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## ELHOFF FINANCIAL COUNSELING

### CONSENSUS FORECASTS OF ECONOMIC ACTIVITY, Source: Bloomberg

The following projections are the results of the most recent survey conducted once a month by Bloomberg. This consensus represents the median projection of a selective group of 50 to 60 economists and financial market participants.

The slow steady recovery is evident in the consensus forecast. Following the first quarter's Q1:10 growth rate of +5.6%, GDP is projected to fall off considerably to +2.8% in second quarter 2010. However, the consensus calls for GDP to remain near this +2.8% level through mid 2011 before picking up. Unemployment is expected to stay relatively high, implying a jobless recovery.

Overall CPI is expected to remain relatively low, not exceeding 2.0% for any quarter. The core rate is even lower. With unemployment over 9% and a sub 2.0% CPI we would expect the Fed to maintain a generally accommodative monetary policy and keep rates relatively low.

The rate forecast clearly signals higher rates in coming quarters as the economy expands. The rate of increase in rates is somewhat constrained, presumably reflecting relatively weak economic growth and low inflation. The yield curve, which is very steeply sloped at the moment, is expected to retain its distinctly positive slope; however, as rates edge higher in the longer end of the curve this will flatten out the curve somewhat.

### FEDERAL RESERVE FORECAST, Source: Bloomberg

Overall the Fed appears to be much more optimistic on the economy than does the Bloomberg consensus. The Fed sees higher GDP growth, lower unemployment and less inflation. For example in 2010, the Fed is forecasting GDP growth to be +4% compared to the consensus of only +3.1%. Conversely, the Fed is forecasting CPI will be noticeably lower than the consensus in 2010, 1.65% versus 2.40%.

### GOLDMAN SACHS LAWSUIT

The same day that the government unexpectedly announced its Goldman lawsuit, the SEC's inspector general released his exhaustive, 151-page report on the agency's failure to investigate alleged fraudster R. Allen Stanford. Mr. Stanford was indicted last June for operating a Ponzi scheme that bilked investors out of \$8 billion. He has pleaded not guilty.

Guess which of these two stories was pushed to the back pages? The report is damning for an SEC that wants the public to believe it has turned the corner after the Bernie Madoff disaster. In the Stanford case, we see numerous SEC insiders over many years urging-at times begging- the enforcement staff to take action, to no avail. In other words, the SEC is a dreadful failure in fulfilling its core mission of protecting individual investors, as the Stanford and Madoff cases show. But the SEC is very good at nailing politically correct targets like Goldman years after the fact on charges that have little or nothing to do with the investing public.

In the cases of Stanford and Madoff, thousands of small investors lost their life savings. In the case of Goldman, some masters of the financial universe lost money on what they knew was a calculated gamble which did more societal harm?

### Interesting Facts:

**IN THE RED AGAIN**-The US government had a \$65 billion deficit in March 2010, extending its streak of consecutive monthly deficits to 18, an all-time record. Before running a deficit in April 2009, the US government had experienced a surplus (i.e., tax receipts in excess of outlays) in every April for the 25 consecutive years from 1984 to 2008 (source: Treasury Department).

**CARS AND TRUCKS**- Auto and light truck sales in March 2010 were 11.8 million vehicles (i.e. stating the actual monthly result from March as a seasonally adjusted annual rate). Actual vehicle sales in 2009 were 10.4 million. Actual vehicle sales in 2005 were 17.0 million (Source: Treasury Department).

**MORE THAN EXPECTED**- Supreme Court Justice John Paul Stevens turns 90 years old tomorrow (4/20/10). Stevens, who has announced that he will retire from the nation's highest court in the summer of 2010, had a life expectancy at birth of 57.4 years when he was born in 1920. Life expectancy at birth today for a white male is 76.5 years (Source: Census Bureau).

**TRIPLE DIGITS**- There are 79,000 Americans at least age 100 that are alive today (Source: Census Bureau).

**ANOTHER BABY BOOM** - The total number of births in America in 2007 was 4.3 million, the highest number of births ever in our country for a single calendar year. The total surpassed the previous high set in 1957 (Source: National Vital Statistics Report).

**NICE INCOME** - To rank in the top 1/10 of 1% of all wage earners requires an adjusted gross income (AGI) level of \$2.2 million. President and Mrs. Obama reported \$5.5 million of AGI for 2009 (Source: IRS).

