Subcommittee that consists of myself, the Vice Chairman of the FOMC, and the Vice Chairman of the Board.** Again, after Bill's discussion, I would like to discuss the possibility of giving us a **temporary authority** to use swap lines as needed.[19]

In his quest for a quick stamp of approval from the FOMC for his new CBLS scheme, Bernanke continued:

I'd like to propose that the FOMC delegate to the Foreign Currency Subcommittee an unspecified authority, in terms of amount, to offer swaps to foreign central banks as needed to address liquidity pressures in those other jurisdictions. Those decisions will be made, again, by the Foreign Currency Subcommittee…We would keep the FOMC closely informed.

When the laughter settled down (i.e. the very idea of an unlimited weapon for 3-Fed members to fire at will was outrageous and comical at the time), some brief debate about the duration of such a plan ensued:

MR. PLOSSER. Yes. I think it ought to have a termination point so that, if we wanted to renew it, we would be free to do so, but it wouldn't last forever.

CHAIRMAN BERNANKE. Of course.

And with the duration issue settled the often lone dissenter of the group, Fed Lacker, pressed Bernanke on the size of this new crisis-fighting mechanism.

LACKER: …All of our programs have been capped at a certain size…So you will set a definite amount?
CHAIRMAN BERNANKE. We will certainly negotiate with the other central banks and tell them what we're doing now. But we want to have the flexibility in case of an emergency to respond, and we also don't want to communicate to the markets somehow that we have a hard limit that is not going to be changed. That would be potentially bad for confidence.
MR. LACKER. But we will communicate a program size?
MR. DUDLEY. I think that remains to be discussed with our counterparties…
CHAIRMAN BERNANKE. I think it is mostly a communication issue. Anything else? All right. Do you want to call the roll on this one?

Having been curtly brushed off by Dudley and Bernanke, the cantankerous Lacker faded to the background as all members voted yes. When the original CBLS program expired new CBLS arrangements arrived (to help curb a re-erupted Euro banking crisis). And, finally, the outrage and common sense deployed by Congressman Alan Grayson in his memorable battle with Bernanke in 2009[20] over CBLS was obliterated in October 2013 when the swap agreements between the Big 6 central banks were made *permanent*.

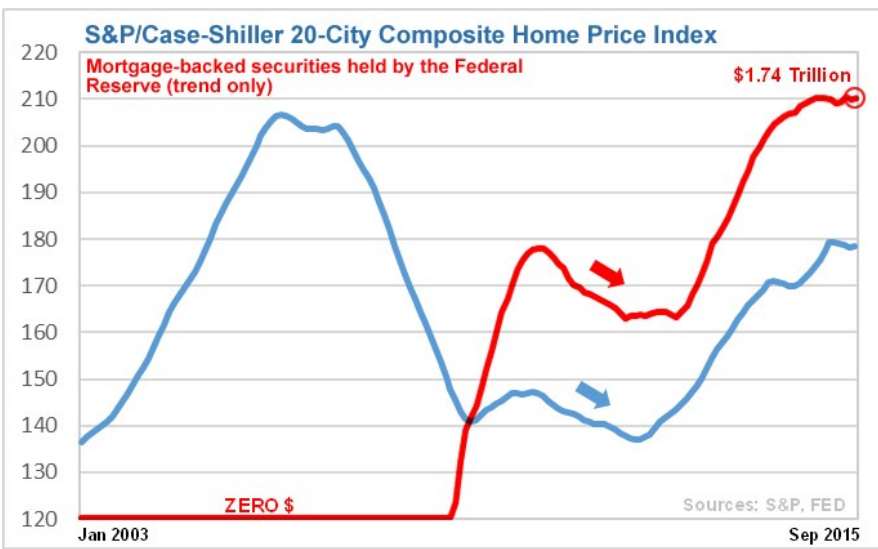
As for emerging markets, in the 2008 minutes Fed members universally opposed any CBLS with emerging-market economies, but, without much worry or mention of counterparty risks, these same bankers openly understood that nearly every central bank on the planet was playing the CBLS shell game before signing on to a permanent plan in October 2013.

The deal comes after the ECB struck a three-year currency swap deal with the People's Bank of China earlier this month. That swap arrangement will guarantee euro zone access to as much as 350 billion yuan ($57.1 billion).[21]

In short, just because a reckoning day cannot be forecast when looking at things like rising U.S. debt levels and expansion of Central Bank Liquidity Swaps, that doesn't mean that after a period of time passes concerns relating to these very important issues should vanish.

## The Unfunny Reality of Rigged Markets

A market watcher today can read and analyze the status of the housing market by looking at the monthly stats or by deciphering charts and analysis from market professionals. However, in the case of the U.S., *what good is any of this information when it does not also disclose that the Fed still holds $1.7+ trillion in MBS on its balance sheet?* Can the housing market ever really be said to be 'strong' if a single market participant (in this




case the Fed) could, by the mere threat of selling some of its holdings, collapse the entire market? Can the MBS marketplace, more than 7-years after the housing crisis, really be said to be on the mend when the Fed continues to purchase the majority of all new MBS with interest from its holdings each month? To quickly observe this idea in motion, one chart will suffice.

