

January 2009 - America

Given the seemingly non-stop negative drum beating of the pundits, what is America's economic stature in the world, during a financial storm, the likes of which we have not seen since the 1930's? The answers may surprise you. This does not imply that America and the world do not face serious issues and challenges, nor does it negate the pain we have all experienced in our portfolios over the past year. There is no avoiding the fact that 2008 was a very miserable financial year for most of us. In fact, if you feel like it has been difficult to make positive returns in the market, there is a good reason.

The S&P 500 price return from the end of 1998 to the end of 2008 were a negative 27%; one of the few times in history that market returns were negative for a full decade. We believe at this point, it looks as if the 1999-2009 decade could also produce negative returns and 2000-2010 has work to do to become positive. What is the point of these factoids, other than to join in the 'gloom and doom'? The point is that we are in the midst of time in which stock equity valuations may be as modestly valued as we have seen in many, many decades. The point is that we may be on the cusp of potential investment opportunities in the markets that one normally sees once every generation, as in the mid-1930's, the late 1940's, 1973-74, 1982-83, and now.

What is the rationale for such a statement? The rationale lies within the very steep sell-off most financial assets have seen and the corresponding Federal Reserve and Treasury response that have been brought to bear on the problems. The commitment of the Federal Reserve Board is best summed up in its most recent official statement released on December 16th, 2008 in which The Fed said that the target rate for Fed Funds was between 0.0% and .25%, and that "rates would stay low for an abnormally long period of time until the systemic risks to the nation's financial system had subsided". Also, "the Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and price stability". The statement went on to say that Federal Reserve will purchase large quantities of Mortgage Backed Securities, Federal Agency Debt, potential purchases of long term Treasury Bonds and possible extension of credit to households and small businesses via a Treasury Department backed program. Ladies and gentlemen, this is an astounding statement that should be mandatory reading for every investor that is "nervous" about the long term viability of our country and our economy. In effect, the Fed has "shoved all the chips to the center of the table" and said defacto that we are going to win this battle, regardless of the challenges that may lie ahead. We believe we will win because the resolve of the American capitalistic system is un-daunting when severely challenged. We may make many mistakes, but when they become acknowledged, the efforts of a successful strategy become relentless within our system. We feel positive and confident, as you will see below.

Where does America stand in the world economy as we launch 2009? The \$14 trillion American economy is the largest economy in the world. The American economy is three times larger than number two Japan, and nearly 4 times larger than number's three and four; China and Germany. US manufacturing output is twice the output of Japan and that of China. Since 1995, American industrial output productivity has only been exceeded once, by England in 2000. The U.S. dollar is the most widely used currency in the world, despite headlines you may read about it. Furthermore, as the world economy has slowed, we have seen a "flight to quality" from investors worldwide which have helped strengthen the U.S. dollar and drive Treasury Bill interest rates to near zero.* We told you in our October 2008 newsletter "The Boys of Summer", that we see America emerging from the world economic crisis as a dominant leader that is "leaner, meaner and faster" than the rest of the world's economic powers.

We will not be foolish enough to try to guess what the prognostications are for market returns in the early months of 2009, if not the latter months. We do think that the unwinding of hedge funds and heavy margin call selling, as well as tax loss selling, will all abate and put less downward dynamic forces on the markets. We

believe the market will tend to be more focused on the real economy of the future, as opposed to dealing with the unwinding of unprecedented leverage in 2008. 2008 may have been the year of the "credit market storm" and the resultant "equity market storm". 2009 is likely to be the heart of the "economic storm", with headlines of increasing unemployment and factory closings, as well as credit card defaults and continuing mortgage foreclosures. But, as gloomy as 2009 may look, we feel a great amount of that negative economic reality has been reflected in the market's hefty "discounting" correction of nearly 40% in 2008; that correction discounts a lot of bad news! Do not be surprised to see what normally happens during the heart of a recession: a rising equity market that has moved beyond the gloom and doom of the days' headlines and is seeing better news ahead.

We strongly encourage you to read our October "The Boys of Summer" newsletter and our November 12th newsletter, "A New America" because they logically flow from where we have been economically, where we are and what is being done to help solve the problem, to what the future may hold, and why we have confidence in our outlook. There is no doubt that many portfolios have been severely strained and because of that, we encourage you to take advantage of our complimentary financial and investment planning services of Theresa Rynaski.

The current economic environment has affected not only those of surpluses like ourselves, but also those with no surplus to turn to. Although it is extremely difficult during times like this, please consider sharing some of your surplus with you church, family or school. The real returns of life are earned here and, sometimes, a seed planted will bear an abundance of unexpected fruit. Think about it.

Here is to 'Better Times in 2009',

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