Courier Capital Corporation

Market Review & Update

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The New Year will begin with a new administration in Washington. Change was their mission. Change will be their mission, but as the improbable events of 2008 have brought forth an unprecedented coordination of global stimulus response, the nature of that change will undeniably be altered by the momentum of these initiatives. Let's take a look at what their new likely priorities will be, what has already been done, and what the likely impact will be as the New Year unfolds.

The new administration's primary objective was to bring a broad-based tax cut to individuals with incomes below $100,000. This was to be financed by a broad set of tax increases to those with incomes above that level. In an environment where the US and most nations are focusing all their efforts on stimulus, the tax cuts will likely stay, but a lion's share of any tax increase will be put off for another time, as any tax increase has the effect of taking money away from consuming and hence, diminishes stimulus. Additionally, many notable economists have recommended that the government also embark on a broad initiative to spend on infrastructure projects, increasing the role of government as the nation's biggest shopper.

The momentum of what has already begun will deeply impact what the Obama administration will prioritize. As we have previously noted, 2008 delivered the improbable. What normally can take years to unfold took less than 90 days to abruptly change economic momentum and slow the credit markets to barely a crawl. In reaction, the US and their partners in the G-7 and G-20 nations unveiled an aggressive, coordinated series of actions designed to be the catalyst to stimulate global credit markets and economies. We will detail just some of this action, but it can all be summarized by paraphrasing the recent statements of Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke, "we will continue to act aggressively until we succeed". To date, here is just a brief list of some major catalysts:

-To date, the Fed has brought short term interest rates to 1% and will go to zero, if necessary (Figure 1).

Figure 1. Fed Funds down dramatically

-In a single move, London lowered rates by more than any time in history.

-China dropped interest rates by the largest amount in 15 years, shortly after embarking on a near $600 billion stimulus package designed to build domestic job markets.

-Treasury initiated a $700 billion TARP program to reinvigorate credit markets to re-stimulate business lending.

-$800 billion in domestic backing for mortgage loans succeeded in beginning to bring down mortgage rates designed to improve property prices and housing activity.

This is just a very brief list of some of the global initiatives now in place. And while it can't be on the above list of actions, we don't want to ignore what could potentially be one of the most stimulating catalysts consumers and businesses are just beginning to enjoy. Oil prices peaked around $150 earlier in '08. Recently oil prices declined to $50 a barrel. Should oil average a conservative $75 dollar level, over a year that would be an approximate $350 billion benefit equivalent to a tax cut of nearly $1500 per person (Figure 2)! There is an old adage "Don't fight the Fed", today a bet against the Fed is also a bet against the Treasury, and the central banks of the G-7 and G-20 nations, combined. They will succeed, however, as we have said many times, markets really dislike uncertainty and uncertainty peaks at times when fear joins the party.

Figure 2. Oil prices

Warren Buffet wrote an Op-Ed piece to the New York Times in October and several quotes are noteworthy:

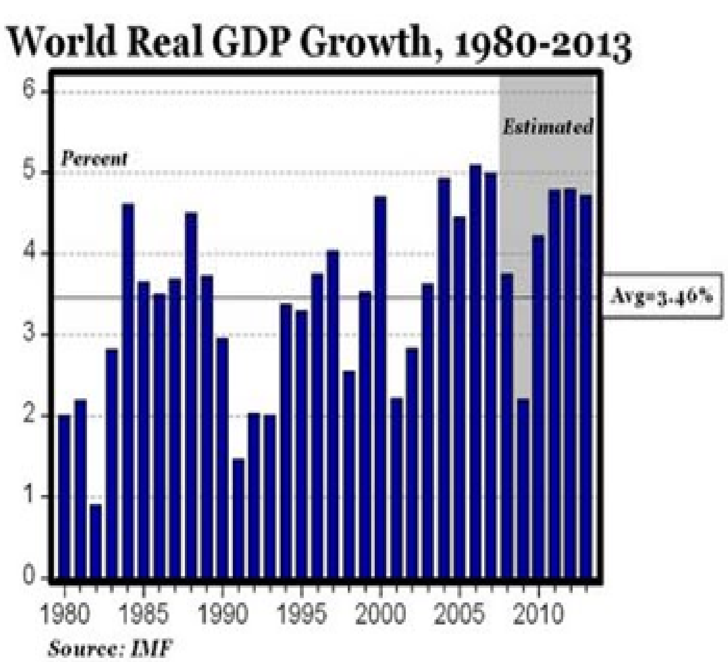
-"fears regarding the long-term prosperity of the nation's many sound companies makes no sense, most major companies will set new profit records 5, 10 and 20 years from now"

-"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recession and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."

-"Equities will almost certainly outperform cash over the next decade, probably by a substantial degree."

-and lastly, Mr. Buffett borrowed advice from Wayne Gretzky: "I skate to where the puck is going to be, not to where it has been."

Figure 3. World GDP Forecast



As the aforementioned uncertainties begin to lift, investors will refocus on valuation and markets will respond accordingly. As a literal example, there were doubts about where the new administration would head. The announcements of the new Treasury Secretary that will continue the Paulson stimuli, the formation of the new economic team, led by Paul Volcker and the last trading days of November witnessed an advance of more than 1000 points in the Dow Average. What's coming near term? More change. The Economist magazine recently published its 2009 GDP forecasts for the top 80 nations. For the full year, only 9 are predicted to have a negative GDP. (Figure 3) China growth forecasts are at 8% and India a robust 6.5%, and overall world trade is pegged to increase by 3%. With nearly 90% of the top 80 countries in a growth pattern, it is most probable that we will witness a better than currently expected outcome. It seems to be where the puck is headed…

We'll talk to you soon.