It is clear that the introduction of MBS purchases by the Fed helped arrest the collapse in U.S. home prices in 2009 and that the last time the Fed tried to sell any of their MBS holdings (Sept 2010-Nov 2011) U.S. prices started to *fall*. What is also clear is that the mainstream media conveniently neglects to mention the Fed's holdings of MBS when they talk about the fictitious revival in U.S. home prices.[22]

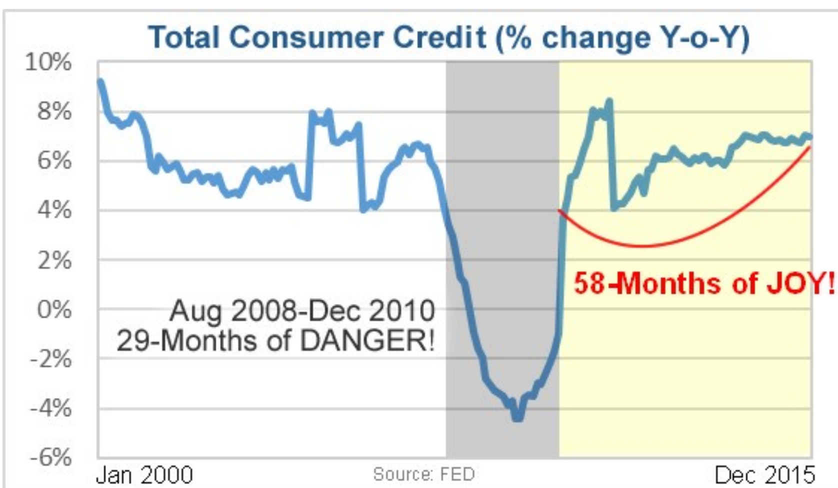
Not unlike the housing example – where by virtue of the market being broken in 2008 the Fed now effectively owns the market – similar Fed-induced price movements have occurred across a wide-spectrum of asset classes. To be sure, since 2008 the Fed's low rates have incited traditional 'savings' to become yield starved capital, the Fed's interest rate promises have provoked massive non-transparent carry trades and, more generally, easy money has helped produce potential mania market moves in equities, CRE, farmland, junk bonds, etc. The passage of time without another 2008 does not negate the fact that price trends alone suggest another major asset price move lower is around the corner, if for no other reason than common sense:

In the past 50 years, valuations of U.S. stock prices have been higher than they are now for less than 10% of the time, and similar figures hold for bonds and houses. This kind of synchronized boom has never happened, not even before the last two major meltdowns. My research team's composite valuation for the three major financial assets in America—stocks, bonds and houses—is currently well above levels reached during the bubbles of 2000 and 2007.[23]

In other words, the size of the Fed's balance sheet, the potentially ruinous quagmire of the zero bound can, depending on your state of mine, either be the boon or bane of tomorrow's financial landscape. But what central banks shenanigans can most definitely not be is ignored.

## Where Is The Fire?

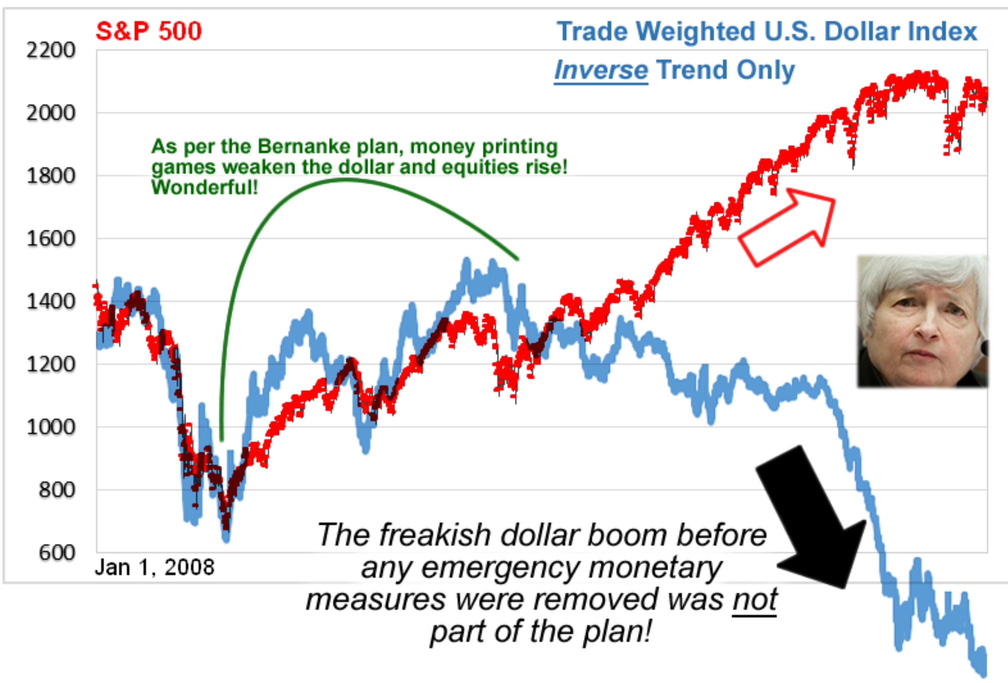
If the idea in 2008 and early 2009 was that central banks had to grease the wheels of frozen markets, logic would dictate that unfrozen markets would prompt a reversal. In the case of say consumer credit, even if you




are an austerity/free market zealot, there was a brief period in late 2008 when you could argue that extreme policies were necessary to cushion the collapse in borrowing after the prolonged debt mania. But, with the exception of the recent tiny Fed rate increase, why exactly have all of these emergency measures been left in place (and in many cases *expanded*) for the last 58-months?

