Executive Economic Outlook And Summary

MULTOP FINANCIAL
Private Wealth Management & Tax Expertise

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By Phillip E. Multop, CPA, CFP® and the Multop Financial Planning Group

Because of the impending general elections, this economic outlook is difficult to ascertain. Much of what can be anticipated with the economy over the next six months largely hinges on the November elections. Business drives the economy and business management prefers government grid-lock. In a balanced government decisions are debated more thoroughly before becoming law and therefore provides for a more democratic outcome. With most businesses holding adequate capital to expand when the time is right, business fundamentals are reasonably strong in a low-interest, low-inflation environment. However, with an unbalanced, uncertain environment, businesses cannot make prudent decisions about expansion, capital reinvestment and job creation. If they do not purchase and they do not hire the likely outcome would be further economic contraction.

In our last Economic Outlook (Spring/Summer 2010) we advised that recovery without job growth is possible but not sustainable. And here we are, experiencing exactly that. Although the economy showed some signs of positive movement in early 2010 coupled with reports that the recession was over, we continue to be stuck in a state of "no job growth" which is jeopardizing any real and meaningful recovery.

A new cloud of concern has descended on America. Some economists see an economic malaise that could extend the normal negative cycle due to a lack of leadership from a political, economic and fiscal standpoint. The continued tax stalemate in Washington DC contributes to a very slow recovery and this uncertainty over tax policy is a major reason for the paralysis. Further postponement of a vote to keep the tax cuts increases the odds of our economy entering back into recession.

Here are the current statistics contributing to the state of our economy (some negative, some positive):

- According to the Case-Shiller index, home prices rose 3.2% since July 2009, but the housing slump is still a drag on the economy.
- GDP sits at 1.5% for the second quarter of 2010, which is down from a forecasted 2.7%.
- With consumer confidence falling to its lowest level since February, consumers reined in their spending, resulting in a deceleration of manufacturing.
- Household net worth is down 20% since 2007 (a decrease of $12.3trillion).
- Unemployment rate remains painfully high, at 9.6% (at the time of this publication).
- Global mergers & acquisitions are at the highest levels since late 2007.
- Chicago Board of Exchange's Volatility Index (VIX) has remained within its "normal" trading range and is expected to continue as such for the short term. Meaning market volatility is expected to be moderate.
- U.S. private debt is 268% of GDP causing a long period of subdued growth, putting the dollar one step nearer to a crisis.

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Multop Financial remains optimistic on the long range forecast of the economy, but believes the best case scenario in the shorter term will be continued economic uneasiness with mid-single digit returns on equity investments during that timeframe. We anticipate the Dow Industrial average to oscillate between 10,000 and 12,000 over the next 12 – 18 months with moderate volatility, assuming no extreme news events or substantial economic changes. Postponing a vote to keep the tax cuts jeopardizes our fragile economy's future and stability due to the effects on business and individual spending. If the cuts are upheld we may look to a gradual improvement going into 2011-2012, although not a robust recovery like we have seen coming out of past recessions.

What does this mean for your portfolio? In our opinion, there should be heavy emphasis on appropriate diversification at this time. We continue to position into a mix of blue chip dividend paying stocks, absolute return products, with a component of commodities and precious metals. We also suggest a sprinkling of emerging markets such as China, Brazil and Southeast Asia due to their dominant force in the global economy and their increasing annualized rates for industrial production.

We are also stressing the importance of active tax planning for high wage earning and high net worth individuals and, of course, all business owners. It is imperative to be poised for strategic moves as we wait for news regarding the tax laws. Retirees should be cautious about over-spending; as mentioned before, rates of return are likely to be meager in the interim.

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