Optimism? For the time being.

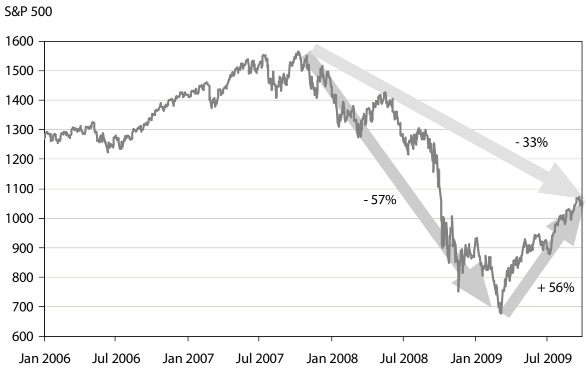
1. Minus 57 plus 56 equals minus 33

Those private bankers and asset managers for whom the catastrophic developments in the economic system between 2007 and 2009 were not the first crisis, and will probably not be the last, may well be permitted a degree of ironic reflection. This resides in the insight that their profession profits, if not very largely then certainly to a significant extent, from two essentially human failings: a short memory span and difficulties in calculating percentages. “Failings” may be an unduly disrespectful term. Rather, these are perhaps human characteristics that have developed in the course of evolution in order to deal with an unending series of unpleasant events – not the first crisis, and not the last! While it may be true that at every stage of human history, every effort has been made to apply energy and intelligence to understand our world, we are repeatedly confronted by the sobering conclusion that things very often turn out entirely differently than expected. Without the ability to adapt to new situations, and to begin all over again, building on new circumstances with courage and confidence, mankind would have come to a sticky end long ago. We would have died out from sheer despair. The optimism that has prevented this happening, however, is based on what we have previously described as a “failing”.

This can be seen, for example in the re-emergence of the stock market from the abyss of financial collapse. It is clear that the mood is currently characterized by optimism; even, to a degree, rejoicing – though this is repeatedly interrupted by sudden outbreaks of anxiety. The more conservative among the optimists continue to indulge in all sorts of reservations, but what Peter Sloterdijk so aptly described, in his analysis of the excesses that preceded the crisis, as “frivolity” is again detectable in places.

It would be easy enough to offer hundreds of reasons why optimism is out of place. And we shall have to come back to some of these reasons in the course of this Investment Commentary. The fact is, though, that for some months now, most of the reporting has been regarded as indications of confidence, regardless of whether, from our perspective, they are positive or negative. Even blatant contradictions – for example, the expectation of a rapid, strong economic upturn combined with the assumption that interest rates would remain low for a long period – have been greeted with a mere shrug of the shoulders. It’s almost as if the very financial crisis that itself developed out of a conglomeration of contradictions had never happened. Such a change in the prevailing mood is difficult to explain, other than in terms of a short memory span and, indeed, difficulties with percentages.

Understanding what happened: the magic triangle

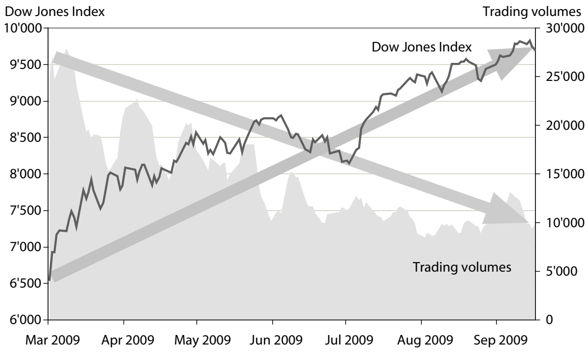


Source: Bloomberg; analysis

From the peak on 9 October 2007, measured on the S&P 500, to the low on 9 March 2009, the stock markets fell by 887 points, or 57 percent. Since then, the stock markets have regained around 56 percent. Terrific, isn’t it? Well yes, as long as we overlook the fact that the overall loss since 2007 is still 33 percent. Percentage falls and percentage rises are not the same, because they are calculated from different bases, but hey, who cares? The main thing is that we can rejoice again, and if this rejoicing is shared by a sufficiently broad public, then the power of collective optimism will create a new, and real, state of equilibrium on the markets.