Similarly, there was a time in late 2008 when the long overdue correction in asset prices was happening so rapidly that households were threatening to enter complete meltdown mode. Again, due to the risk of the annihilation of all of Wall Street *and* much of Main Street at once, you could argue that some policy action was prudent. But this period of ultimate stress in household balance sheets ended some time ago.


Finally, as stocks boomed well above pre-crisis levels the idea of needing to further stoke the wealth effect with exceptionally loose monetary policy slowly disappeared. The largest asset class in America – stocks! – have boomed following the Fed's QE-games.




But while the activity in stocks was welcomed by policy makers enamored with asset booms, the U.S. dollar broke from the script. In fact, while the Fed should have started hauling it its policy accommodation many years ago, one of the major *recent* factors against the Fed starting to unwind has been the super-strong rally in the U.S. dollar. This dollar boom has, according to the Fed, negatively impacted export and GDP growth, deeply reduced inflationary forecasts, and, more generally, highlighted the worrisome growth picture overseas (in particular China).

In other words, there was a brief moment (from 2011-2014) when the Fed should have started to acquire policy ammunition given that the justification for continued emergency policies had vanished. Even Yellen, stealing a moment from delivering one-liners, was initially in the camp that the Fed should be looking at hiking earlier rather than later back in March 2009:

MS. YELLEN: It seemed to me that, with the likely impact of a $500 billion program, we would have a stronger economy than in the baseline. We would probably want to be raising rates in 2012 rather than 2014.[24]

Instead, as we found out this month, it would be Yellen *in 2015* that started the slow, and sure to be very difficult road back to normalcy at the Fed.

## Conclusions

The biggest problem for the post-2008 world is that there is now, more than ever before, a firmly engrained faith that someone always has to step in to save the day when capitalism is about to fail. What can be difficult to conjure from this state of affairs is that capitalism *seems* to repeatedly teeter towards failure precisely because of the moral hazard that this erroneous faith provokes.

* When people, businesses, Wall Street institutions, bankers, or girl guides' selling cookies do stupid things with their money they deserve to be swiftly and mercilessly wiped out. This is the key component of capitalism! And until such a mechanism returns to ensure that this happens the very idea that capitalism is to blame for the nonsense central banks have perpetrated since Greenspan took over is utterly absurd. We have had an increasingly rigged game since 1987, and all serious effort made to restore the spirit of capitalism has been squashed by policy makers too afraid to simply sit on their hands. More specifically, and as the Fed minutes and acquiescing of dissent since 2008 aptly demonstrate, so long as drastic maneuvers can be undertaken to hold the system together for the moment, after a period of time many will forget why the drastic measures were supposedly adopted in the first place.

For her part, current Fed boss, Janet Yellen, has not differentiated herself from Bernanke. Rather, while responding to a critic from Ralph Nader[25], she confirmed that she is firmly in the camp that the Fed is awesome:

Would savers have been better off if the Federal Reserve had not acted as forcefully as it did and had maintained a higher level of short-term interest rates, including rates paid to savers? I don't believe so. Unemployment would have risen to even higher levels, home prices would have collapsed further, even more businesses and individuals would have faced bankruptcy and foreclosure, and the stock market would not have recovered.[26]

What Ms. Yellen conveniently neglected to mention is that while much of the above is likely true, had the Fed not acted at all there is also the strong likelihood that the worst would have already been over by now.

But instead of the worst being over, the Fed has repeated the mistakes of Japan in that it did not allow market forces to eliminate the bad debts and bets that had accumulated leading up to the crisis. This is an ironic outcome given that in December 2008 Bernanke and company branded their new and improved vision of QE by mentioning "Japan" more than 50-times (by way of contrast, during the same meeting the word 'homeowner' was uttered once).

In short, Janet Yellen is, like the two before her, much too fearful to even think about allowing capitalism to work. This means the Fed remains the only show in town, which is a very big concern as the asset boom grows long in the tooth.

"I think it's a myth that expansions die of old age" ~ Yellen

Umm. Ok. Well, myth or not Ms. Yellen, death has a funny way of picking on the old.

# Wish List Review & Outlook

| Historical Wish List Performance | | |
|---|---|---|
| **Year** | **Wish List** | **S&P 500** |
| 2001 | 52.50% | -12.92% |
| 2002 | 9.96% | -23.02% |
| 2003 | 24.10% | 26.05% |
| 2004 | 25.27% | 9.03% |
| 2005 | -3.01% | 3.17% |
| 2006 | 7.76% | 13.59% |
| 2007 | -13.54% | 3.66% |
| 2008 | -15.02% | -40.08% |
| 2009 | 33.13% | 32.01% |
| 2010 | 18.18% | 13.55% |
| 2011 | 4.91% | 2.36% |
| 2012 | 11.11% | 15.08% |
| 2013 | 1.95% | 28.50% |
| 2014 | -2.71% | 15.40% |
| 2015 | -13.24% | -1.82% |
| Avg. Annual Return | 9.42% | 5.63% |

Since December 24, 2014 the nine Wish List companies selected – on an evenly weighted basis - have decreased by 13.2% when including dividend payments and before taxes and commissions. During the same time (Dec 24, 2014 – Dec 31, 2015) the Dow Jones Industrial Average lost 3.3%, the S&P/TSX Composite index lost 10.9%, the S&P 500 lost 1.8%, and the Nasdaq gained 4.9%. Using 2015 as the reference, and whether taking into account positive currency translations or not, the Wish List underperformed the S&P 500 benchmark.

