Bulls Talk While Bears Sell

We're in one of those periods of time in the market where participants are simply talking past one another. The fundamentally-driven bull case acknowledges that sharply lower oil prices are bad for E&P companies but notes that for the rest of the economy it's like a tax cut. Power consumption just got cheaper. And yes, growth overseas is slowing, notably in the EU but also in China and Brazil. But the U.S. economy is doing fine. And finally, Ebola is in every conversation but the media hype and fear are magnitudes out of proportion to the actual incidence of infections.

Meanwhile, the sellers don't engage in the debate on these issues at all, but simply keep selling. Not because they want to, but because they have to. In fact, it's quite extraordinary that after all the losses and capital destruction that went on during the financial crisis in 2008, that there is still so much money invested on a seeming hair trigger. So many participants evidently operate under a psychological margin call that induces them to sell when prices fall a certain amount, or indeed an actual one. Investing with leverage is generally not a smart way to grow your savings, but a lot of people obviously still do it in one form or another. Perhaps one of the most bearish items over the near term is that the bearish case is so rarely articulated. Most of what you can read or watch on TV seems to be another fundamentally driven bullish analysis.

Meanwhile, Kinder Morgan (KMI) reported after the close yesterday and reaffirmed their $2 dividend for 2015, 10% annual dividend growth and a backlog of projects up from $17 billion to $17.9 billion (even after dropping $1.1 billion into production, so $2 billion of projects were added). We think at $35 it's a good investment. We also think Burger King (BKW) apparently a widely-owned hedge fund stock is starting to look attractive as its price is now retreating back towards its level prior to the merger announcement with Tim Horton (THI).

It ought to be a great opportunity for hedge funds to demonstrate their added value as uncorrelated investments that can dampen downside volatility, as opposed to showing that they are in fact over-capitalized. So far this year, the simple 60/40 S&P500 and Dow Jones Corporate Bond combination has returned +4.6% (through Tuesday) compared with the HFRX Global Hedge Fund Index (HFRX) of -1.6%, closing in on an incredible 12th straight year of underperforming the 60/40 alternative.