



BOYER & CORPORON
WEALTH MANAGEMENT, LLC

Investment Commentary
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President Barack Obama addressed the joint houses of Congress Tuesday evening, February 24th. The speech outlined his plan for leading our nation out of the economic abyss in which we find ourselves. Without handicapping any likelihood of success his plan might achieve, I took a small degree of pleasure in that Obama at least SOUNDS presidential. However, Nancy Pelosi was a little irritating, jumping up and down with giddiness whenever Obama even hinted at taking money from those who have it and giving it, in some fashion, to those who do not.

What do we think is the likelihood that Obama's economic stimulus plan will succeed? If you have been reading my commentary every month, you know that I think this economic disaster is much larger than the President, the Federal Reserve, the U.S. Treasury, Superman, Batman, Wonder Woman and Spiderman combined. There is not one individual or entity with a solution that can reverse or halt the "death spiral" of property values in the United States and throughout the world.

The \$787+ billion stimulus plan allocates about 40% to education/job training, road construction, health and science research, housing programs and extended benefits for employees who become unemployed. About 25% will go directly to states for various purposes including Medicaid, unemployment benefits and health care programs for low to middle income earners. The rest should come in the form of various tax breaks for those earning less than \$250,000. I have to give Obama credit for following up that line with the phrase "a quarter of a million dollars" because a quarter of a million dollars actually DOES sound like a lot more income than a measly \$250,000.

The budget deficit is projected to climb to \$1.8 trillion. This is not a surprise to anyone. A stimulus plan means you are going to have to spend money in order to jump start the economy. The rationale behind it is that, after the economy gets humming along, future tax revenues from our healthy economy will bring the budget deficit back down. This is where the math becomes mythical.

The Obama administration projects the budget deficit will decline to \$600 billion by 2012. In that projection is the assumption that U.S. total economic output (Gross Domestic Product) will only decline 1.2% this year

and will show growth of 3.2% next year. We think those projections are absolutely "best case scenarios" and are not likely to occur. We think growth will be negative for 2009 and we hesitate to even make a prediction about 2010 yet.

In our February Investment Commentary, we noted that fourth quarter Gross Domestic Product shrunk 3.8% but that, because "inventories" are included in figuring GDP, the economy might actually be worse than that statistic would indicate. As we expected, at the end of February, the fourth quarter GDP figure was revised downward. The Commerce Department now says that GDP declined 6.2% in the fourth quarter of 2008, almost double the original report of one month prior.

For the past 12 months, there have been over 8,000 new home foreclosures (on average) EVERY DAY! And it does not seem to be slowing down. This continues to drive down the value of homes and property resulting in more foreclosures as mortgage balances exceed property values. Nationally, home prices are down over 30% from their peak in 2006. As long as that continues, Obama's forecast for growth will prove to be too optimistic.

In our January Commentary we mentioned that, just because the stock market has a large decline in one year, the next year will not necessarily promise a substantial rebound. 2008 was the third worst year in the history of the Dow Jones Industrial Average. And yet immediately following that, January declined 8.83% and February proceeded to lose an additional 11.72%. From the stock market peak October 9th, 2007, the DJIA has declined over 50%!

There are 30 stocks that make up the Dow Jones Industrial Average. These are supposed to be the 30 companies from different industries that represent corporate America. Today, five of them now trade for less than \$10 per share:

General Electric	\$8.50
Alcoa	\$6.23
Bank of America	\$3.95
General Motors	\$2.25
Citigroup	\$1.58

In addition AIG used to be in the Dow Jones Industrial Average but it was replaced September 22nd by Kraft Foods. At that time, AIG was trading at \$4.72 per share. As I am writing this, AIG is trading for 50¢ per share and will receive ANOTHER \$30 billion from TARP funds.

An interesting situation is brewing globally with the price of oil. For many years the Oil and Petroleum Exporting Countries (OPEC) cartel have been fairly successful at agreeing to production quotas, thereby commanding a healthy price (if not a premium) for a barrel of oil. Two recent events may severely test their ability to maintain their previous solidarity. First, the world is experiencing the worst recession in 70 years. Virtually every

country is experiencing a significant decrease in GDP, an increase in unemployment, etc., etc. Second, less than 9 months ago, oil was trading for \$150 per barrel. This is just speculation, but my guess is that they quickly incorporated the extra revenue from selling oil in excess of \$100 per barrel into their budgets and its status as "windfall extra money" quickly disappeared. Less than 6 months later, the price of oil dropped below \$35 per barrel. If their budget was planning on oil at \$100 per barrel, they now have a serious shortfall in their budget. This is the point where the OPEC nations typically agree to cut production in order to increase the price of oil. But there are some nations that may find it difficult to agree to a production cut at a time when they desperately need revenue. They might be tempted to increase production. It's possible that the unexpected result of the unrealistically high price of oil last year might be unrealistically low prices soon.

In some of my investment commentaries, I have tried to find a silver lining.... some bright spots....any possible reason to be optimistic. We will have to save that for next month. Because.....

- Unemployment rose to 7.6% in January and is now reported to exceed 10% in California. It will likely climb higher before going lower.
- Consumer confidence fell to an historic low of 25, down from 37 in December.
- The National Home Price Index fell 18% in the fourth quarter.
- In January, there were 274,399 new home foreclosures. This was a decline from December but it was an 18% increase over January, 2008.

Finally, it's always smart to remind ourselves from time to time that there are no easy answers.....EVER! It may APPEAR from time to time that there are easy answers but there aren't. Most investors (and most investment advisors) look for systematic solutions that have always worked and will therefore continue to always work....except they don't. If some investment advisor is advertising unusually great returns, he/she is probably taking excessive risk or he/she is probably running a Ponzi Scheme. (You know, that makes me think....so far every announced Ponzi Scheme has been orchestrated by a "he", not a "she". Do you think Ponzi Schemes are gender specific?)

In the late nineties, there was a mutual fund that attracted a lot of new money because its annual returns were incredible, close to 30% per year several years in a row. They obviously were very good mutual fund managers, right? Turns out they were just taking a lot of excessive risk and when the technology bubble burst, the fund declined close to 70% over the next two years.

Bernard Madoff was an easy answer for a lot of investors. His performance was up every year with very little volatility. Other investment advisors (feeder funds) recommended him because it made their jobs

easier. They could just invest their clients' money with Bernard Madoff and get paid fees for getting good returns every year. Turns out he was allegedly using money from new investors to pay off old investors.

At Boyer & Corporon Wealth Management we are not looking for an easy solution. We know there is no such thing. We continue to focus on risk, not on return. Our mandate is more challenging than it has ever been. Although there are many stocks that look cheap, we don't feel any sense of urgency to rush in. The economic climate in which we find ourselves is not likely to result in a stock market that bounces back in the next 12 months like it has done every other time in our adult lives. As long as 9,000 to 10,000 homeowners face foreclosure EVERY DAY, the healthy economy and the rewarding stock market are still out of reach.

In addition, with all the debt that will inevitably be issued, interest rates on U.S. Treasury Bonds will likely increase over the next couple of years. Interestingly enough, it may occur with little or no inflation. Money in the U.S. has no "velocity" and property values are declining significantly. The more immediate problem is deflation. BCWM continues to look for safe vehicles to invest money short term. That's somewhat of a boring, monotonous tune....one that we hope to change someday....but we don't see that day yet.

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