Which brings us to our first grounds for being entitled to regard the stock market boom since March 2009 as being on extremely thin ice. Namely, the rise in prices is based on small, and decreasing, trading volumes. There is no involvement of any “broad public” here. There are only a few traders at work, and the rest of the public is still standing on the touch lines, which means that in practice, large quantities of cash and fixed-interest investments are being held, and which also means that the majority of market participants has so far profited little, or not at all, from the boom.

Widespread lack of engagement



Note: Trading volumes in USD 100,000, aggregated over 5 trading days.

Source: Bloomberg; analysis

Should such a situation be interpreted positively or negatively? Stock market traders are sceptical about low volumes. Experience has taught them that the mood among a few players can more easily change direction radically than when market movements involve large numbers of people. From a theoretical perspective, we need to argue more carefully. With low-volume markets, it is necessary to distinguish between two fundamentally different situations. In one, the majority of players are essentially exposed to the market; that is, they have invested in stocks and are now left sitting, more or less helplessly, on their holdings. Low volumes then mean that there are no more attractive investments on offer, or that holding on to the existing investments at least seems not to generate any opportunity costs. There are good grounds for believing that such a mood can signify a shift to a general loss of appetite. To this extent, the traders would be right. It is, however, an entirely different situation when low volumes can only be explained by a widespread lack of engagement by a large number of players. For then the development of prices depends not on the opportunity costs of stocks, but on an assessment of whether staying disengaged and avoiding risk may not ultimately prove too expensive. When, as has been the case for months now, cash delivers practically zero revenue, there are good grounds for assuming that the disengaged and the ditherers will eventually run out of patience, and swarm back into the market.

Not that we advocate a continuation of the boom. That would be inappropriately rash. But we must be careful not to lose sight of the fact that, regardless of all the analytical effort put into identifying the real or supposed causalities, markets are ultimately a matter of perception. The perception of people who are happy to be a bit forgetful, and happy to get their calculations a bit wrong, because it makes life that much easier. So, the subject of this Investment Commentary is humanity's generally underestimated resilience and adaptability. Because these are generally underestimated, we believe that a modicum of optimism is currently justified, even if it's only a little light at the end of the tunnel. We set out our reasons below.

2. What looks bad?

This commentary endeavours to analyse the current situation from an economic perspective. However, the minute we recall the "hundreds of reasons" why optimism would currently be inappropriate, the political component of the global economic system inevitably takes centre stage. Political actions and reactions are part of economic reality, and can thus not be excluded, however much we might wish to do so.

First among those aspects that bode seriously ill for the future is undoubtedly the oft-lamented explosion in the level of public debt in the Western world. However justified or unjustified interventionism in the interest of existing structures will eventually prove to have been, it will encumber the USA, Germany and the United Kingdom with mountains of debt that will assuredly constrain future growth prospects. Keywords here are the "crowding out" effect or "credit crunch", as the state hoovers up all the credit available on the capital markets; and tax increases, which will be unavoidable in view of the increased interest-rate burden, unless, that is, a still further increase in debt is regarded as acceptable. There are exigencies that not even a new coalition can avoid.

Where and how additional state income will be generated is another matter, and one that opens a further series of Pandora's boxes. Even the most altruistic of people, who would welcome the capturing of revenue sources that have so far more or less avoided taxation, should be under no illusions about the fact that that the immediate result of such actions is a negative impact on growth. For it is precisely such targeted assets that represent a reserve with high elasticity, considerable risk tolerance, an inclination to invest globally, and remarkable flexibility. If, as is foreseeable, the wealthy and successful, already increasingly branded as social outcasts, are also saddled with a "wealth tax" or the like, this will destroy assets that could otherwise provide financing for investments that would generate recovery.

Second place is taken by the fear that the additional involvement of the state as investor of last resort in structurally threatened private enterprises, such as banks and car manufacturers, will create a *complexity trap* that the public authorities will find it almost impossible to escape from. This is due to a lack of understanding about what economic processes, and what political processes can effectively regulate. With its products, private enterprise satisfies *specific* requirements, supply and demand are steered by the market; that is, without any decisions on the part of the authorities. Market prices continually provide the individual players with information that gives appropriate incentives to action. The market is thus ideal for steering complex processes that may well be impossible to model.

