



## AS MARKET VOLATILITY SLOWLY INCREASES...

Weekly Update: August 26, 2012

**Will the Apple Inc. v. Samsung Electronics Co. litigation stifle innovation?** As these firms litigate **tablet** and **mobile phone design** related issues in countries around the world, two decisions came last week: 1) a court in **Seoul, South Korea** provided a spit decision and 2) in **San Jose, CA** jurors were favorable to **Apple**, with a verdict that included \$1.05 billion in damages (Apple wanted \$2.5 billion). In addition, while Samsung is the named defendant in these cases, it is **Google's Android software platform**, used by Samsung and other device manufacturers, that is at the heart of these disputes. (**Note:** The litigation has not focused on Samsung's recent offerings such as its **Galaxy S3**.) **MY TAKE:** In the short term, **Apple's stock** may move higher, while Samsung's and Google's may be lower; but lawsuits and appeals will continue. As technology companies expand their patent portfolios, debates will continue about whether patent or copyright law should cover software (**Europe** and other regions favor copyright) and if **user interface design** and **business processes** should fall within the scope of patent law at all. The **history of technology innovation** is mostly a process of refinement and/or better execution of pre-existing ideas. For example: 1) several innovations popularized by **Microsoft's Windows** and **Apple's Macintosh** are based on the **Xerox Star** - introduced in 1981 and 2) many tablet design concepts were introduced in a 1994 video by **Roger Fidler**, then Director of New Media for **Knight-Ridder Inc.** Let's hope patent wars do not stifle innovation and consumer choice.

**The certainty of global uncertainty.** Notable commentary last week included: **1) Caterpillar, Inc. CEO Doug Oberhelman** - "There's never been a more unpredictable set of tea leaves than right now. Even in 2008 and 2009, US housing was already dying and had been for two years. We saw that" and "I don't think the situation is as grave as it was in 2008, but the uncertainty, the storm clouds are around things that none of us know about - like what will happen with the political situation in **Europe**", **2) the U.S. Congressional Budget Office's updated Economic Outlook** suggests if the **Fiscal Cliff** is not addressed, "fiscal tightening will lead to economic conditions in 2013 that will probably be considered a **recession**, with real GDP declining by 0.5% between the fourth quarter of 2012 and the fourth quarter of 2013 and the **unemployment** rate rising to about 9% in the second half of calendar year 2013" and **3) German Chancellor Angela Merkel** - "I want **Greece** to stay in the **Eurozone** and that's what I'm working for." **MY TAKE:** With **mixed economic data** and comments by **central bankers** and **policy makers** driving market moves, this week's focus is on an **annual gathering in Jackson Hole, WY - Federal Reserve Chairman Ben Bernanke** and **European Central Bank President Mario Draghi** will speak, as well as the **Republican convention** in Tampa, FL. Expect more debates on the effectiveness of economic stimulus, austerity and debt reduction efforts.

