

 **RIA Pro**
Quick Take

What Do Co2 & MLB Have To Do With German Bunds



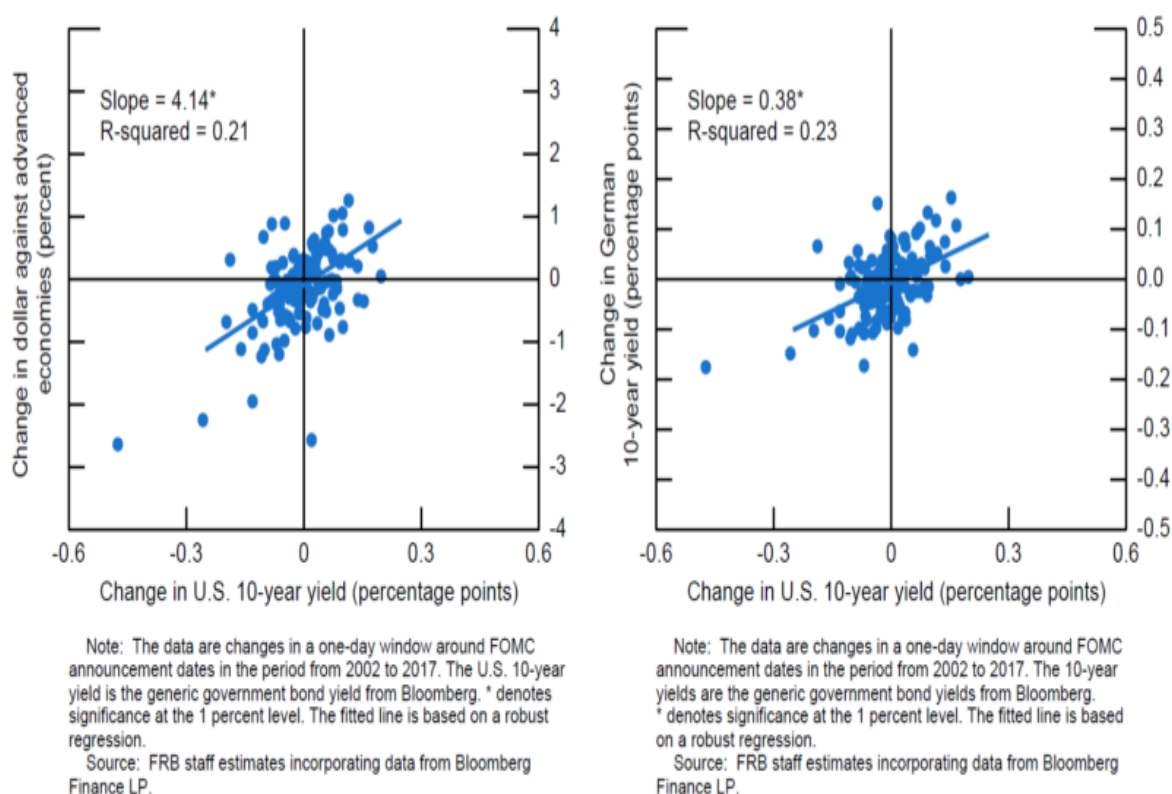
- *The level of Carbon Dioxide (CO₂) spewing from the Mauna Loa volcano in Hawaii influences the yield of German ten year Bunds.*
- *The number of Major League Baseball (MLB) pitchers per season with at least five complete games influences the yield of German ten year Bunds.*

Sound ridiculous?• We think so to, but read on.The Federal Reserve (Fed) plays an important role in steering economic activity as well as influencing the direction of the financial markets. As such it is incumbent upon investors to be well versed on current monetary policy as well as on the mindset of the members of the Fed. Numerous speeches and white papers provide investors the means to do just this. Equally important, and we believe a more difficult task, is not to allow the Fed's views and biases to automatically influence our beliefs. The Fed's penchant for complicated economic lingo and long-winded answers can be confusing even for those in the industry. Further, graphs and other forms of data-based evidence, which at times can be misleading, are used to support such claims. Renowned economist Thomas Sowell, in a 2014 Wall Street Journal interview with Peter Robinson regarding the 5th edition release of his book *Basic Economics: A Common Sense Guide to the Economy*, was asked why it was a point of pride with him that the book did not contain the normal esoteric jargon of economics. Sowell replied, *Because I want people to read it, and if you make it unreadable, they aren't going to read it.* While we have many theories for why

