



A plethora of economic indicators released in the past three months suggest that the U.S. economy may be on the mend. However, the U.S. economy and the financial markets still have many headwinds ahead and there is no historic precedent to guide us, to assure us that “happy days are here again”.

I will break down the state of the U.S. economy to three basic parts; cyclical, monetary and structural.

Cyclically the U.S. economy is on the mend, as pent up demand from stressed out consumers starts to emerge. This cyclical recovery is similar to past recessions as business that shuttered their factories as the demand for their products diminished try to play catch-up to meet the increased vigor of their customers. However, businesses still remain cautious as the landscape ahead is unclear and as such, are reluctant to go on a hiring spree any time soon.

Monetarily easing by the Federal Reserve (Fed) flooding the financial markets with newly created money is also working as an elixir to the ailing U.S. economy. In addition, the Fed has reduced the cost of borrowing to the banks to nearly zero percent, flooding the banks with excess reserves (money). The jury is still out on when and how the Fed will extract their unprecedented injection of money into the U.S. economy without causing more harm to our financial system. If they continue on their current path and keep printing money buying up all of the mortgage backed bonds and a large portion of U.S. Government bonds then hyper-inflation is a likely bet ahead. My clients however along with other retirees are savers and are being punished by the Fed as their bank deposits and money market accounts are earning near zero percent, reducing their spendable income significantly.

Structurally the U.S. economy is in uncharted territory. The U.S. government and most of all the state governments have record deficits and accumulated debt. Public and private pensions for the most part are significantly under funded.

Ten thousand people day for the next twenty years, baby boomers some eighty million strong, swamp the Social Security and Medicare system. Both these entities that cost the taxpayers more than a trillion dollars a year are either insolvent now or in ten years depending on how you calculate their shortfalls annually.

Home foreclosures and bankruptcies are at historic highs and many corporations are stressed as they seek to refinance their debt. There are also a large number of people who have been unemployed for more than one year who may never get a viable job in their lives as they lack the education and skills to compete in the high tech economy.

I remain confident that our firm can continue to find viable financial products ahead to achieve the income and growth our clients seek and to protect their nest eggs from any significant stock or bond market decline.