2015 was a poor year for performance primarily because our commodity-related holdings (GG, DNN, and PBA) each dropped by more than 30%. With this in mind, it is worth repeating: Perhaps the only holdings that could pass a strict buy-hold-value interrogation are Corby, Bowl America, and, to a lesser extent, Pembina.

We continue to believe that *owning* gold is an excellent way to hedge against a weakening U.S. dollar. We have favored gold (not necessarily gold stocks) since the first Wish List in 2000. With the exception of Goldcorp, our precious metals holdings are not included in Wish List performance.

Below is an alphabetical recap of the 10 companies currently on the Wish List (loss/gains take into account historical dividend payments).

## American Shared Hospital Services. - AMS

| | |
|---|---|
| Bought – July 5, 06 - $6.12 | 2015 Loss: -26.40% |
| Hold – Dec 31, 15 - $1.84 | Total Loss: -66.83% |

Despite AMS's $2.1 million impairment loss on its Mevion stake in 3Q15, Mevion continues to position itself as a key player in the proton radiation therapy marketplace. Much like our investment in AMS, which has been diluted with stock offerings, AMS arrived very early to the Mevion story and has seen its investment get diluted over time. The write-down was expected as Mevion has failed (at least when considering no blockbuster IPO) to live up to expectations. Mevion did lock down $200 million in Chinese-backed financing in August, and its growth story looks set to continue for some time.

AMS is expected to begin treating its first patient using the Mevion 250 proton machine this quarter! We are optimistic that this year can mark a turnaround for AMS, which has invested a great deal of time and money in the proton story. But while 2016 brings with it great opportunity, it also brings with it a sense a finality given that AMS's Mevion-related financial obligations are coming due. As per the popular saying, 'it is now or never!'

## BMO Equal Weight Utilities Index ETF - ZUT (TSE)

| | |
|---|---|
| Bought – Dec 27, 11 - $15.96 | 2015 Loss: -1.49% |
| Hold – Dec 31, 15 - $14.60 | Total Gain: +9.89% |

The threat of rising interest rates, at least in Canada, was eviscerated when the Bank of Canada cut its overnight lending rate in January for the first time since 2009. And with the BOC cutting rates again in July the outlook for the interest sensitive ZUT (on a relative basis) improved. Barring a major price move higher, there is no hurry to remove ZUT from the Wish List. Rather, with a yield more than 2.5 times that of the 10-year Canadian bond, ZUT is an attractive cash-like alternative to hold while the broader markets looks set for a volatile 2016.

ZUT is an income generating idea that looked like it was near the point of being played to its full potential early last year. However, given the continued decline in oil prices, which have been and should continue to be a major drag on the Canadian economy, ZUT is an attractive holding today.

## Bowl America Inc. – BWL (A)

| | |
|---|---|
| Bought – Dec 26, 08 - $9.00 | 2015 Gain: +4.34% |
| Hold – Dec 31, 15 - $14.24 | Total Gain: +103.7% |

The company's first quarter loss, traditionally its weakest quarter, arrived as expected, as did the company's continuation of a strong dividend payout. There was, however, a key difference in the latest reported quarter:

"The Company's original investment in the Vanguard GNMA bond fund began in 1988 with purchases of shares in the fund totaling approximately $1,400,000. **In August 2015 $1,000,000 of this fund was redeemed to meet the August 2015 dividend payment.** The fund is carried at fair value on the last day of the reporting period. At September 27, 2015, the value was approximately $2,726,000." 10Q

The decline from $8.8 million to $7.4 million (4Q15-1Q16) in the company's 'marketable investment securities' is noteworthy, but not a major surprise.

It should be remembered that we own Bowl America for both short-term (dividend) and long-term (real estate divestitures) reasons. Regardless of whether or not prices rise or fall, our investment position may not materially change. If owning an illiquid stock is not your cup of tea, don't drink Bowl America (i.e. if you think you may quickly need capital stay away).

## Corby Spirit and Wine Limited - CDL-A (TSE)

| | |
|---|---|
| Bought – Dec 26, 12 - $17.02 | 2015 Loss: -13.85% |
| Hold – Dec 31, 15 - $18.85 | Total Gain: +23.56% |

At the end of September the company had $170 million in current assets versus $50.8 million in total debt, with more than $93 million of current assets being cash. Also during the latest reported quarter Corby saw earnings jump, largely due to new contractual arrangements that kicked in with Pernod Richard Brands. And, finally, for the second year in a row Corby went the route of a special dividend to try and roll down its high cash hoard. From an abbreviation of the November 11 release:

Corby today declared a special dividend of $0.62 per share payable on January 8, 2016 to shareholders of record as at the close of business on December 11, 2015. The special dividend will result in a cash distribution of approximately $17.7 million to shareholders and will be sourced from Corby's current surplus cash position. This payment represents cash the Board of Directors considers to be in excess of its requirements to fund future growth opportunities.

