What follows is a brief overview of the investment issues we face today. This short letter is designed to highlight what appears to be investor potential, and also, most likely pitfalls. It is not a call to action. It is an attempt at understanding, and patience. We will need to be calm and rational, in order to manage the coming 5-10 year period of potential turmoil.

THE GOOD, THE BAD, THE UGLY

THE GOOD

If we do a technical analysis of the stock market based on Elliot Waves I and II from March, 2009, **the upside target for the Dow is between 16000 and 17000**. **Today the Dow is at 12,600**.

This same analysis would **take the S&P Index up to between 1700 and 1900**. **Today the S&P Index is at 1,350.**

Is it possible in today's market, to predict such a dramatic growth in the US and global economies? Good question!
I have to live with such questions every day, as I try to manage your investment portfolios. How much risk to take? Should we be taking more risk (1) by investing more money into the stock market, or (2) by increasing our risk profile for fixed income investment choices?

My answer to these questions today – "Probably not, but if you have the intestinal fortitude, there may be significant upside growth potential for the future (3-5 years at least)."

THE BAD

Because all of us are dependent upon our own financial reserves to fund our retirement costs, it is imperative that we do not suffer any significant losses to our investment portfolios, as we put money aside for retirement, or as we enter retirement. This statement alone dictates the need for a lower risk profile for our investments.

All of us should be aware that there are market and economic forecasts which are predicting a Dramatic "Grand Cycle", downward move in stock prices, which begins in late 2011 or in 2012. There is an interesting analysis that weighs heavily on previous "Grand" cycles that include the Great Depression. Such a negative scenario is not out of the realm of possibility!

THE UGLY

On the other hand, it is especially interesting to note how well the manufacturing sector of the US domestic economy is building a growth momentum today. It is also interesting to note that there was a significant drop in the Adjusted Monetary Base reported in the most recent St. Louis Federal Reserve release. Can the growth momentum in the “shadow banking” system balance the potential money supply contraction that should occur as the Fed ends its QE 2 purchases? As the federal government budget shrinks and taxes increase?

The path to growth for the U.S. Gross Domestic Product is narrow, and is dependent upon the current growth curve gaining momentum, throughout the US manufacturing sector. With a lower valuation for the U.S. Dollar, it may be possible to once again see a growing manufacturing sector in the U.S. If that is the case, we should also see growing employment.

These are lots of “If’s” to the future of U.S. and Global economic growth!!

That being said, even the most difficult of problems facing the US economy seem to be finding a consensus in Washington D.C. – planning lower budget deficits, greater tax revenue to the Federal Government, and a solution to the rapidly accelerating cost increases in Transfer Payments, Social Security, Medicare, and Medicaid.

AND, …………. THE COMMENTARY

It is clear now that there is a need to curb the increasing size of our Federal Government, as it relates to the growth of the US economy. There is a limit to how much the government can spend before capitalism is affected. We have exceeded that level today.

During the coming 5-10 years, there will surely be hard times: (1) as government expenditures shrink, (2) taxes increase; (3) the US economy slows, (4) the European economy experiences a similar contraction, (5) another recession (or perhaps depression) increases unemployment and government debt, and reduces tax revenues and money supply growth.

As investors, our investment goal is to survive financially, and to grow our personal net worth. During these interim years – while we wait for resolution of so many difficult economic problems – we should still be able to make our portfolios grow, if even by only a small percentage. We also should be able to prevent significant losses. Both can be accomplished - Preservation of Capital,

Long Term Investment Growth - through carefully planned management…. and just a little help from the gods above.
The power of positive attitude control!