



“Big Brother” Can You Spare a Dime?

The National Bureau of Economic Research says jobs data, and other indicators, confirm forecasters’ worst fears that after a modestly paced six-year expansion, the nation’s economy entered a recession last December. While it is now official, it’s hardly shocking. We have been feeling the painful effects of contracting credit, devalued housing, anemic economic growth and declining world stock markets, for quite some time.

The latest federal moves to bolster credit markets and acquire mortgage securities raise the United States commitments to contain the financial crisis to nearly \$7 trillion. While this includes guarantees on certain corporate assets and debts, money that may never be spent, they are liabilities nonetheless. With a total population just over 300 million, that comes to slightly less than \$25,000 being committed on behalf of every man, woman, and child in America. Now, no one thinks the government will actually spend anything like that figure, which would be almost half the nation’s total gross domestic product, but it puts into perspective the magnitude of its effort to get the economy going.

In recent weeks, a variety of new entities have lined up to plead their case for assistance:

- Automakers have already been in front of Congress and look to present a “viability plan” this week.
- Cities, states, and other municipalities are said to be seeking funds to shore up depleted coffers, due to shrinking tax receipts, so critical services won’t be discontinued.
- Corporate and public pension funds are assembling a request given they are facing unprecedented shortages as a result of massive investment losses and declining liquidity.
- And institutions like investment banks, insurance companies, and mutual fund families have all mentioned the possibility of converting to a traditional bank in order to benefit from the existing bailout funds.

All reasonable requests are being considered.

On top of that, new initiatives are surfacing that will be directed more to the struggling US consumer. Just last week, President-Elect Obama was said to be putting together another \$500 billion in federal spending and tax cuts over the next two years to help provide some needed relief to battered consumers. It is no secret that the US consumer represents 70% of our economy but many may not be aware that they also represent 30% of the world’s economy. Coincidentally, these measures are universally supported since wealth in America has taken a massive hit in 2008. Depending on the day and the source,

estimates are \$4 trillion in housing wealth and \$9 trillion in stock market wealth have been lost so far in the United States.

Only time will tell if these actions are the right ones or whether they will ultimately be successful, but as we enter the final month of the year, one has to be a bit more optimistic. The Federal Reserve, Treasury, and our elected officials are leaving no stone unturned to lessen the length and magnitude of the current recession. While there will be some consequences down-the-road as a result of all this massive intervention, they will pale in comparison to what might have happened with no intervention at all.

As a result, we feel we are closer to the end of this bear market than the beginning. Many stocks appear to be oversold having been punished because of declining fundamentals, forced liquidations or pure speculation. Leadership in the market has been fleeting at best. It's been difficult to identify sectors or securities with any long term conviction given the fear and greed at work. We feel confident that once market leadership is again established, our iterative process will help us to be a part of that leadership group. Our experience, in managing through past recessions, shows that to be true. In the interim, we continue to monitor the fundamentals and technicals underlying the securities in our portfolio and new candidates that surface through our process. We are mindful that the market has historically been a discounting mechanism, with several months lead time. Knowing that, we are slowly starting to balance out the defensive posture of the portfolios with selective names that generally do well in an improving economic environment.

In this difficult period, we understand that sticking to our knitting is the best thing we can do to help you, our clients. Our long term success in meeting client expectations comes from extensive experience and a proven time-tested investment process.* Both are still being brought to bear on your behalf.

We wish you safe and enjoyable holiday season. Please let us know if there is anything we can do to meet your needs.



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**Past performance does not guarantee future results.*