No matter how many times you read it, the phrase 'cash surplus' makes the investor smile and think: *why can't all the companies I own have balance sheets like Corby?* Why indeed.

Corby's shares are currently attractively priced. The special dividend will be included in the 1Q16 results.

## Denison Mines Corp. - DNN

| | |
|---|---|
| Bought – Dec 26, 2012 - $1.21 | 2015 Loss: -50.51% |
| Hold – Dec 31, 15 - $0.49 | Total Loss: -59.50% |

The company closed some foreign operations (for $1.25 million and future considerations) and management expects toll milling revenues of $2.5 million in 2015 from McClean Lake. These positives are hardly worth mention given that Denison logged $35 million in losses through the first 9-months of 2015. With $25 million in current assets and more than $11 million in current debt, additional funds will required in short order for Denison to keep up appearances. Perhaps the sole positive is that a slumping stock prices has put millions of stock options underwater…at least until more are issued.

Yes, the tone when describing Denison can quickly turn sour, especially given the horrific year logged in many commodities in 2015. If Denison is not acquired or the price of uranium does not increase, we do not see our original investment platform staying above water.

## Goldcorp. Inc. - GG

| | |
|---|---|
| Bought – Jan 6, 14 - $22.29 | 2015 Loss: -32.03 |
| Hold – Dec 31, 15 - $11.56 | Total Loss: -43.42% |

Goldcorp is operating wonderfully from a production standpoint, but what the company produces has declined smartly in value. This dynamic, plus a write-down, led to a highly negative 3Q15, and there is every expectation that over the near-term the company is not going to see a financial windfall from operations.

Given that Goldcorp is one of the most attractive low cost gold producers and that its balance sheet is still exceptionally strong, we are willing to hold. We may elect to hold GG, our favorite in the group, for some if our macro speculations do not immediately translate into gains.

## Hammond Power Solutions Inc. - HPS-A (TSE)

| | |
|---|---|
| Bought – Dec 26, 12 - $8.20 | 2015 Gain: -3.50% |
| Hold – Dec 31, 15 - $6.37 | Total Loss: -14.02% |

Hammond continues to plod along and make money, as well as keep its balance sheet strong. However, even as its Mexican Joint Venture starts up, there is the realization that there is no real growth story to mention with Hammond. This lack of excitement has been a negative for the company's stock price, which fails to gather much interest even as the company valuation story remains attractive.

While there is no immediate need to sell, there is another story developing that may be worth monitoring:

In general, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results.

With the Canadian dollar collapsing last year and many foreseeing a continued fall this year, Hammond's story acquires a minor flare of excitement. Hammond is cyclical and if not likely to be a forever holding.

## Just Energy Group Inc. - JE (T)

| | |
|---|---|
| Bought – Jan 3, 14 - $7.71 | 2015 Loss: +25.99% |
| Hold – Dec 31, 15 - $7.12 | Total Loss: +7.08% |

The company has turned things around operationally, key insiders keep buying shares, and there was recently a preliminary prospectus filing (Dec 2) for a $1 billion offering over 25-months. Interesting. The company has also benefited financially from a weaker Canadian dollar.

Although in watch mode, there is the strong likelihood that Just Energy will never grow into a close your eyes forever type holding.

## Pembina Pipeline Corporation (PBA)

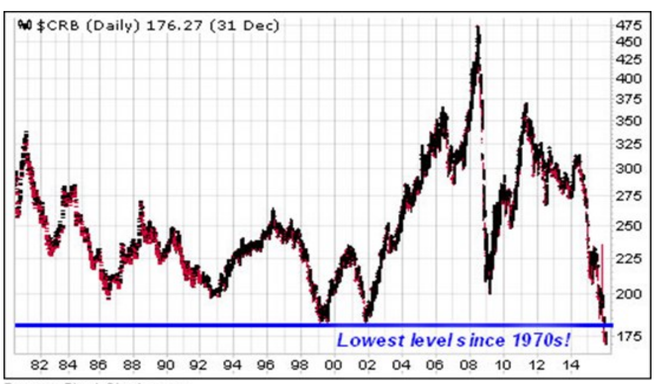
| | |
|---|---|
| Bought – Dec 26, 14 - $35.74 | 2015 Loss: -35.17% |
| Hold – Dec 31, 15 - $21.76 | |

Pembina bucked the trend early in 2015 by *raising* its dividend payout. The company now looks set to take on the historic crash in crude by spending a record $2.1 billion in 2016 expanding its businesses. The company's current payout, which could be slashed if weak energy prices bleed into the company's fee for use business, is very attractive.