General needs, such as public safety, reliable courts, an excellent infrastructure, also perhaps suitable state schools and hospitals, are traditional aspects of state activity, and despite all our reservations, it may be said that the political processes generally function adequately in allocating resources to these aspects of state provision. Why? Because general needs require only limited trade-offs between individual or specific groups, so that their provision is generally accepted, and no market is needed to influence supply. However, with the addition of private enterprise functions in the wake of the financial crisis, the segment that can be managed only very inefficiently by the political system, on account of its high complexity, has been substantially expanded. The result will be a negative impact on growth, but beyond this, and possibly much more disastrously, state structures will be overstrained, with the result that the classic functions of the state will be neglected. The only production system that the state can operate successfully is the weapons industry and a war economy. We do not wish to open *that* Pandora's box here: suffice it to say that a combination of overstrain and incompetence can result in more aggressive attitudes and behaviour. There is, sadly, no lack of historical evidence that this can happen.

The third aspect of ill-omen is undoubtedly the *uncertainty over monetary policy* that results from the immense interventions by the central banks in the course of the financial crisis. In their efforts to preserve the economy's supply of liquidity from drying up entirely, the central banks of the industrial nations flooded the system with liquidity on an unprecedented scale. Not only did they reduce the interest on banks' giro assets to the absolute minimum; they even began to provide the system with still more funds by buying up securities. The result is that the balance sheets of the central banks have become massively overinflated.

It is interesting how differently the impact of this policy of "quantitative easing" has been assessed. While some economists (in particular Ben Bernanke, the head of the Fed, and the Bank of England) speak of major – and naturally positive – effects, with only minor negative side-effects, monetary theorists Willem Buiter and Maurice Obstfeld expect both serious direct effects and serious side-effects. Surprisingly, the neo-Keynesians Paul Krugmann and George Akerlof do not expect any effects at all, and Charles Wyplosz, who teaches in Geneva, fears side-effects only. A look at the relevant data indicates that so far, the sceptics seem to be in the right: bank lending is still at an extremely low level. The banks are hoarding money and avoiding new risks. The liquidity trap is reality. The waves of anxiety attacks on the stock exchanges are fed precisely by this problem: the big and worrying question of whether, given that there is so little lending, the signs of an end to the recession may be little more than a mirage in the desert.

No sign of lending

Source: Federal Reserve; analysis

When theory and theory-based practice disagree so extensively about the efficacy of "quantitative easing" this does not bode well for the return to normality that will doubtless one day be necessary. The central banks will either raise interest rates or sell off the securities they have acquired, which can be equated with a collapse in prices on the bond markets. Despite all the assurances by all the central banks that they possess the necessary instruments, and indeed the iron will, to go over to "tightening" at the right moment, given the interests involved and the real division of power between politics and the interests of the central banks, there is a high probability that the reaction will be *too little too late*. Thus, given the continued existence of a mountain of mortgages due for renegotiation, the Fed will have to do all it can to ensure that interest rates remain low for a long while – the mountain stretches as far as

2012. Anything else would result in a renewed bloodbath on the real estate market. The dilemma is obvious, and is not merely a trade-off between "a bit more inflation" and "a bit less economic growth", as is often asserted. In other words: there is no immediate danger of inflation, on account of the credit crunch; but that certainly does not mean that the threat has been banished for good.

Fourth, and last, come all the anxieties generated by the *regulation mania* in the political sector. It virtually always fails to address the real problems, and is thus of limited effect, though the side-effects range from the excessive to the uncontrollable. Thus, the G20 group, which now seems to regard itself as a global economic government, was able at its most recent meeting to agree on salary constraints for bank managers – well actually, only more or less agree – and regards this as a significant contribution to the financial system's recovery. *Difficile est satiram non scribere*. It is difficult to avoid lapsing into satire here, for salaries and bonuses are at best symptoms, and on no account causes of the problem. Switzerland is fiddling about with deposit guarantees, as if the central bank were not there as "lender of last resort" in the event of a liquidity bottleneck, and as if it had not acted successfully in the financial crisis. The Basle economist Silvio Borner rightly pointed out recently that the 10 billion francs envisaged was both too much (because it won't be needed anyway) and too little should a genuine collapse occur (*Weltwoche*, No. 40, p. 21). However, there is no body prepared to seriously tackle the only real problem facing the financial system, the implicit state guarantee and the resulting excessively low risk premiums for those banks regarded as system-relevant. For this concerns a privilege that all too many are all too happy to avail themselves of, implicitly – that is to say, at no cost.

