

Some Positive Signs?

I have been writing a quarterly newsletter for over 15 years now. I am a numbers guy who can't spell so the first few years were like pulling teeth. It got so bad that I was avoided by everyone in the office. After a while I fell into a rhythm. I would start by listening to our clients' questions, reading financial periodicals and talking to friends in the industry to figure out a topic that was on everyone's mind. I would research the idea, look at how it would affect the markets and our clients and write an educational piece informing our readers.

If the markets were up big, I would explain why and remind readers that it can't go up forever. If it was going down I would explain why it would go back up. Normally there are one or two issues that are affecting the market and/or economy so it was easy to decide on a topic. But now there so many topics to choose from I am once again struggling to write a newsletter.

There are a myriad of issues affecting the markets.

1. The economy that feels like it is in a free fall
2. Rising unemployment rate
3. Collapsing auto industry
4. Massive stimulus packages
5. AIG and the nations largest banks needing to be bailed out
6. Over leveraged individuals and companies both here and abroad
7. Madoff ponzi scheme
8. Slumping housing market
9. Lack of investor confidence
10. Regulations that aren't working

Everything seems so overwhelming it makes you wonder if the markets and economy will ever recover.

The media doesn't help. If you spend any time listening to business news channels, you can start to get really depressed. Buried in the barrage of information they are giving you there is some good news to indicate that things maybe starting to turn.

It started two weeks ago when Bank of America, Citicorp and JPMorgan all announced that they have been profitable so far this year. This is not to say that they are completely on track, but that things have started to get better. With time we might see the credit markets loosen up and banks start lending again.

Retail sales figures were announced right after the banks reported profitability numbers. For the second month in a row retail sales did not fall. This is good news after almost 2 years of sliding numbers.

Commerce Department figures for durable goods (such as machinery and computers) unexpectedly rose 3.4 percent in February. Last month's increase in orders saw the biggest gain in more than a year and the first in seven months.

We have even seen a glimmer of hope in the housing industry with new home buyers returning to the market. The National Association of Home Builders report showed a 4.7 percent gain in new-home sales to a seasonally adjusted annual rate of 337,000 units in February, along with upwardly revised figures for each of the previous three months.

I am not trying to say that the economy is magically going to turn around, but we may be seeing the first signs that the economy may not be getting worse. Only time will tell. One thing is for sure, the Federal Government is trying to do everything it can to get the economy going.

There are too many issues facing the global economy for there to be only good news ahead. For example unemployment is a lagging indicator, so we will see unemployment continue to increase until 6 to 9 months after the economy starts to move forward. On the other hand, the stock market is a leading indicator. It will start to move up 6 to 9 months before the economy turns around. So, even as the economy bottoms and starts to turn around there will continue to be bad news, but the markets will have already started their recovery. This already may have happened. The market started the year by dropping over 25% because of the list on the left. It has rallied the last two weeks because of the good news above to finish the quarter down a little over 11%.

With this in mind, we are looking at spending some of the cash in our accounts. This will be a thoughtful process and will be done over the next 6 months. For our balanced accounts, we will continue to buy short and medium term government and/or municipal bonds keeping that portion of your assets safe. We will use this time to position ourselves for when the economy starts to grow again.

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