## Uranium Participation Corp. – U (T)

| | |
|---|---|
| Bought – Dec 26, 09 - $6.69 | Total Gain: +0.20% |
| Hold – Dec 31, 15 - $5.13 | Total Loss: -23.31% |

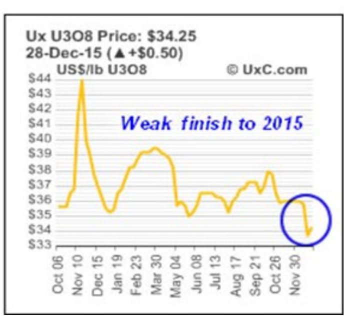
At current price levels – which are below NAV – U is an attractive holding. With commodity prices being hammered in 2015, the price of uranium held up surprisingly well. Along with the longer-term industry fundamentals – which suggest growing demand and limited supply in the future – there has been the renewed push for nuclear energy to be reconsidered as weapon to fight climate change (see WNA[27] and Reuters[28] quotes left).




Source: StockCharts.com

"The nuclear industry stands ready to deliver more to help tackle climate change. Nuclear generation could provide 25% of the world's electricity with low carbon generation by having 1000 gigawatts of new build by 2050." WNA

"Uranium prices are expected to outperform other commodities in 2016 and beyond as a global climate-change deal and growing demand from Asia bolster the prospects of the nuclear industry." Globe & Mail



## 2015 Prospect List

| Sym | 2015 |
|---|---|
| AVD | 19.54% |
| CNRD | -36.55% |
| CCC | -15.40% |
| NTWK | 83.45% |
| ZINC | -86.49% |
| Average | -7.09% |

During 2015, as its price was collapsing, the case could be made that **ZINC** was a decent speculative buy on weakness candidate. Now, after commodity prices melted lower for the entire year, ZINC's very survival as a going concern could be in question in the years ahead. Given our history of buying and holding, doing nothing with ZINC turned out to be the best decision possible.

| | |
|---|---|
| 2007 | 33.0% |
| 2008 | -49.4% |
| 2009 | 59.4% |
| 2010 | 13.3% |
| 2011 | -14.2% |
| 2012 | 16.5% |
| 2013 | 10.5% |
| 2014 | -2.9% |
| 2015 | -7.1% |

The very well managed and financially attractive **CNRD** is one company that is on our radar for the future.

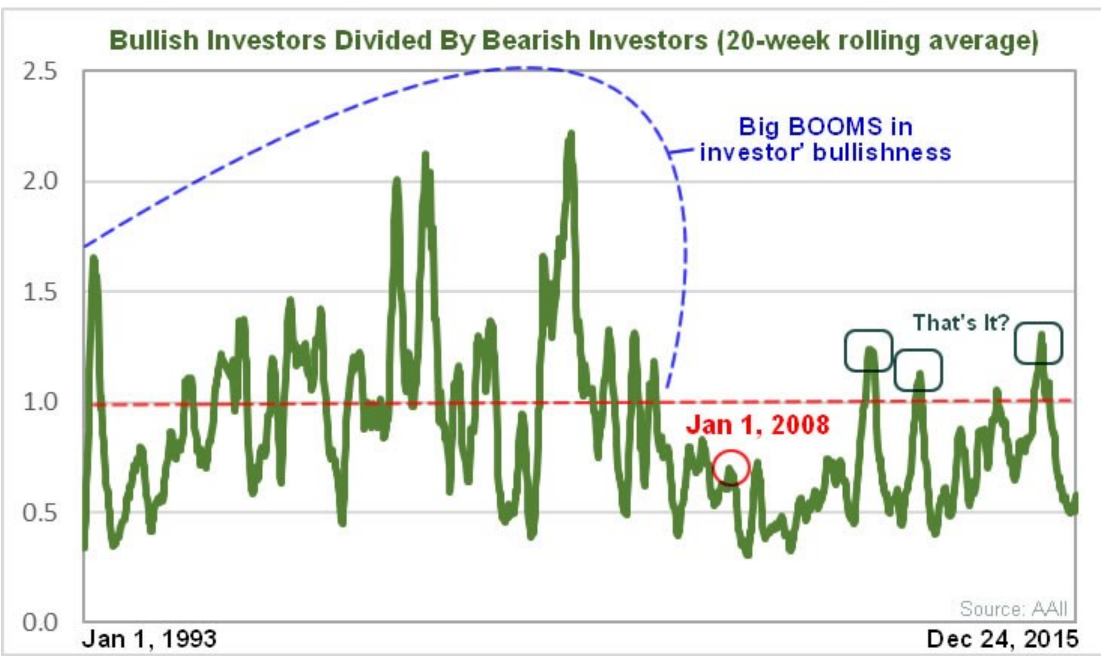
# Is Buy & Hold Dead?

The statement below was recently printed in the Financial Post article entitled, ‘Extreme bears are betting oil is going as low as $25, $20 and even $15 a barrel in 2016’.

