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Throughout the second quarter the U.S. and global economies continue to struggle to shrug off the worst recession since 1929-1933. In this newsletter I will revisit the three parts to our economic puzzle, that is, cyclical, monetary and structural.

Cyclically the U.S. economy is muddling ahead with less than robust growth as the pent up demand of many consumers has been met by businesses ratcheting up their production. However, the consumer remains cautious as unemployment remains near 10% and more than one half of all adult workers in the U.S. have had a spell of unemployment, a pay cut or a reduction in their work hours. In addition, the U.S. public is suffering from crisis fatigue because of the out of control federal and state government deficits, the European debt crisis, the unrelenting wars in Iraq and Afghanistan, the Iran nuclear threat, the North Korean South Korean standoff and the catastrophic out of control oil gusher in the Gulf of Mexico.

Monetarily the Federal Reserve is still keeping short-term interest near zero. The Fed however has abandoned buying most of the mortgage bonds. Mortgage rates are near historic low rates anyway as Fannie Mae and Freddie Mac are still gobbling up all the mortgages as they continue to lose billions of dollars every week. The U.S. Treasury is making good on its promise on New Years Eve to raise the limit of the bailout of these behemoths to an unlimited taxpayer bailout.

Structurally the U.S. and global economies are besieged with mountains of unsustainable debt funding entitlements that the governments cannot support much longer. The U. S. Senate is still sparring with a financial reform bill but none of the versions that are disseminated to the public address the real problems in the U.S. economy that is, too big to fail banks and the winding down of the two biggest financial monsters in U.S. history, Fannie Mae and Freddie Mac. The twenty five largest U.S. banks had 56% of the bank assets in the U.S. in 2007 now they have 59%. The financial reform solutions proposed makes no mention of how to solve what is really wrong with our financial system.

Most major stock market indexes finished the second quarter significantly in the red with May being the worst May since 1940. My clients however have avoided the roller coaster ride in the stock market throughout 2010 and most clients have earned positive returns in the second quarter and from the beginning of 2010.

I remain cautious about the overall economy and financial markets but remain optimistic that I will be able to continue to identify the best investment opportunities for my clients investment portfolios. In addition, my defensive tactical style of investing has served my clients well during the past three years as the majority of my clients have earned positive returns since 2007.