## Interesting Facts:

**MIGHT RUN OUT** - 58% of American workers surveyed (i.e. individuals that have not yet retired) are concerned that they will completely deplete their life savings during retirement before they die. (Source: Society of Actuaries).

**VERY RARE** - There are 306 Americans worth at least \$1.4 Billion. There are 309 million American citizens. Thus, 1 out of every 1 million American is worth at least \$1.4 billion (Source: Forbes).

**TWICE AS MUCH** - For the 17 years from 1956-1981, the top individual marginal tax bracket paid by American taxpayers was 70%, double the 35% top rate for 2010 (Source: Internal Revenue Service).

**PROGRESS** - 45,000 manufacturing jobs were created in the USA during the 1st quarter of 2010. 606,000 manufacturing jobs were eliminated during the 1st quarter of 2009 (Source: Department of Labor).

**SUPERSIZE** - The average size of a single family home in the United States has increased by 563 square feet in the last 30 years to 2,218 square feet, equivalent to adding a 24' by 24' room to a home (Source: Joint Center for Housing Studies of Harvard University).

**BUYING HOMES** - The total of "residential fixed investment" in the US in 2009 (i.e., defined as the dollar value of purchases of private residential structures) was \$361 billion, the lowest level for this statistic since 1997. This figure peaked at \$775 billion in 2005 (Source: Department of Housing and Urban Development).

**MOTHER NATURE** - 7 of the 10 costliest natural disasters for property and casualty insurance companies in US history (e.g., hurricanes and earthquakes) have occurred since 2004. Topping the list was Hurricane Katrina (August 2005) which cost US insurers more than \$45 billion (Source: Insurance Information Institute).

**INTEREST RATES** - The yield on the 10-year Treasury note was 3.84% as of 12/31/09. The yield on the 10-year Treasury note closed at 3.66% on 04/30/10 (Source: Treasury Department).

## PRODUCTIVE ASSETS, NOT PAPER? -

Economist David Ranson says in recent history we've depended on stocks and bonds to securitize wealth but both are vulnerable. Yale University endowment manager David Swensen's answer is tangible assets, such as gold, silver, commodities and real estate. No one knows for sure but we do subscribe to additional diversification and have many alternatives to stocks and bonds to discuss and offer.

## LIFE INSURANCE KNOWLEDGE:

A recent study found the following - 60% of people who own life insurance have no idea how it works. 70% of people who purchase life insurance never hear from their agent again. 20% said they need more but no one has asked. Less than 10% of people owning permanent life insurance have it reviewed on a regular basis.

If we have failed to properly review and explain your life insurance coverage, we are anxious to make amends and give you a complete review. If you have other policies which you don't understand or are questioning your current coverage, please let us help evaluate your coverage.

## 47% ESCAPE FEDERAL INCOME TAXES

About 47 percent will pay no federal income taxes at all for 2009. Either their incomes were too low, or they qualified for enough credits, deductions and exemptions to eliminate their liability. That's according to projections by the Tax Policy Center, a Washington research organization.

The result is a tax system that exempts almost half the country from paying for programs that benefit everyone, including national defense, public safety, infrastructure and education. It is a system in which the top 10 percent of earners—households making an average of \$366,400 in 2006—paid about 73 percent of the income taxes collected by the federal government.

## THE HAPPINESS PROJECT - Gretchen Rubin, of The Happiness Project:

Seek novelty and challenge even if you value consistency and comfort. Trying new things is one of the most effective paths to happiness.

Try doing whatever you enjoyed doing at age 10. If fishing made us happy when we were 10, odds are it will make us happy today...if playing the drums made us happy then, it probably still will.

Read memoirs of death and suffering. Paradoxically, sad books can increase our happiness. These books put our own problems in perspective and remind us how fortunate we are.

Declutter your home. A few minutes of cleaning can substantially improve one's mood by giving us the sense that we have accomplished something positive.

Be appreciative of people's good traits rather than critical of their bad ones... be thankful for what they do for you, and stop blaming them for what they don't.

Enjoy today even if there's still work to do. Many of us assume it's normal to live with limited happiness until some major milestone is reached—we earn that big promotion, have a family or retire. We tell ourselves, I'll be happy when I achieve my goals.