Oil speculators are buying options contracts that will only pay out if crude drops to as low as US$15 a barrel next year, the latest sign some investors expect an even deeper slump in energy prices.[29]

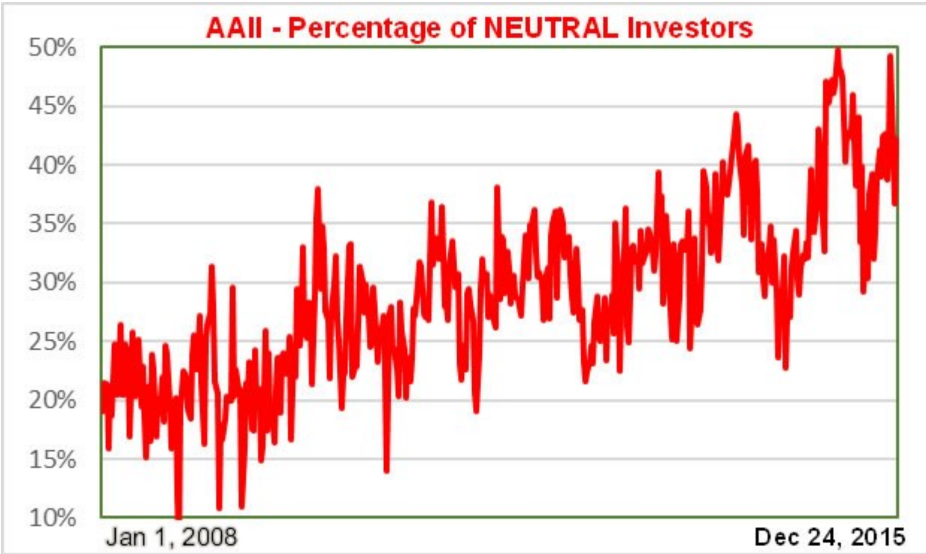
First of all, the conclusion from the above article that some investors **expect** $15 oil is speculation, not a fact. After all, who is to say that someone with an oil interest isn’t buying these contracts as a hedge (hoping they are never exercised) in case their core operations start losing money? For that matter, maybe the $15 put contracts are simply the other side of straddle that was mathematically conjured up due to the expectation/likelihood of volatility in oil going forward? In other words, what you see in a market is not always what you get.

The same premise can be said about the current level of stock prices, primarily in the United States. To be sure, it is difficult to argue today that ‘investors’ have been buying into the post-crisis upswing in equities expecting much of anything in the way of predictable returns. Rather, in light of the Fed’s actions and subdued sentiment readings, the more correct speculation is probably closer to ‘reluctant investors have been forced into equities since 2008’.




While, admittedly, attempting to ascertain how investor’s ‘feel’ about moving money into stocks can be a fruitless endeavor, it is worth remembering that not every $15 put option on oil is the expression of a raging naked crude oil bear. In other words, even though stocks have risen smartly since 2009, that no one seems to all that excited about the markets suggests market fragility rather than strength.

What exactly does a bull market without bulls look like? The chart below, which depicts an increasingly driftless investor attitude towards the markets will suffice.




One of the largest asset booms in U.S. history and investors are increasingly neutral? What you see is not always what you get…

## Stock Picking in 2016

For the first time since the Wish List is not adding any new companies to begin the year. To explain this investment stance there are three points to consider:

**1)** Fed accommodation has just started to be removed from the marketplace even though the U.S. and global economy are performing in a 'weaker than expected' manner. This trend, should it remain in place, is a very large concern to all asset owners.

**2)** Three words: Sovereign debt crisis! And if 2016 is another pleasant year for government debt these three words will be repeated in 2017. Same goes for 2018, 19, etc. This negative outlook for sovereign debt will remain in place so long as increasing government debt levels continued to outpace everything else.

**3)** The Poor loonie! Being Canadian, it is very difficult to take the battered loonie and try to do much of anything across any border. And here in Canada energy and commodities are the big stories – or two themes the Wish List has enough exposure in.

There is the possibility that companies will be added to the Wish List as special situations in the marketplace arise. However, with the goal of capital preservation in mind, market prices will likely have to become significantly more attractive to encourage an increased allocation to equities.

In short, the problem for the stock picker going forward – at least over the medium term – is that not only are things like overvaluation and earnings momentum a concern, but that the macro outlook is becoming increasingly precarious. Quite frankly, with central bankers showing little sign of letting up, potential geopolitical flash-points increasing, and the financial markets proving to be more highly connected than ever before, even the best stock pickers need to increase their cash holdings to be prepared for the looming 'risk off' explosion lower in prices. Thus, stock picking, at least for the moment, is a dead art...

# Top 5 2016 Prospects

| |
|---|
| **Coeur Mining, Inc. (CDE)** |
| The company has a cash heavy balance sheet, insiders have been pecking, and the price of silver could be due for a strong turnaround as, and if, investors seek alternatives to fiat currencies. Even under the worst conditions, the company's balance sheet ensures CDE will remain a going concern for next 12-18 months. With it's beaten down stock price, CDE acts like a longer term call option on the price of silver. |
| **Kirby Corporation (KEX)** |
| Beaten down company with two divisions: Marine Transportation and Diesel Engine Services. Sound and stable balance sheet plus strong cash generation. Potential long-term |
| **Potash Corporation of Saskatchewan Inc. (POT)** |
| A company we have been watching for some time, POT is a potential buy after a dividend cut and/or major negative event. Once purchased, POT would be owned, not traded. |
| **Omnicell, Inc. (OMCL)** |
| Medication solutions is a growing business. OMCL is very competitive and the company's balance sheet and free cash generation are exceptionally strong. Even after a correction the stock is richly priced. Potential buy on weakness and also a potential takeover target. |
| **MAM Software Group, Inc. (MAMS)** |
| Strong recurring revenues and solid free cash generation. A very clean and attractive balance sheet. Unfortunately, priced to perfection, the stock is illiquid and a recent tender offer for approximately 13.9% of the Company's common stock will not help matters. |

