Executive Economic Outlook & Summary

Fall/Winter 2008-2009

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Because of the dramatic, almost daily changes to our economic environment, this edition of our Economic Outlook has proven to be the most difficult one to write. Forecasting in the current environment is like nailing Jello to the wall. There have been several mixed messages with regards to upcoming tax policies and as Bloomberg reported the day after the election, "The stock market posted its biggest plunge following a presidential election as reports on jobs and service industries stoked concern the economy will worsen even as President-elect Barack Obama tries to stimulate growth."

Looking back to May 2008, Multop Financial's forecast for a dramatic decline was correct. Our last Economic Outlook projected a bear market this fall, and we certainly are there. Since the high of October 9th, 2007 the market has fallen 40%, with a 20% drop in the last few weeks of October 2008 alone. Historically we see a rise immediately following a general election, but that was not the case this time.

- Unemployment is at 6.5%. This particular indicator is an ugly one that will continue to get worse. More and more jobs are being cut in an effort to maintain corporate profit margins.
- Falling commodity prices have eased inflationary pressure within the economy. For the month of September, inflation was measured at 4.94%, down from 5.37% in August. The rate of 4.94% is still high by our standards but a downward trend does ease the burden of the Federal Reserve in regards to setting the benchmark Fed Fund rates.
- The Chicago Board Options Exchange Volatility Index (VIX) has jumped as high as 89.53. A reading of 20 usually indicates a stable market. A reading above 40 indicates a high level of uncertainty in the markets. You do the math.
- Good news is scarce in this environment, but oil has come down from record highs in July of $147.27 per barrel to just under $50 per barrel. It is believed that lower oil prices should ease pressures on the transportation and airline industry, as fuel costs are expected to fall.
- The dollar has risen from a low of .625 Euros to .785 Euros. However, the rise in the dollar is not attributed to a strengthening economy, but rather the Eurozone has been plagued by a harsh economic environment as well.

- Banks don't want to lend to each other. Banks don't want to lend to you, either. Credit markets remain very tight despite the Federal Reserve and the European central Bank injecting billions of dollars into the system. If you want a loan, at a reasonable rate, your credit report needs to be immaculate.
- We expect further declines in Gross Domestic Product, further solidifying the recession we are in. Real GDP for the third quarter has contracted -0.3%.

What does this mean to you, the investor? The answer is "That depends". If you have a substantial time horizon and some cash sitting around, you may want to think about this quote from Warren Buffet: "When people are greedy, be fearful. When people are fearful be greedy." But be prepared for continued volatility. Barring any further national crisis or radical changes in the country's global involvement, we expect roller-coaster action characteristic of a sideways market throughout next year with recovery beginning to show signs in very late 2009 or more likely, the first quarter of 2010.

If you have been following our recommendations over the past 18 months, you should be in a position that, in our opinion, can withstand the continuing volatility as much as can be expected. If you have investments with another advisor and have not been receiving regular and concise communication, or if your account as been bleeding out declines of 25%, 30% or more, we strongly encourage you to take action now.

To close, there isn't anyone alive who can predict what's going to happen, so don't bother trying to make sense of the financial news on TV or in the papers. At Multop Financial, we are not spending our time trying to guess what's next, but rather we are continuing to craft strategies using historical data, researching and analyzing past bear markets, and most importantly, we take emotion out of the equation. In six months, when we write the Spring/Summer 2009 Economic Outlook, we hope to report more definitive news, but to be honest we don't anticipate any drastic improvements anytime soon. The recovery will be a slow and plodding one. Keep your seat belts fastened. The bumpy ride continues.

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