### Global indications – mostly positive.

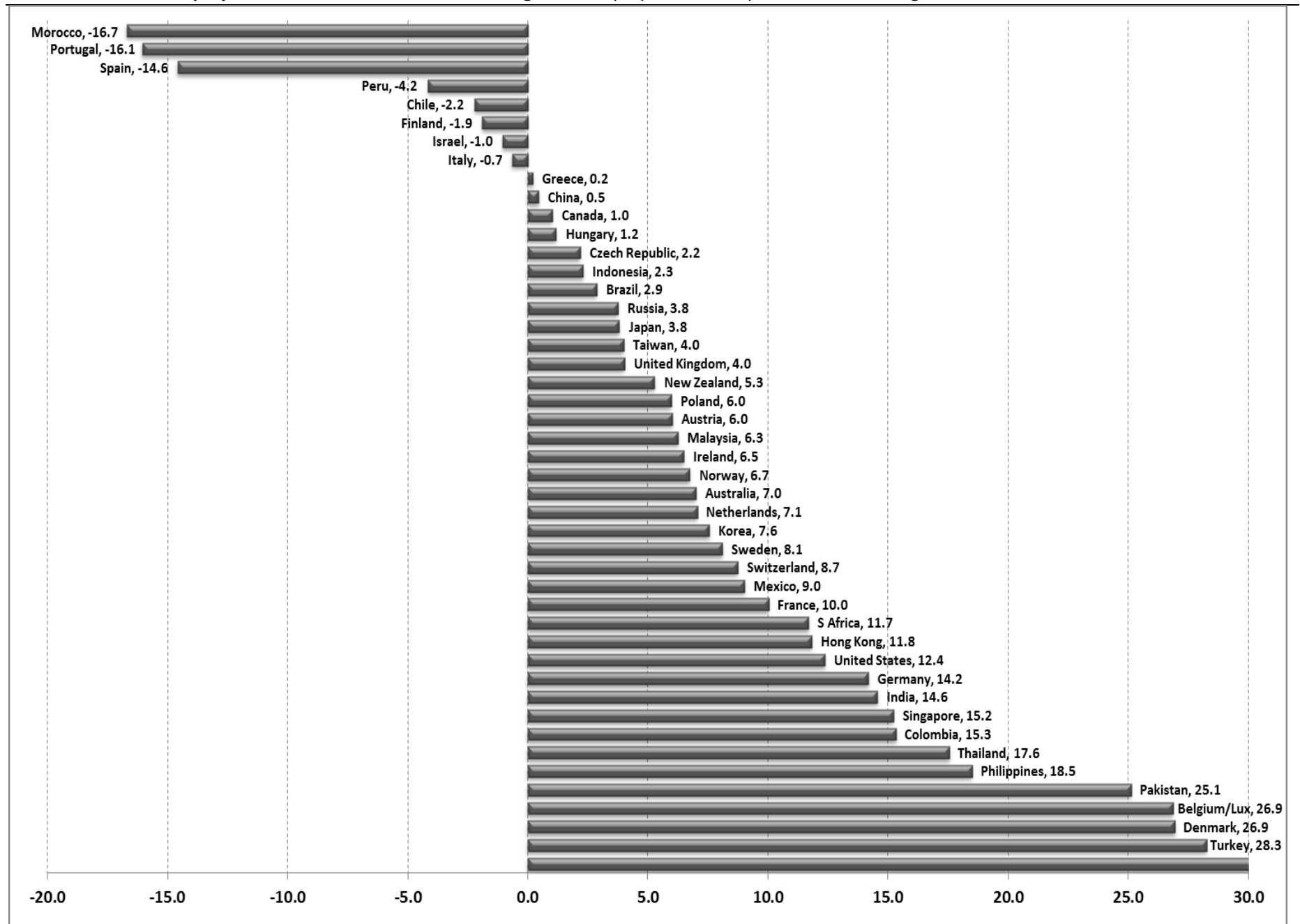
With a mixed economic environment (slowing growth in **Europe** and **China** and a stabilizing **U.S housing market**), investors are assessing the likelihood and potential effectiveness of more quantitative easing. Market volatility will likely increase.

Note: The multi-asset class risk monitor is available upon request.

Table1: Selected Market Indications (through August 24, 2012)

Index	Close	5D%	MTD%	YTD%	Daily	Weekly	Monthly
US (S&P 500)	1,411.1	-0.50	2.31	12.21	Positive	Positive	Positive
Europe (DJ Stoxx 600)	268.0	-1.77	2.53	9.59	Negative	Cautious	Positive
Japan (Nikkei 225)	9,070.8	-1.00	4.32	7.28	Positive	Neutral	Neutral
Brazil (Bovespa)	58,425.8	-1.11	4.15	2.95	Positive	Neutral	Neutral
Russia	1,442.6	2.78	4.74	4.40	Positive	Neutral	Neutral
India (Sensex)	17,783.2	0.71	3.17	15.07	Positive	Positive	Neutral
China (Hang Seng)	19,880.0	-1.17	0.42	7.84	Negative	Neutral	Neutral
Indonesia (Jakarta)	4,145.4	1.04	0.07	8.46	Positive	Positive	Positive
South Korea (Kospi)	1,919.8	-1.37	2.01	5.15	Cautious	Neutral	Positive
Gold	1,669.4	3.30	3.41	6.76	Positive	Positive	Positive
Oil (WTI)	95.9	-0.17	8.85	-3.02	Positive	Positive	Positive
Baltic Dry Index	715.0	0.14	-20.29	-58.86	Negative	Negative	Negative

Chart 1: 2012 Global Equity Market Performances – YTD % change: FTSE equity indexes are presented – as of August 24, 2012.



## **NEW IDEAS AND ACTIONS**

I continue to review the investment landscape for new ideas, with a strong bias toward “high free cash flow yield” opportunities in the idea generation process.

As always, focus, patience and discipline should be core components of any investment process.

### **Contact Details**

To discuss investment ideas and strategies, please contact me at [Paul@DravisGroup.com](mailto:Paul@DravisGroup.com) or 415.271.7255.

### **Background of Paul Dravis**

Founded Dravis Group LLC to provide market and investment research.

Clients have included multi-national corporations, non-governmental organizations, government agencies and entrepreneurial start-up firms.

Director at RCM Global Investors managing a \$1 billion global equity fund along with global research staff.

Advised institution investors around the world as a Managing Director & Senior Analyst at Banc of America Securities and as a senior analyst at Robertson Stephens and Co.

Wall Street Journal All-Star Analyst (stock-picking)

At JP Morgan, a founding member of the firm’s equity research practice and member of RiskMetrics task force to formalize value-at-risk (VaR) as a global market risk management tool for foreign exchange trading.

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