



CAPITAL IDEAS

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“Good Buy America”

The U.S. stock market continues to advance as we move sluggishly toward an economic recovery. The fourth quarter GDP advanced slightly less than estimated, and the index finished 5% higher as of the writing of this letter.

It seems like relative to most of the rest of the planet, America is handling its problems in a more orderly fashion; that is quite remarkable. (Notwithstanding, everyone here seems to be complaining!) Europe has its PIIGS (Portugal, Ireland, Italy, Greece and Spain) as the Euro has fallen from its peak in the summer of 2007. China continues to chug along, but it is slightly tightening money to cool its economy down. Some see a bubble developing in China, but one can really never know the true status of their economy because the government controls the statistical reporting. India reported higher inflation than predicted which raised a cause for concern.

However, the recent U.S. note and bond auctions were met with a cool reception last week, which sent U.S. interest rates higher with the 10 year note touching 3.9% before settling the week at 3.85%.

All this data is the backdrop for darkening trends in the developed world. The rich are getting richer – much richer. The poor are being subsidized by the rich. The middle class is getting squeezed, and that will end up being very bad for everyone.

In the name of social justice, the health care reform bill passed largely on the back of procedural maneuvering and on an idea whose time has come. The problem is the true effect it will have on the economy in the future. And nobody knows just what that effect will be. It will be a wait and see proposition, but as one who is fundamentally in favor of health care reform, I just do not get the impression that our health care system works efficiently in its current state. Nor do I believe that this bill brings costs and benefits in line.

Municipal bonds are on the front page – many states are running massive deficits. In addition, a recent article discussed price fixing among large investment firms in the municipal bond market. We will keep an eye on this matter as it develops. We are very proud of our municipal bond management and can assure you that we are always acting in your best interest.

More than 21% of single family homes are under water – that is why the government must develop a program to encourage lenders to write many of these mortgages down so that the borrowers can maintain

their homes. Further, the government must not, it cannot, withdraw its stimulus too soon for fear of a double dip.

The stock market was on a “sugar high” last year from cheap money. There has been a carryover to 2010, but at over 18 times earnings and a dividend yield of less than 2%, the market seems unlikely to advance much more without significant earnings improvement. It is certainly difficult to short the market with so much cash and bond money on the sideline. Liquidity may drive the markets higher – current valuations, I believe, are fair as a whole, so beware not to overextend yourself.

The U.S. must find a way to keep its deficits under control. This is the issue that must be tackled before it’s too late.

Pat Moynihan said “If you are in a hole, stop digging.”

We dig and stand with Pat!

As always,

Seymour W. Zises

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