

## Tax-Trading

We are in the process of “tax-trading” accounts with significant taxable gains to help reduce the tax impact of gains recognized earlier in 2011.

Generally, we will sell a security and either replace it immediately with a similar (but not the same) security, or wait to repurchase the same security in a month (to avoid “wash sale” issues).

## The Markets

If it feels like the stock market has been volatile this year, you're right. Here are a few examples:

- For 2011, the Dow has moved 26,963 points (both up and down), yet it has advanced only 2.5% (289 points) for the year.
- Intraday swings in the Dow Jones Industrial Average have averaged 261 points since August 1, an exceptionally large number.
- On four consecutive days back in August, the Dow Jones Industrial Average alternated between gains and losses of more than 400 points, the longest streak ever.
- Three-month historic volatility for the “fear” gauge known as the VIX hit a record on October 31, surpassing the prior peak from December 2008.
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Volatility and the lack of a clear, sustained direction in the market have frustrated many investors.

The problems in Europe and the budget wrangling in the U.S. have generally kept investors in a risk-on, risk-off mode throughout much of this year. As a result, many stocks have traded in herd-like fashion without much regard to company fundamentals. We have been defensive nearly the entire year as part of our “Advance and Defend” process.

At times like this, it's important to have patience and as Warren Buffett says, wait for that “fat pitch.”

**WHAT IS THE PRICE OF ECONOMIC GROWTH** in China and how does it affect us in the U.S.? Ever since 1978 when Chinese leader Deng Xiaoping laid out a vision of economic reform, China has been on a growth spurt of massive proportion. However, that growth comes with a huge price in the form of limited freedom. Last week, Chinese leaders clamped down again on freedom of speech in an effort to control the spread of social unrest.

In China, the government blocks access to the microblog service “Twitter” and, instead, a Chinese version called “Weibo” has become popular. In total, more than 300 million Chinese people use microblogs, with Weibo the most popular, according to Bloomberg.

Regarding last week's clampdown, Chinese officials announced that users of Weibo in Beijing will have to register their real names and be verified by government authorities before posting on the service. In addition, users are banned from posting anything that could lead to disrupting the social order, according to The Wall Street Journal.

This isn't the first government crackdown on freedom of speech. Earlier in the year, the government blocked citizens' access to searches on the “Arab Spring” that was rumbling through the Middle East. Prior to that, the government blocked access to Facebook, YouTube, and Google.

What's the government's problem with freedom of speech?

As the “Arab Spring” uprising in the Middle East demonstrated, social media can enable millions of people to communicate and mobilize in short order. China seems to be very afraid of letting its citizens have this capability for fear that a popular

uprising could lead to chaos in a sprawling country of 1.3 billion people.

With China still a major growth engine for the world economy, we have to pay close attention to any social trends affecting the country. If the government clamps down too hard and its citizens rise up, it could quickly morph from a social/political movement to one that has major worldwide economic implications. On top of that, China is gearing up for a once in a decade leadership change in 2012 and, given the country's history, a smooth transition is not guaranteed.

When investing money, one needs to consider possible "black swan" events that have a low probability of occurring, but, if they do occur, could wreak havoc. A Chinese uprising could be one of those and it's on our radar.

### **Weekly Focus – Think About It**

*"If the freedom of speech is taken away then dumb and silent we may be led, like sheep to the slaughter."  
--George Washington, U.S. President*

## **HENGHELD CAPITAL MANAGEMENT LLC**

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### **Notes**

*The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.*

*Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.*

*Past performance does not guarantee future results.*

*You cannot invest directly in an index.*

*Consult your financial professional before making any investment decisions.*