Infomail

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AIMING FOR MEDIOCRITY?

"People who are unable to motivate themselves must be content with mediocrity."

- Andrew Carnegie

If China ends up overtaking the USA as the dominant economy in the world, it's not because they have better looking schools for their kids, better computers or fancy whiteboards. There seems to be too many excuses for failure. The sense of entitlement which has invaded the Western World's way of thinking is exactly why the countries of Southern Europe are all going broke. Decades of a growing sense that everyone else owes them something. Everyone – has become a victim and should be coddled. The victim syndrome has snared more and more people into its net, hence the unyielding use of the word "fair". Of course we should expect our kids to do their best, as my generation did our best without computers, as our parents did with fewer books and their parents before them learning by candlelight. The common denominator was the expectation to do their best. They also had another thing in common…a no excuses policy.

Now our new political leadership implies the West is falling behind because of old schools, old desks or lack of computers. Chinese kids are blowing Western kids out to the water because they have a type of determination which is not being taught in America, it is now ridiculed. The West is falling further, and further behind, especially in the key subjects of math and science.

So now, as their President's polls continue to hit new lows, he continues his rhetoric and attack on the "evil" rich, successful people. The new Jobs Bill is to be paid for by increasing taxes on those with incomes of $250k+. It also means small businesses that file as individuals. So let me get this right….he wants them to hire people and raise wages for everyone, but also pay a lot more in taxes in the meantime. Brilliant! It's all about politics, not economics. By appealing to more voters in the middle class, the President is hoping to divert a disastrous economic policy to more of a blame approach. It's hard to believe that anyone would think the transfer of wealth from successful people and small businesses to people who aren't working and pay zero taxes is going to give any economy the jolt it needs to get a recovery going.

This is nothing but another attempt at a good old fashioned money grab and vote grab…plain and simple.

By the way, the ultimate example of victimization gone amok occurred last week when a man in the USA sued the White Castle Hamburger chain not because their food helped him grow to 300 pounds, but because he can't squeeze into the booths anymore.

I don't think voters are as naïve as the President would like to believe. Last week the Democrats lost a seat in Congress previously held by Mr. Weiner (he who had resigned after sending nude pictures of himself to women via the internet). The reason this by-election was a message to the President, is that it had been held by a Democrat for <u>more than 90 years</u> and widely believed as completely secure. This was also despite the fact the winner Bob Turner soundly defeated his opponent Mr. David Weprin, an Orthodox Jew by a landslide in a hugely Jewish district (do you think the President's apparent lack of support for Israel also contributed?). Over 90 years!

The Jobs Bill was an opportunity for small business owners to hear something bold from the President. Instead, they just heard more of the same. The plan is another huge "tax and spend" effort that does not address any of the fundamental problems facing the nation today. The message remains spend its way out of this recession, and it hasn't worked so far. The truth is small business needs less government, less regulation and permanent tax breaks, not temporary ones. This administration has not yet realized that Government cannot create jobs. The best they can do is to create an environment which allows business to prosper then they will create jobs.

It seems more and more that what has been referred to as the "New Normal" will be dominated by debt, deficits, and aging demographics which will lower economic and return expectations for an extended period. It has been all about Europe lately, where each morning has been filled with official statements and non-stop rumours. The stakes are high and the powers that be seem hell-bent on preventing an "uncontrolled insolvency" in Greece.

There is no doubt that our future generations, through no fault of their own, have become extremely poor, for in some countries, they are each already responsible for tens of thousands of dollars in national debt. The current political process is allowing the Baby Boomers to pile on new debt for the next generation in order to fund their current consumption and future retirement.

Until now, the powers that be have used only monetary policy by their central bankers to fight the great deleveraging. The Keynesians and their "spend, spend, spend" have been in charge. So far, it seems that the billions and billions spent have barely had an effect. The time has now come for fiscal policy to kick in (like tax reforms, spending adjustments, etc…) Fed Chair Bernanke pretty well said as much in his much anticipated Jackson Hole speech. Interest rates have been at zero for some time now, and he has employed a QE1 and QE2. It's time for Congress to step up.

In terms of the financial markets, the volatility remains in place. The third quarter was a tough one, August particularly so. The growing Sovereign Debt contagion in Europe has weighed heavily, and now has been a cloud for a year and a half now. The failure of political leaders to "step up" and properly confront issues has been of primary concern to markets.

At this juncture, the worse case scenario with perhaps a 30% probability right now is the US and European economic experience a shallow recession where earnings for 2011 are slightly below expectations, but for 2012 they are even lower. Downside to markets would be a further 10-15%.

The best case scenario (probably 20-25% chance) is the pace of US economic recovery accelerates above consensus estimates, inflation remains subdued, interest rates remain stimulative, corporate earnings for 2012 are modestly raised, Europe stabilizes and China has a "soft landing". Markets have 25 to 30% upside over 12 months.

Anything in between these extremes would be mildly positive and would produce high single digits to ten percent gains.

In terms of fund flows, nearly $21 Billion was redeemed from domestic US equity funds in June, $29 Billion in July, and estimates are $35 Billion for August. These are serious numbers and the $85 Billion aggregate amount is close to the record $88 Billion withdrawn in the period September to November 2008.

Since the beginning of 2007, an astonishing more than $400 Billion has been removed from domestic equity funds, and in the same period, $835 Billion has been purchased of fixed income funds. That spread between stock outflows and bond inflows (approx. $1.235 trillion) is unprecedented in the annals of financial history, as investors scrambled for safety.

A contrarian would be salivating towards equities.

Stay Tuned

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