It does not take a prophet to be able to forecast that under the prevailing circumstances, the efficiency of the financial system will suffer from regulatory trouble-seeking; that the big players will again profit from economies of scale in their dealings with the regulators; that the continuation of "moral hazard", as a result of the implicit state guarantee, will represent tacit acceptance of the next, even larger and potentially lethal financial crisis.

If we take all this with due seriousness, would it not be reason enough for further seismic disruptions on the financial markets? Yes and no. Yes, inasmuch as none of these problems is of an incidental nature. Yes, too, in that these problems are apt to develop their impact jointly. No, however, with regard to the fact that the financial markets and their participants are probably not unaware of these problems, and the probability of their occurrence must have been at least halfway taken into account. The sometimes severe fluctuations in prices reflect the differing assessments of probabilities over time; by contrast with the situation before the financial crisis, though, it may be assumed that the market retains at least a remnant of risk-awareness.

3. What looks good?

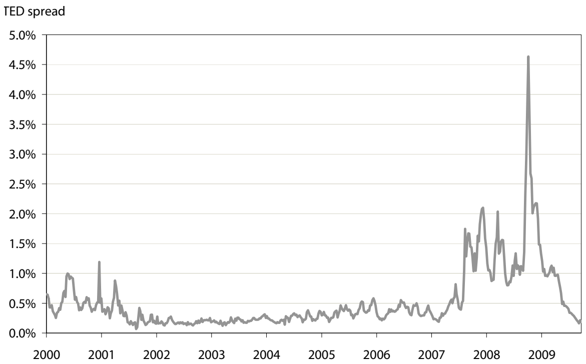
The same is, of course, also true of the positive aspects that have become apparent in the course of the year.

Firstly, then, the American *real estate market* seems to have *calmed down*. This is of decisive importance, for most of the uncertainty in assessing the balance sheets of American and European banks continues to relate precisely to this area of credit. The return to reasonably liquid conditions would make it possible to assign more or less reliable values to the "toxic" positions as well. That UBS, a major Swiss bank, now seems to wish to buy back the paper it outsourced to the Swiss National Bank is a ray of hope here. For without reasonably adequate pricing information, it would not wish to do this, let alone talk about doing so in public.

But there is also more objective data that seems to confirm that the situation has calmed down. Both the Case-Shiller-Index and the number of building permits seem to have found reasonably solid ground beneath their feet again, which is not perhaps surprising in the wake of such an extreme collapse. Of course, the question arises of how solid and sustainable this ground may be. Distributing funds with governmental blessing will soon (have to) come to an end. A return to a virtually continual rise in prices, as before the crisis, would be very surprising. More likely is sideways movement at a low level. But all the same…

Secondly: the *acute endangering* of the banking system is a thing of the *past*. The burden of debt has in part been outsourced to the state, or has been relativized by means of forced recapitalizations. Illiquid segments, such as junk bonds, have been cautiously de-iced over recent months. The investment banks have – again, with due caution – resumed normal operations. Interbank business is again functioning at conditions not greatly different from those before the crisis. The question of sustainability does of course arise here too. The risk premium for interbank business, expressed in terms of the TED spread – the difference between risk-free Treasury interest rates and the interbank libor rate – remains highly artificial. For, as we have already seen, the banks are hardly providing any credit. Risk-taking is extremely modest; it is probably largely limited to carry-trades between Treasury bonds of varying maturities. Until the banking system returns to some form of normal lending activity, the TED spread will be of limited importance. Nevertheless, the risk of bankruptcy in the banking system has been significantly reduced, and the corresponding risk premiums have fallen.

Interbank business: just like before?

