



March 2010

Dear Clients,

One of our top priorities is to bring you current information and forward-thinking insights about our financial markets. Glass Jacobson recently sent our entire financial service team to attend Charles Schwab & Co.'s Regional Investment Conference. We heard many notable speakers, including former Federal Reserve Governor Randall Kroszner, Legg Mason's Bill Miller, and Charles Schwab's Chief Market Strategist Liz Ann Sonders.

Their central message forecasting the path of the 2010 economic recovery outlined two possible scenarios (based on economic and historical precedence). First case: we are on the path to full-blown recovery at this point and entering a Bull Market. The second, and a bit more pessimistic: the recovery from the 2008 collapse will be tempered by another short drop and we are entering a Bear Market period.

CASE FOR BULL MARKET RECOVERY	CASE FOR BEAR MARKET RECOVERY
Unprecedented global stimulus	Federal Reserve begins exit strategy from stimulus
Pent-up demand building for consumers and businesses	Unemployment rates remain elevated
Household debt decreasing and net worth rising	Government budget deficits (federal, state and local) growing
Foreign economies recovering sharply and global industrial production surging	China puts on monetary and fiscal brakes and Greece's economic failure threatens European recovery
Booming corporate profits and productivity	Real estate only seeing fledgling recovery
Inflation remains tame	Government initiates rising taxes and protectionism
Credit markets back to 2007 levels	Global debt shifts from private to public sector
Reasonable valuations in stocks	Political quagmire

For each scenario, we are keeping our eye on certain leading and coincident indicators to help us better understand the true state of the economic recovery. Boosting confidence, most of these indicators point to the positive Bull Market recovery scenario.

Improving Leading Indicators: Leading Indicators change *before* the economy does. These Indicators have been UP for 10 consecutive months.

- Average work week (more hours)
- Unemployment claims (are down)

- New orders for consumer goods
- Vendor performance
- New orders for capital goods
- Building permits
- Stocks (market values are increasing)
- Interest rate spread (the difference between borrowing and lending rates is growing, leading to healthier and more profitable banks)
- Consumer expectations (as reported by the Consumer Confidence Index)

Weakening Leading Indicators:

- Money Supply (see our previous post [Inflation Expectations](#))

Improving Coincident Indicators: Coincident Indicators move at the same time the economy does. These Indicators have been UP for 7 consecutive months.

- Industrial production rising sharply (globally)
- Real manufacturing and trade sales are improving
- Personal income improving
- Payrolls improving
- Initial unemployment claims down

Our panelists left us with a few other thoughts and observations:

- CEO optimism is high, back to pre-2007 levels per the Business Roundtable. However, small business optimism remains anemic for now.
- There is typically a 6-10 month lag between the recession's end and the unemployment rate peak. Leading indicators show that unemployment claims are on their way down.
- Banks have capacity to lend. They can lend up to 9 times the amount of their deposits. They are currently lending at 1 times. Until the "velocity" of money creation accelerates, inflation will remain tame.
- Bull markets are often born in recessions. Typically, stocks lead the economy, and the stock market has favored weak, slow growth.
- The "wall of worry" has not been completely toppled- there are still people worried about overvalued stock prices and another correction. However, stock valuation is at worst neutral (meaning stocks are fairly valued), suggesting a lot of room for the upside.

Overall, each speaker was optimistic about the economy and the potential for continued growth in the financial markets. At Glass Jacobson, our investment beliefs are strengthened from these economic insights and remind us of the importance of adhering to your investment plan. Please call us if you have any questions or are interested in discussing these topics in greater detail.

Sincerely,

Glass Jacobson