

## Still Bearish?

**June 5, 2009** - "Are you still thinking the market is in for a setback? It seems like everything I read says we are on an up turn. Home sales up. Auto sales up. Recession is ending."

**ANSWER:** What you are hearing is "pundit" grasping at straws to have something positive to say. At some point this recession will find a bottom. That time is not now! What we are seeing is a slowing of the rate of downward contraction.

There is a second wave of home foreclosures coming that is caused by prime-lender defaults - people who have lost their jobs. The rate of increasing unemployment is declining, not reversing. Manufacturing capacity utilization is at an all time low of 65.3%. You can extrapolate from the capacity utilization number what happens to capital spending and employment at this level. Last month, consumer credit debt was paid down by \$11+ bn; this is an unheard of payoff number. Money supply is not growing, even with the Fed pumping as hard as it can! Auto sales are settling into an 8-10 million unit level. Previously normal production has been at 16+ million units. Personal savings rates are increasing. Today 5%; next quarter 7-8%? All of that money is coming out of money supply. Commercial and Industrial loans and Commercial paper curves are declining steadily.

Technical analysis is forecasting a sharp drop once this rally is over. The decline discussed is to levels worse than in March.

I could go on and on with this litany, but you get the idea. It is possible that the Fed, the Treasury, other central bankers and global economic managers, can walk a very "tight rope" and negotiate a path that stabilizes global economies, prevents both deflation and inflation, and causes moderate 2-4% GDP growth around the world. For what it is worth, I think that there is a relatively high probability for this result - perhaps 15-25%. Six months ago, I would have guessed 0% probability! I am hoping for the best, however.

I don't know if we will be able to negotiate this path successfully, and I won't know the answer to this question until we see the monetary numbers stabilize and begin to grow. Now is the time to be patient. Our client portfolios generally are growing at a rate that is between 5% and 10% since Early December, 2008. They are stable, and they continued to grow during the worst of the March stock market decline.

Perhaps in 2-3 months, there will be more answers than questions.