## TWO IMPORTANT MARKET INDICATORS TO WATCH - Gerald Appel

Two simple short-term measurements have proved to be effective and reliable indicators of the risks associated with investing in the stock market. Following these indicators isn't a way to get rich quick. But over time, they can help save you from being too optimistic and getting burned or being too fearful and missing out on po-

## Interesting Facts:

**KNOW WHEN TO HOLD THEM** - The Fed's 3rd meeting of 2010 ended (4/28/10) with no change by the central bank, its 11th consecutive meeting with no interest rate action. (Source: Federal Reserve).

**THE BIGGEST** - The size of the US economy at the end of 2009 (\$14.3 trillion) was larger than the combined size of the 3 countries ranked 2-3-4 in the world. The collective size of Japan, China and Germany was \$13.2 trillion as of 12/31/09 (Source: International Monetary Fund).

**HOUSING FOR FREE** - The large number of residential foreclosures nationwide has slowed the banking and legal system that removes a delinquent borrower from his/her home. The average time elapsed from the date that the last mortgage payment is made until the date when the nonpaying homeowner is removed through foreclosure is 14 months (Source: Financial Times, Lender Processing).

**LARGE ESTATES** - 1 out of every 143 deaths in the USA in calendar year 2008 ultimately resulted in the payment of federal estate taxes by the estate of the decedent (Source: Center for Disease Control, Bloomberg Business Week).

**GOOD TIMES** - The US recession that officially began in December 2007 is the 8th recession in our country in the last 50 years. Following the 7 previous recessions that have taken place since 1960, the average length of time from the end of a recession until another official recession began is 71 months or approximately 6 years (Source: National Bureau of Economic Research).

**WILD WEST** - There are 65 active nuclear power plants in the USA. Only 4 of the 65 are located west of Dallas, TX. There is only 1 proposed nuclear reactor west of Dallas that is under active consideration for construction (Source: Nuclear Regulatory Commission).

**BILLS TO PAY** - 2 out of every 3 college students (67%) graduates with an outstanding loan. Of those students that finish college with loans, the average debt to be repaid is \$23,200 (Source: The Project on Student Debt).

tential profits ... **10-day high -low average:** This indicator tracks the number of New York Stock Exchange stocks hitting new 52-week highs in price divided by the total number making new 52-week highs and lows. **Why it is useful.** You want to be heavily in the stock market when ever this indicator is rising and hits 90% or more. That's because more and more stocks are participating in the rally, investors are pouring money into the market and it's gaining strength. However, when the indicator drops below 80%, it's historically been a good time to reduce your positions. **VIX:** This is the ticker symbol for the Chicago Board Options Exchange Volatility Index, which is a popular measure of how much fear investors have about the future direction of the S & P 500. **Why it is useful:** A gradual decline from levels in the 20s or higher down to levels of 20 or below usually indicates a more stable stock market and may be a bullish signal. However, if the VIX declines to very low levels, perhaps 10 to 12, this often is an indication that investors have become too complacent, and it may be a bearish sign for stocks.

**CURRENT RECESSION:** The current recession beats everything in living memory except for the worst years of the Great Depression. That's pretty terrible. In spite of that, most people still own their homes, most people still have jobs and retirees still have Social Security and Medicare. People are eating in restaurants and going to movies. Yes, they aren't eating out as much, and lots of purchases are being deferred. Extremes, however, are extreme—a portfolio designed for an improbable event may serve you well for a 5 percent probability event, but it will fail miserably the other 95 percent of the time.

The best we can do is adjust our living to a world of increasing dysfunction. This requires paying off debt and increasing savings. It also requires broad diversification of financial assets. It means being flexible and at the ready.

**PERSPECTIVE ON HEALTH CARE REFORM:** What are some of the macro impacts from the healthcare reform legislation?

Higher taxes, pressure on the Federal budget, weaker dollar, decreased competitiveness

Favorable Impact

Generics, hospitals, laboratories

Neutral Impact

Distributors/Pharmacy Benefit Managers, managed Care, outsourcing Providers, pharmaceuticals, skilled nursing facilities

Negative Impact

Biotech, home Health Care, medical Devices

### **SUMMER SCHEDULE:**

Office hours will change June 1st to our summer schedule when we will be open Monday through Thursday, 8:00AM to 6:00PM and closed on Fridays.

We are here to answer your questions and address your concerns. Your calls are always welcomed and your referrals greatly appreciated.

Securities and Advisory Services Offered Through VSR Financial Services, Inc.

A registered investment Advisor and Member FINRA, SIPC.

Elhoff Financial Counseling is independent of VSR

\* by appointment only