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Dear Valued Investor:

I hope you enjoyed a wonderful 4th of July! News reports stated that New York City set off 45,000 pounds (22.5 tons) of fireworks on the Hudson River—wow; that sure beats my personal best…And now, while some of us enjoyed a short vacation, others are looking for work and the markets are back to worrying about the future. It is pretty clear to me that, while there is certainly cause for worry, there is also room for optimism.

On the negative side, the employment report for June we got on the Thursday before the 4th gave us no let up—payroll employment fell 467,000, and the unemployment rate rose another notch to 9.5%—the highest rate since August 1983. I know employment declines are not considered a leading indicator, but it is safe to say that things are tough out there.

On the plus side, looking at the eight components of the Index of Leading Economic Indicators (average hours worked, vendor performance, capital goods orders, building permits, the interest rate spread, stock prices, real M2 money supply, and consumer expectations), all were up except consumer expectations. These indicators are not up a lot, but are up from for the most part depressed levels, and show some signs we are coming off the bottom of this recession.

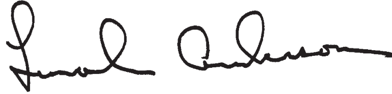
So, as I have said before, I do not think we are in the Great Depression II or looking at a prolonged Japanese-style economic malaise, but we are in the midst or near the bottom of a nasty recession. I suspect we will see a slow recovery starting in the second half of the year; not enough growth to stop employment declines, just slow them over the remainder of 2009. In the private sector, just about everybody is in belt tightening mode. While, amazingly, total U.S. real-after tax personal income is still up over the last year, real consumer spending is down 1.9%, the second biggest drop on record (the drop in November 1974 was slightly worse). With income up and spending down, total U.S. personal saving has soared to an all time record high of $769 billion. This fiscal responsibility by U.S. households is also part of the healing process.

For business, it is much same. Nonfinancial corporations are still showing considerable net financial asset positions while banks, mostly large banks, have scrambled to delever their balance sheets and deal with the poor investment decisions they made. All of this effort in my opinion helps set the stage for recovery.

On the government side we are going in the other direction. At the Federal level, the “Stimulus Package” and all sorts of other program expansions including the Federal Reserve’s massive balance sheet expansion are classic “Keynesian” anti-recession fiscal and monetary policies, but seriously ramped up. However, it will take time to feel these fiscal and monetary impacts.

In past recessions, most of the anti-recession spending took place in the midst of the recovery. I expect this will be the case this time around. The private sector does its work—cutting jobs, inventories, unsold home backlogs; postponing capital spending; renegotiating labor contracts, and the like; and then, with the house in order, labor and businesses get back to growing the economy. I think we are pretty far along in this process. As always, please call your financial professional with any questions or concerns.

Best Regards,



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