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Greeting,

The quarter that just ended was basically two quarters in one. January and February were two of the worst January and February's since the early 1930's. The market broke through the lows set last November. March was a strong month, despite the recent sell off. While the bear market is not over, I believe that the worst of the bear market is behind us. I just don't feel the same panic and fear now that I felt the last six months. Going forward, we still will have many days in which the DOW will drop 200-300 points in one day. A week ago last Monday; the DOW gained 497 points in one day, one of the best days ever in percentage terms. Going forward, I expect a lot of volatility in both directions.

The economy is still mired in a deep recession. Since the stock market is forward looking, the recession was not the cause of the horrible market to start the year. The economy for the quarter that just passed while really bad, was not much worse than what was expected. What was expected by the stock market was a meaningful economic stimulus package that was promised by the government. The stock market wanted something from Washington that would shock the economy back to life. What was received was shock and yawn, rather than shock and awe. When the stock market doesn't get what it wants, you get the brutal sell off like what happened in January and February.

The stimulus package was initially supposed to create 4 million jobs. Now the powers that be state that between 3.5 million and 4 million jobs will be "created or saved". I still have not heard an explanation of exactly how to quantify how many jobs can be "saved". The architects of this package aren't even calling it a stimulus package anymore. Now it is called the economic recovery package. The primary reason why the stock market (along with a significant percentage of the American population) reacted so negatively to this was because not only was 65% of this bill government spending, but only 12% of this spending is for infrastructure. Spending on infrastructure not only directly leads to job creation but also makes the economy more efficient. I would think that it makes logical sense that if you repair highways, bridges and streets, that when you hire people to do this work, jobs are created. What is even more ridiculous is that 80% of the infrastructure spending won't occur until 2010 and the 20% spent this year won't happen until the fourth quarter of this year. I am not trying to state that some of this money isn't spent on important things. I am sensitive to those who are unemployed. I wouldn't want to look an unemployed person in the eye and say that you shouldn't have your benefits extended or receive a little more money each week. What I am stating is that an economic stimulus package should lead to direct job creation so that those who are unemployed are hired. While not to be too technical, extending unemployment benefits and increasing benefits should be part of a separate spending bill that goes through the appropriations committee, debated etc….

The President in response to all the government spending has stated that stimulus is spending. I believe that to be a vast oversimplification. Not all spending is efficient and leads to job creation. While spending money on programs is important to those who control our money, it isn't necessarily stimulative to the economy and leads directly to job creation. The question that has not been answered is why can't the consumer (who is hurting) be the one who does the spending rather than the government? The closest answer that is given is that we can't go back to the failures of the previous administration whose policies were based solely on tax cuts. While I am the last person (maybe the second to last, my partner would most likely be the last) to defend the previous administration in any way, shape or form, what's fair is fair. Their biggest economic failures were their excessive spending and the lack of oversight of the financial markets. The inequality of the tax cuts was a problem, not the tax cuts themselves.

70% of the gross domestic product is consumer spending. 35% of this package is a payroll tax rebate. It isn't truly a tax cut since 40% of the people receiving the rebate pay no federal income tax. In all fairness, these people do pay payroll taxes, gas taxes and state sales taxes. The payroll tax rebate will amount to $12 per week this year and $ 8 next year. While every dollar counts, especially in tough times, I just don't feel (and Wall Street agrees as demonstrated by the sell off earlier in the year) that $ 12 per week will be enough to make a difference to shock the economy back to life. What I would have liked to have seen (which in my opinion would have moved the market up) is a larger total true stimulus package with twice as much in percentage terms going to tax cuts, even if necessary (but not preferred) a payroll tax rebate. Somehow, I don't think that too many people would have complained if instead of receiving $12 per week in their pockets, they received $40 after taxes in their pocket. That amount ($80 for a married couple) would make a difference in their lives and filter right back into the economy. With a larger economy, tax collections would increase so the deficit also wouldn't be as much of a problem as it will be now. With larger tax cuts, you would still have spending/stimulus but it would be the consumer doing the spending the way they want to spend, not the government. Business, both big and small will benefit because they will be the recipients of most of this money. While the upper middle class and the wealthy won't get the direct tax cuts, they will benefit since they own the businesses that would receive all this extra money so their profits will go up. This type of plan is what would have rallied the stock market and at the same time, benefited main street. Everyone would have been happy except the bureaucrats in Washington.

The economy continues to be in a tailspin. The labor market is in especially bad shape as the unemployment rate has reached 8.5%. The labor market will get worse before it gets better. In my last letter, I wrote that I expected to see some signs of life in the economy. The problem is since I am one of the few people who see these signs, it doesn't do much good. Let's face the facts; if a tree falls and there is no one in the forest to hear it, does it make a sound? Even though the vast majority of people are totally focused on all the negative news, I prefer not to ignore the positive economic data that has recently come out. Consumer spending has risen the last two months. February's retail sales ex-auto's were positive. Consumer sentiment was up slightly last month. Mortgage rates are now below 5% and that has helped stabilize the housing market. I do not expect this recession to be over in the near future. I do expect to see some improvement in the economy in the near future, as I am seeing now. With the stock market so beaten up, with further signs of any kind of improvement in the economy, we will see a major stock market rally, if not an end to the bear market.

If you have any questions or anything that you want to discuss, please give me a call or send me an email. I do appreciate your patience and continued confidence in these horrific times. While I don't know exactly when things will turn around, I do know that we will start making money again.