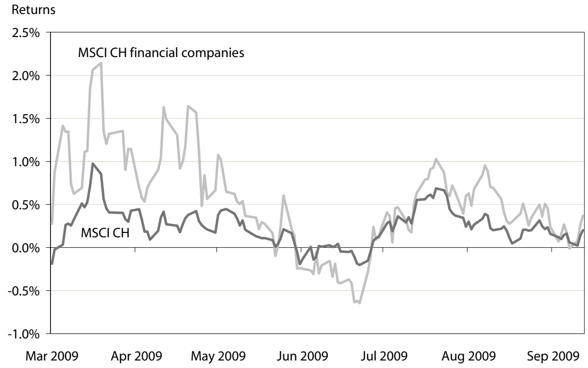


Source: Bloomberg; analysis

Thirdly, various indicators are also showing a more promising picture. Risk aversion in the markets, measured by the difference between bonds of higher and lower creditworthiness, has for some months now been back at a normal level. Purchasing managers' surveys also seem recently to have offered a gleam of hope. Lastly, the *steep yield curve* for all relevant currencies indicates higher economic growth over the coming quarters and years. At a significantly lower level than before the crisis, admittedly, but even so… The so-called "leading indicators" should be regarded with caution, for they are mostly strongly affected by stock market indicators, which is unobjectionable in itself. They may not, however, be used to analyze whether price rises are justified or not, as the result is a circular argument (which is not to say that this error is not among the most frequently encountered fallacies…)

Are these positive aspects relevant for the current situation on the stock markets? Yes and no. Yes, inasmuch as they reflect the general thinking of market players about the robustness of the system and the situation. Thus, until mid-March, financial stocks – that is, the stocks of big bank conglomerates and insurance companies in particular – were, on account of the risk of bankruptcy, little more than black-or-white options: either the firm would survive or the option premium would have to be written off. Once the immediate risk of bankruptcy had been effectively banished by means of state intervention, the premiums it generated lost their relevance, and financial stocks shot up. Over the past few months, though, the picture has become rather more balanced: real-economy stocks are now also generating returns on the stock markets.

At first it was the financial stocks



Note: Returns represent rolling average over 20 trading days.

Source: Bloomberg; analysis

In passing, it should be noted that it was primarily financial stocks – then traded as high-risk "junk" – that accounted for a good part of the upturn on the stock markets over the past two quarters, which means that many asset management mandates this year will deliver performance significantly below the benchmark. For the financial stocks are naturally represented in the benchmark, but possibly not, or only to a reduced extent, in a sound portfolio. This should not be a cause for annoyance. The temporary avoidance of banks stocks that were under extreme threat till the middle of March was undoubtedly justifiable from a risk perspective.

Back to the question of whether these positive aspects are relevant for the current situation on the stock markets. No, to the extent that there is nothing particularly positive beyond the disappearance of the bankruptcy risk premium. Certainly not enough to justify the P/E ratios, which are not as low as they were. Either we need to find other elements that would justify greater optimism, or we need to ring the alarm bells. Let's try the more positive alternative...

4. What are the implications of P/E ratios?

What is a stock price? A price arrived at by matching the wishes of a buyer and seller of a certain amount of stock. The seller, faced with the choice between holding on to the stock and letting it go, concludes that the stock at this price will not in future bring him what he thinks it reasonable to expect. Bring what, exactly? Future income. Conversely, the buyer believes that the price is below his expectations for the future. Expectations for the future: were they not positive, no-one would be prepared to pay anything for them. With the additional information about expected profits, gathered from the annual report of the company represented by the stock, it is possible to determine what the future expectations are. Does the price imply a terrific surge in growth, or rather consistency at best?

Let's assume that the profit of, let's say a young company is very low. A high price despite this (and thus a high P/E ratio) implies terrific growth; if these expectations are disappointed, the price is certain to collapse. This is what happened in the dot-com bubble. An energy company, by contrast, as slow to respond as an ocean liner, and, as far as revenue is concerned, as reliable as a Swiss watch, can easily live with a low P/E ratio, and thus very modest growth expectations. The P/E ratio follows typical sector patterns. Typical high-growth sectors excite imaginations on the stock market; people are ready, despite very low current profits, to pay very high prices for future dreams.