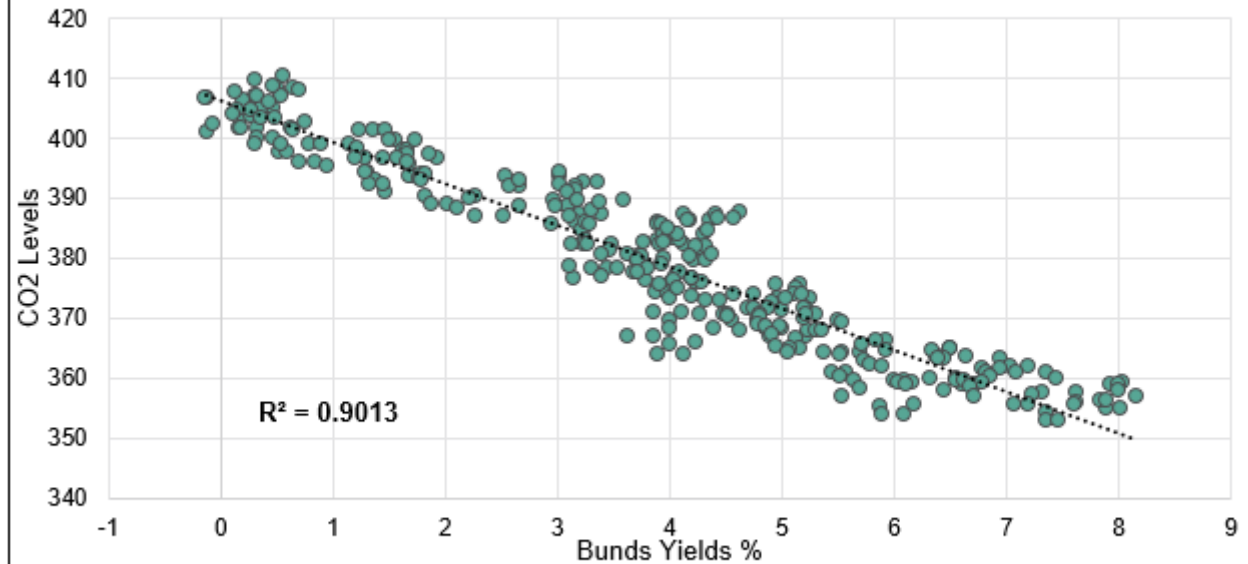
the Fed does not present their case in plain English, we simply remind you that their incentives are not always lined up with those of the economy and the financial well-being of the populace. It is quite likely Fed members know that if this were fully understood by the voting public things might change. We were recently reminded by Fed Chairman Powell that we need to pay close attention to not only what they are saying but the evidence they use to support ?facts.? In a recent speech, Powell posited that U.S. Treasury yields and the U.S. dollar influence the yield of German Bunds. The graph below served as evidence in his mind.

Board of Governors of the Federal Reserve System

Figure 1: Changes in U.S. bond yields lead to changes in the value of the dollar and spill over to German bond yields

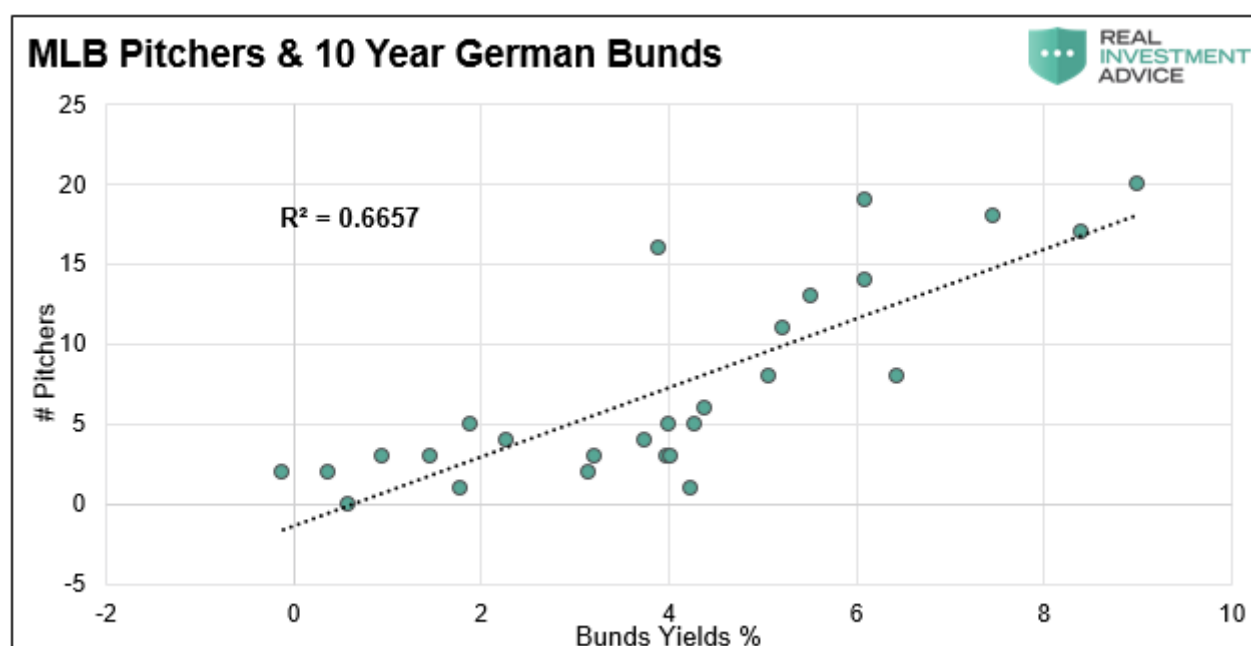


R-squared, as shown in the graphs (.21 and .23), measures the variability of data around its mean (trend line). An R-squared of +/- 1.00 entails that two variables have a perfect relationship with each other. As the R-squared declines the relationship weakens. While there is no firm R-squared figure that defines statistically significant, a reading of +/- 0.60 tends to be a common level. Given the low R-squares above, one can only conclude that data and Mr. Powell's thoughts are not entirely in sync. He would like to have us believe that because he deems it a significant relationship



MLB
better

Data Source: Bloomberg and NOAA



Data Source: Bloomberg and @OddStats/(Twitter)

While

we will not even begin to present a case for the relationships graphed above, we hope it shows you how statistics can be abused to make statements and theories that are not sound. **This message is similar to ones we have posted on numerous occasions; it is incumbent on investors to apply a healthy skepticism to truth claims coming forth from intellectual authorities.** The Ph.D.'s at the Fed have demonstrated on many critical occasions (tech bubble, sub-prime) their penchant for being human. Investors who put blind faith in those with a vested interest in conveying a positive outlook are likely to be disappointed in the outcome and less wealthy as a result. Like a genuine effort to uncover the truth, critical thinking and serious analytical rigor are not easy especially considering the multitude of forces working against us.