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When it comes to movements in markets, we have all heard the adage that, in the long run, "prices are based on fundamentals." (In our opinion, the term *fundamentals* refers to traditional valuation metrics, innovative strategies from management teams, and value-creation from mergers and acquisitions on Wall Street.) When markets defy normal metrics, we tend to hear the expression that "this time is different." As you might expect, both maxims cannot simultaneously be true. Oddly, during the course of 2012, investors experienced a little bit of both. Particularly by the end of the year, those that believed that "this time (was) different" solidly benefitted. And, those who espoused the "prices are based on fundamentals" philosophy were caught dreaming the wrong dream. …

…we believe that capital will ultimately flow to enterprises that are undervalued on an absolute basis, or to companies involved in production of energy and hard assets (for example). When markets are allowed to function properly, they admirably perform the function of being voting machines *and* weighing machines (to coin a phrase from Benjamin Graham). This is particularly true because, in the long run, markets eventually discount short-term agendas of politicians and pundits – often for the benefit of the greater good of the market participants who are simply trying to determine proper prices. However, when markets are broken or interfered with, the "prices are based on fundamentals" principle gives way to "this time is different…."

…Yet, in the short term to intermediate term, this time may really be different. How? Because of various policies, the coordinated devaluation process among western nations is so intense that those with access to the printing press are now bigger than the markets themselves. To see an example one needs to look no further 10-year rates at approximately 2.00%. If the Federal Reserve wants/needs 10-year rates at 2.00% that's where they will go - and there isn't a darn thing anyone can do about it - not the bond vigilantes, watchdog groups, deficit pundits, accountability organizations – nobody. Anyhow, you get the idea.

In this regard, for the time being, the central planners of developed countries have become the reigning market kings. Investors in risk assets, with sensitivity to interest rates, tend to live or die according to the amount of runway left on this sort of monetary policy. Based on the recent rhetoric out of the Federal Reserve, it appears that the runway in question stretches to the horizon. So, with that as the backdrop, our supposition of what the future should look like, for the time being, may not be relevant. This dynamic is likely not going away any time soon – unless it leads to civil unrest, or (possibly even worse) lots of inflation.

So where does that leave us? For now, we have to balance the prospect of capitalizing on this trend, and continuing to invest in what we feel are bankable, scarce, and/or valuable assets that may take time to be recognized…

…so, when will this log jam break? Believe it or not, the answer to this question may be, possibly, soon – unless of course this time *is* really different. …Additionally, we have been evaluating opportunities which could exploit certain trends in macro-economic policy.

….We continue to believe that markets do regress to the mean, and that ultimately "fundamentals" will prevail…but we also recognize that, for a variety of reasons, the environment we have described above may continue to occur for some time to come – and as such "this time may be different"… for now.