So, what can we learn from the current prices and earnings situation? Are the markets perhaps overvalued? Let's consider some of the stocks recommended by our bank – Swiss stocks, unsurprisingly. For "profit" we look at both the average profit per share over the last 10 years and the profit generated over the past 12 months. The growth expectations from the long-term perspective are usually significantly higher than those based on the current figures. What does this mean? Can it be that not only our bank, but also the markets are expecting a "sloping L" – that is, that the economic recovery will be sluggish?

What are the stock market's expectations?

	EPS (10-yr avg.)		EPS (last 12 mths)	
	P/E ratio	Implicit growth rate	P/E ratio	Implicit growth rate
ABB	76.0	8.7%	19.3	4.8%
Geberit	28.1	6.4%	14.7	3.2%
Holcim	12.7	2.1%	15.8	3.7%
Lindt & Sprüngli	30.5	6.7%	26.2	6.2%
Logitech	23.6	5.8%	80.0	8.8%
Nestlé	18.5	4.6%	9.0	-1.1%
Novartis	19.6	4.9%	15.4	3.5%
Roche	25.6	6.1%	18.7	4.7%
Swatch	21.2	5.3%	18.5	4.6%
Synthes	44.3	7.7%	19.3	4.8%

Note: EPS = Earnings per Share. P/E = Price/Earnings ratio. Average cost of capital of 10 percent used to calculate implicit growth rates.

Source: Bloomberg; analysis

On the basis of the company results posted over recent months, it can reasonably be said that the expectations derived from current prices are *not excessive*. The reason for this is – and this is the key to understanding this analysis – that most companies have so far managed the crisis amazingly well. Despite extremely challenging circumstances – think of companies like Swatch or Lindt & Sprüngli, highly exposed in the consumer goods sector – they have achieved attractive results. If they can manage a recession that well, then it should also be possible to do equally well in an improved economic climate; that is, to meet, or exceed, the expectations.

We are very much taken with the idea that the private sector is much better able to manage the economic crisis than generally supposed. We are searching hard for evidence that might support the idea, for if it is true, then there is room for a good deal more optimism, and thus for a continuation of the positive mood on the financial markets.

5. More adaptable than we thought

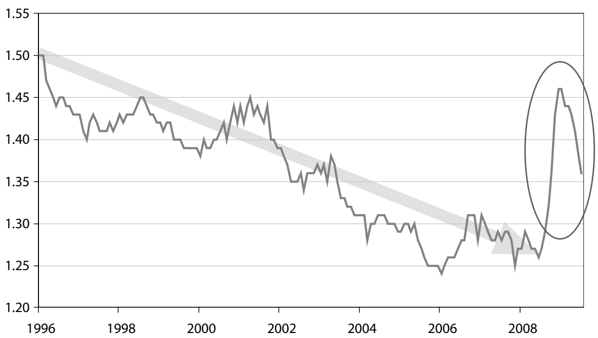
With all the reservations required by anecdotal evidence, we can use the changes in the format of the most important newspapers in Switzerland, the *Neue Zürcher Zeitung* and the *Tages-Anzeiger*, as an example of what being "better able to manage" can mean. As we know, the print media have been doubly hard hit by the financial and economic crisis, in that they are faced with advertising moving to the internet and an erosion of the usual margins in advertising at a time when they are already confronted with the need for radical structural change. To survive, they need to adapt their business model so as to increase productivity through rigorous cost reduction and also to significantly increase their readers' contribution to revenue by focusing consistently on meeting their demand. The reduction by the NZZ of its previous five to six sections to three compact sections and the move towards a somewhat lighter appearance correspond exactly to the first part of the necessary measures, increasing productivity. A start has been made on the second part, becoming more attractive to their readers, but success here will take time. It will also require additional investments. What is remarkable from our perspective is the *speed* and *thoroughness* with which these radical changes have been made. Toughened by the experiences from the crisis of 2001 to 2003, during which the print media were for the first time driven to the edge of the abyss, this time they have acted quickly and decisively.

