



CAPITAL IDEAS

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“Tightrope”

It’s roughly one year since the financial meltdown started.

I do not know if anyone could have predicted the series of events that has occurred since that time, but certainly there are some lessons to be drawn from the “Great Recession”, which, contrary to the press, is by no means over.

Lesson 1: Don’t borrow too much money.

Lesson 2: Don’t think that your risk tolerance is higher than it really is.

Lesson 3: Understand how fear and greed can drive your investment decisions.

It has been said that when your friend is out of work – that’s a recession, but when you are out of work – that’s a depression. There are just too many people out of work for me to say we are out of the woods just yet, and sometimes technical terms do not provide the answers.

Nevertheless, the G-20 met and concluded that they should withdraw stimulus, but they are not sure when.

There is so much economic stimulus that it is truly incomprehensible. As Jim Grant wrote in *The Wall Street Journal*, “In the post world war era, the government has attacked recessions with an average fiscal stimulus of 2.6% of GDP and an average monetary stimulus of 0.3% of GDP, for a combined countercyclical lift of 2.9%...This time out, the fiscal stimulus is likely to measure 10% of GDP, monetary stimulus 9.5% of GDP, for a combined pickup equivalent to 19.5% of GDP.” This is an astounding statistic and argues for less to be done going forward because, as in post war eras, the economy recovered anyway without the massive outpouring of federal money.

Here in the U.S., President Obama has to walk a fine line; not enough stimulus and perhaps we fall backwards, but too much stimulus and perhaps inflation takes hold...

Many nonconformists believe that a strong bounce back will occur. There will be opportunities for sure, but I do not believe there will be a strong surge.

Meanwhile, China is in the driver's seat. Chinese banks are extending loans as U.S. banks do not. China has a huge pool of savings upon which to draw for investment and spending as U.S. households save more and attempt to bring their debt levels under control. As China becomes more entrepreneurial, America seems to be moving more in the direction of Socialism. Who are the Communists anyway?

On a related note, the health care debate continues and continues—it makes me sick!!! Preventive medicine is truly the only real answer for the long term. I believe everyone should be insured—how to do so is the \$64,000 question.

Antidepressant drug use doubled in this country from 1996 to 2005...who could guess what it is now??!!! The truth is that there have always been big challenges for us to rise to, and rise to them we must!!!

There has been a sense of entitlement in this country for a long time...leadership has tried, mostly through rhetoric, to change many of our domestic and international policies, but as long as this country has been fat and happy (credit cards), the rooster has not come home. THIS is what we are experiencing today and likely will continue for quite some time.

Investing will require more patience. We believe that the current rally is tiring, and that the markets will be range bound for quite some time. Certain equities will probably continue to deliver a "total return" that is acceptable to most cautious investors. Bonds, in general, have had a good run also, and may give a tad more return via capital appreciation if the stock market falters. Proven trading strategies and hedge funds will continue to outperform, and we are finding more opportunities in many different sectors to bring to your attention.

Now that a Russian businessman has bought the New Jersey Nets (as they are now called), will they finally serve borscht at the games??? Also, now that water has been discovered on the moon, I want a ticket! It's peaceful, no pollution, golf balls travel farther and the views are great! Never say never!!!

What will be the locomotive for the next move in the markets? Will it be a crisis with Iran? The Chinese selling their U.S. debt in the market? No doubt there is a great deal of unpredictability at this point. The key is to stay focused on YOUR OWN objectives, and don't be distracted by short-term dislocations.

America is a great country, and there is no doubt that the best is yet to come!!!

Get a flu shot and stay healthy!

As always,

Seymour W. Zises

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