

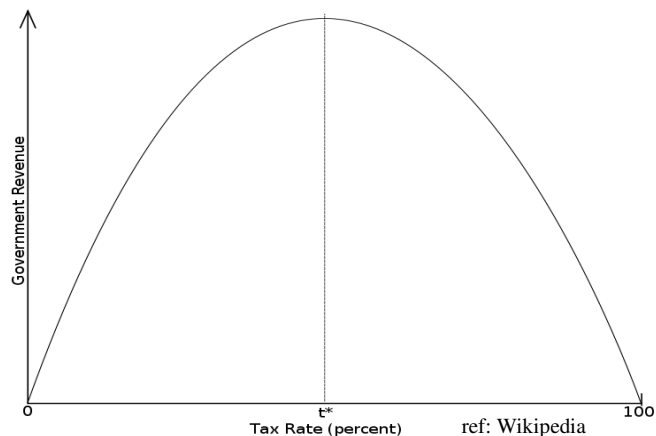
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The promise of continued turbulence held in the first quarter. The DJIA bounced between 9,000 and 6,200 this quarter. The last time we saw the Dow at 9,000 was January 7, 2009. Our last visit to 10,000 was October 8, 2008. U.S. Domestic equities ended down 11.01%, while foreign stocks suffered a 13.85% loss. Solace was found in bond returns; they produced a pleasant 2.27% positive return and short term money markets yielded an unimaginative 0.10% uptick.

One constant economic hot button is the issue of taxation and what effect it is likely to have on the economy. Taxing citizens more during a time of economic struggle is bad. Taxpayers who are in dire cash flow positions need a tax increase like a drowning man needs a bowling ball. However, Keynesian economic theory does correctly point out the need for government intervention in certain times. Keynesian theory has been bowdlerized by the media and politicians. By suggesting it is a path toward socialism. Rather, governments need to, sometimes provide a financial backstop to the national machine of capitalism. The perversion occurs on two fronts: 1. Permanent expansion of the centralized government (say, nationalizing health care) and 2. The debate over which side we are on the Laffer Curve.

The Laffer Curve simply explains the notion that there is an equilibrium of tax rates imposed to tax dollars collected. If one believes in capitalism, one must believe in the Laffer Curve. It is the supply and demand model for state taxation. If the government lowers taxes too much, they miss out on money that would otherwise go toward increasing the state's strength. If the tax rate is too high, the economy stifles, production wanes and ultimately the government collects less dollars. It should be noted that this does



not suggest that a tax rate of 50% is the goal. Instead, as government increases tax rates it will eventually be taxing the people to the point of poverty. (Robinhood) There is however a popular sentiment that it is never a bad thing to be left of the equilibrium. Perhaps. But being left of t^* and moving right (raises tax rates) in fact does not hurt the economy, and may even strengthen it. Again, the debate is our location.

There is continued pessimism for the market, much of it emanating from the national unemployment rate. Currently at 8.5%, the Bureau of Labor and Statistics estimates this rate climbing to 10.8% (www.bls.gov). Creating an economic environment that promotes the growth of new private sector jobs is crucial. Many pontificate housing is the key. It is not. Cash flow needs to win the day and personal savings needs to increase. This happens with jobs.

For years we have heard of the abysmal rates of savings by our fellow citizen. To build real wealth, we must live below our means. This adage has been far forgotten. Americans built huge homes with abusively larger mortgages and did not save. Borrowing against the increased value of the home, their second mortgage bought their furniture. Refinancing, they got a new car. And refinancing the second mortgage was paramount as they needed cash to begin paying of the first. This idea of mega-home ownership prevented the basic need to save – and save outside of one’s 401(k). Now some pain is yielding good. American’s now save 5% outside of retirement plans (National Bureau of Economic Research). If this trend in savings rates continues, in time Americans will have real discretionary money to spend. Close to 70% of our economy is driven by consumer spending (Ibid).

The market for stocks continues to look inexpensive; investor confidence is rising. In December of 2008, confidence reached its 52 week low of 58.2 (out of 100). Since then, it has steadily climbed to 79.6. Though is it not our 12 month high, it is near the top. There will likely be 6 months of ongoing volatility before real recovery can begin, but we are seeing positive changes.



In times of uncertainty it is comforting to review goals and run what-if scenarios. Please feel welcome to call or visit Dick or me. We are encouraged by some positive moves in the market, and want you to have many options from which to choose.

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