



CAPITAL IDEAS

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“A Really Good Show”

The Wall Street Journal reported that “the percentage of homes that are vacant fell 2.25% in the second quarter to about 18.7 million units, the lowest rate since mid-2006 and a sign that housing market conditions are gradually improving.”

That is really good news – what is not good news is that the government is piling on debt like never before.

Our thinking is although short-term interest rates are likely to stay low for some time, longer term interest rates will inch higher as investor expectation of increasing amounts of debt and inflation spooks the credit markets.

In our opinion, inflation is not going to be a significant factor until the fifth year of an Obama presidency. Do you see any political overtones in this prediction?

Global stock markets lost approximately \$35 trillion of value from the high in October of 2007 to the March 2009 lows. Because the “de-cession”, as we call it, was a global phenomenon, governments around the world took coordinated action to combat the effects. This has very positive political implications for the future of the planet.

The more cooperation and communication among the world’s nations, the better the opportunities for prosperity and peace.

As the world recovers ever so slowly from the de-cession, China leads the way with huge savings and enormous stimulus to its own economy which has reignited growth internally. Because of its pool of savings, China will clearly have the upper hand in its financial dealings and ultimately its political dealings with its friends and foes.

Money goes to where it finds the best returns, and clearly the developing nations are growing faster than us. This does not necessarily mean that one should run out to buy stocks in these countries – very often these markets are not as efficient as the U.S. markets. There are many great U.S. companies that will benefit enormously from their operations in these countries (in

addition to potential incremental earnings from the dollar depreciation) – thus we are investing in equities along these lines.

Russia and the U.S. seem to be beginning a “new rapprochement” as President Obama visited and struck a good response in the Russian hierarchy.

However, Mr. Biden quickly created havoc giving a tongue lashing to Russia’s leaders – was this a good guy, bad guy routine or is Joe “Biden” his time? Could Hillary be the next Vice President in a second Obama administration?

Global arms spending is up! World governments spend \$1.46 trillion on upgrading their armed forces last year. China climbed to second place behind the U.S. Despite the economic downturn, global military spending was 4% higher in 2008 than in 2007 and 45% higher than a decade ago!

So all in all, the summer has brought a higher stock market, some increased confidence, and a great deal of rain! The message in this is to enjoy the good, hope for the best, but bring an umbrella as we never know when the rain will fall yet again.

Go and have fun!

See you in September!

As always,

Seymour W. Zises

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