



POTOMAC
STRATEGIC INVESTMENT

CAPITOL MARKET REVIEW

In This Issue: Europe Protests Again Emerge...Apple Disappoints The Street *and* CMR...Occupy Wall Street Water Torture for Banks

At Mid-day: SPX1223 US10Y 2.18% Gold \$1657 Oil \$88.70

Oct. 19, 2011

In spite of relatively quiet headlines, the Eurozone continues to be mired by ugly protests. Today is an example. With austerity votes pending in the Greek Parliament, the populace took to the streets in violent demonstrations that have now spread beyond Athens. Tear gas was required to disperse the crowds. As the government slowly moves to adopt austerity measures demanded by the EU, ECB and IMF, the people are voting with rocks and fire.

The Eurozone and US are in the midst of a painful re-examination of the public/private contracts, and funding structures, that have defined these nations since World War II. Given the bloated nature of many of these constructs, they are failing under the weight of over-promising, under-funding, poor economic trends and demographic shifts.

Much has been said and written about the possible solutions to the Eurozone crisis. Every time concepts are floated, a Member-State will publically push-back. Merkel is opposed to a Eurozone bond. In addition, she is also demanding Eurozone banks raise equity. These are not popular remedies for other Eurozone Members. With the calendar working against the snails-pace deliberations, traders remain uneasy. What is surprising is that current asset valuations in currencies, sovereigns and equity indexes indicate not only an end to the crisis, but an end without negative ramifications. CMR is clearly not privy to why optimism has overtaken reality.

The unease between the populace its government and the banking infrastructure is beginning to build here as well. The "Occupy Wall Street" movement has grown in size and geography. The protests have thus far been peaceful. However, the sheer numbers and publically announced intentions of the ameba like crowds are potentially problematic for both politicians and bankers. In addition, something not mentioned thus far is the role technology might play in the US protests. (Think Arab Spring.) Even the most down-trodden in America now have cell phones and social media links that can quickly mobilize population centers in many cities. Dismissing the current protestors as lacking leadership and a core message may well prove naïve.

Years of damaging political rhetoric may have implanted seeds of a movement that has yet to fully evolve. In spite of statements to the contrary, President Obama has far too often used the phrase "*class warfare*." Just recently, he rhetorically responded to the concept without anyone raising the issue. Yet his campaign has unabashedly sought millions from Wall Street bankers, while simultaneously deriding Washington lobbyists. At some point words matter. Seeds are sewn. The Occupy Wall Street crowd is not a Democrat alternative to the "Tea Party." This yet to be defined amalgam runs a far greater risk of creating divisiveness rather than fostering a positive policy debate.

Earnings continue to move stocks, but not the broader US market. In a note yesterday, CMR maintained that Apple ran the risk of disappointing on its announced numbers but that even a "miss" on Wall Street's expectations would not slow Apple's ascent. In the short-term that was an error. As has been noted in other earnings news, the analyst conference call on Apple was not



POTOMAC
STRATEGIC DEVELOPMENT CO. LLC

a positive. There are problems in Apple's model. Not severe, but they're there. However, for many long-only investors who have missed the Apple miracle, CMR still believes these portfolio managers will use weakness in Apple shares to build positions in this core leadership stock.