## Bye Bye Bernanke

The Fed's idea of avoiding the mistakes of Japan by being super-aggressive and ensuring no intervention limits or timetables exist, has failed miserably. Despite the headline improvements in the rigged unemployment rate, the U.S. jobs market is exceptionally weak, wages have failed to show much strength, inflation is well below where the Fed wanted it to be, and growth has been and will likely continue to be, weaker than expected. In 2009 Bernanke was seeing 'green shoots' and the Fed was forecasting 4% growth around the corner and then 5% growth by 2012. As we enter 2016, *and as the threat of another downturn in the business cycle emerges*, the stark reality coming into focus is that printing money following 2008 was the easiest thing in the world to do, but reversing these policies is when the heavy lifting really starts. Bernanke would, of course, disagree with this synopsis. Let us enter 2016 by checking in with the 'courageous' Bernanke.

While touring his new book, Ben Bernanke wrote an article for the Wall Street Journal entitled 'How The Fed Saved The Economy'. Apparently Mr. Bernanke, the most powerful unelected person in the world only a few short months ago, didn't like the title that was placed on his article:

Your viewers should know that, not only does the op-ed writer not have a chance to write the headline, but I couldn't even find out what the headline was until it appeared in the paper...my response was this was not what I wrote.[30]

There is something almost sad about Bernanke attempting to explain how upset he was with the op-ed policies of the Wall Street Journal. I am certain the Journal would make an exception to its title rules if someone like Bernanke had asked.

As for other items of interest, during the CNBC interview Bernanke confirmed his pledge do see no evil. First to the Fed's massive balance sheet, which Bernanke doesn't see as being a problem:

Well—Joe had an earlier comment about how are we gonna get out of $4 trillion, that kind of thing. That--that's actually not a big issue. You know, when the time comes, the Fed is just gonna let the balance sheet run off. And I don't think--that's pretty straightforward. I don't think that's gonna create any particular problems.

So, Bernanke doesn't see any particular problems with the Fed trying to unwind its balance sheet. Wonderful. Moving on, Bernanke claimed the Fed saw the housing bust coming:

I think that misrepresents, you know, what we saw and what we didn't see. We knew house prices were really high. We knew that subprime mortgages were a problem. What we didn't see was the extent to which the financial system was endangered and driven into panic by that problem.

The mere suggestion that Bernanke knew home prices were high before the crisis doesn't even warrant a rebuttal. Moving on:

Now, after the fact, we want to do everything we can to make the markets – to get rid of the moral hazard. To reduce the too big to fail problems and to make markets self, you know, self-regulating.

Actually, Ben, the Fed has done absolutely nothing to get rid of moral hazard (and the Fed's bloated balance sheet causes moral hazard), and the experiment of self-regulation is one of the main reasons why the 2008 crisis was allowed to happen! Next:

So financial stability, obviously after what we've been through, is-- a huge concern. The Fed is very, very engaged in this. Under my chairmanship, the Fed restructured itself internally to put lots and lots of staff and resources into-- you know, monitoring the whole system, looking for ways to, you know, address risks.

'Very, very'? 'Lots and Lots'? Just because you repeat words doesn't mean people will ignore the fact that the Fed *'monitoring the whole system'* is an entirely horrible idea. With blatant conflicts of interest, rates near zero, and $4.48 trillion on its balance sheet, is the Fed really the best choice to be addressing risks?

OK, so maybe Bernanke was having a bad hair day on CNBC. Turning to a recent Fox interview[31]:

There doesn't seem to be anything remotely like we saw before the financial crisis, people have to look at their individual market, make good decisions, banks have to make good lending decisions, all those things.

"We saw"? Who saw? And then:

We missed some things, but we did, of course, know that house prices are very high. We knew that they could, very likely would come down.

While on CNBC he may have misspoke, again on Fox? The above statement is simply not true! There is no record of Bernanke ever claiming anything remotely close to "we knew they could, very likely would come down" before housing prices collapsed.

In summary, still deep into the denial and historical revisionist stage, Mr. Ben Bernanke has yet to acknowledge the reckless policy choices the Fed made under his supervision. While in crisis mode Bernanke always argued that extreme monetary measures were necessary first to put the fires out, and only afterwards would there be a serious reconstruction of the flawed financial system. And yet even with fires having stopped smoldering years ago, the Fed is still near maximum ease. This is indeed curious.

Until his Greenspan-like day of apology for getting everything wrong, one of the greatest money printers ever, Helicopter Ben, will be best remembered for the outburst below. Until we meet again.

Paulson announced that the Fed had decided to loan A.I.G. $85 billion and essentially seize control of the company under the Fed's emergency powers. Bernanke pointed out that A.I.G. stock was one of the ten most widely held in 401(k) retirement accounts.

Reid put his face in his hands. "I hope you understand this does not constitute formal approval by Congress to take action," he said.

"Do you have eighty-five billion?" Representative Barney Frank asked.
"I have eight hundred billion," Bernanke said, referring to the Fed's balance sheet.[32]

All the best in 2016.

Sincerely,

Brady Willett

**Endnotes**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