Another example, this time from our own sector: the new approach to managing counterparty risk for structured products, recently presented by the Swiss Stock Exchange. There is a detailed description of these "collateral secured instruments", or COSIs, on page 3 of the Financial Markets Overview. What is important here is the fact that, relatively quickly after the collapse of Lehman Brothers, a genuine innovation was brought onto the market that solves, extensively and indeed elegantly, the problem of investing in structured products: a problem that on account of the counterparty risks would otherwise be virtually insoluble. Investors wish to be able to profit from the specific risk/return characteristics made possible by structuring, but are not inclined to do so at the price of risking a total, Lehman Brothers-style, default. Without the sort of solution represented by COSIs, trading with structured products would have had no long-term future. For investors, this would have meant the end of one of the most significant expansions of the financial universe. Not only has this been prevented, but the COSIs have opened the prospect of new developments in the securitizing of components of the financial system. What is good for structured products may well be very much better for internet-supported transactions. COSIs and similar methods represent a *quantum leap* in the *protection of ownership rights* in the financial system.

A third example, and not this time anecdotal but aggregated, and coming from the real economy. We suspect that the global, component-based business systems, with their extreme division of labour, are able to react to external shocks, such as the crisis generated by the financial system, much more quickly and effectively than the previous vertically integrated structures. A closer look at inventory cycles confirms this conjecture. It is the case that at the start of the crisis, and under the impact of the radical collapse in demand – there were reports of orders dropping by over 50 percent – firstly, items were produced for stock. As a result inventories rose quickly and sharply. But within an extremely short period, *capacities* were then radically *reduced*. For about six months now, that is, shortly after the crisis hit the real economy, inventories have been falling. And this adjustment has been achieved with breathtaking speed.

Rapid counter-motion

Inventory/sales ratio in the USA



Source: U.S. Department of Commerce; analysis

The implications of the economy's surprising adaptability to new circumstances cannot be overestimated. Among other things it means that the assumption that excess capacity will long continue is no longer tenable. Rather, a scarcity of key goods is conceivable in the short term. In the medium and long term, the *inventory cycle* may well be largely *eliminated*. Excellent news; unless, that is, protectionism makes an unwelcome return.

6. Minus X plus X equals zero. Is something missing here?

Let us attempt to arrive at a conclusion from all this. Firstly, however we look at it, between the positive and negative elements there is at best a *stalemate*. The aftermath of the crisis on the financial markets is by no means past. The side-effects of the interventions are foreseeable. The refusal to tackle the real problems at their roots fuels fears that the next crisis may have already passed the embryonic stage. The catastrophic situation into which the most important national economies in the world have manoeuvred themselves represents an acute threat to currencies, the US dollar in particular, but also to nominal values, such as bonds, as well as shorter-term securities.

Can this all (and a great deal more: we spoke of "hundreds of reasons") really be outweighed by the prospect of a modest economic upturn; by a faith in technically correct behaviour on the part of the central banks; by unspecified promises that the debt problems will be overcome somehow or other – the Italians have managed it for decades ...? It is impossible not to feel uneasy about this. Clear and present dangers on the one side; *no more than hope* on the other. From this perspective, we would have to advise further reduction of risk, the hedging of stock positions, possibly even a controlled exit.

But we don't really feel comfortable with that either. For it takes no account of precisely what we tried to describe in the last section but one, and characterized in the first section as "resilience and adaptability". People are not so stupid that they are unable to deal with new circumstances. All the billions of people who have, since the political liberation of the world in 1989, been able at last to develop more or less in freedom are hardly likely to allow their plans and dreams for the future to be messed about with. The financial and economic crisis has undoubtedly had enormous negative consequences, but even greater will be the *structural changes* that it will accelerate. These will include all sorts of changes at the micro-level, some of them drastic, not least the already described rapid reductions in capacity and measures to enhance productivity in individual enterprises. They will also include relief for whole regions of the world that have placed so many millstones round their necks, from less encumbered societies made up of younger people striving for prosperity.

If our observations are correct, the pessimists' arguments are often strongly influenced by the lessons believed to have been drawn from the experiences of the 1930s. Those who follow that course overlook the fact that the possibilities for individual development at that time were pretty much limited to the boundaries of the local coal-mine. Today's world, globalized and, thanks to the internet, infinitely open, offers those who are resilient and adaptable disproportionately more possibilities to maximize their own success, despite all the undeniable challenges. In this respect, optimism is indeed appropriate; perhaps more so than we think.

KH, 5.10.2009