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## Are we headed for a “new normal” and what will it look like?

Our answer at FLK to the first part of that question is *yes*. In addition, we have several macro views that seem for now to be quite possible. For now, the massive coordinated actions of the world’s central banks have likely averted a further deflationary melt down. We are also witnessing what might be best described as the ‘de-leveraging,’ ‘re-regulating’ and ‘de-globalization’ of world markets. Finally, because of the past excesses of the private sectors’ leveraging frenzy, the heavy hand of government is likely to remain for some time thus preventing markets from functioning normally, while increasing uncertainty and creating new risks of unintended side effects from higher taxes and re-regulation in particular.


These basic views lead us to expect lower than historic rates of return on most major asset classes for the foreseeable future. A reversion to the historic mean may occur, but it will likely be delayed and drawn out if it occurs. We also suspect that a newly altered world economic order is evolving with the strongest economies in the emerging world destined to provide more global demand, while the over saturated western consumers balance sheet is in bad need of repair and a capital rebuilding. Overall, global demand however will likely be more muted. If we are correct in our assessments, inflationary pressures will probably remain subdued for now, but the risk of that problem re-emerging as the “new normal” markets and economies evolve is likely to rise as the readjustment process plays out.

In conclusion, we believe that the investment world, both reflecting and anticipating the state of global economies, is in the process of a multi-year re-engineering job. That said, we need to carefully re-assess individual portfolio goals and needs matched to what we believe is possible, all the while carefully monitoring the economic and financial alterations that emerge. It is a major challenge as short term strategies need to dovetail with our evolving longer term outlook and that will undoubtedly call for adjustments along the way.

Tactically, for now we are re-evaluating and sometimes increasing global stock exposure while adding global bond exposure where it does not currently exist. We expect the FED to keep the current low short term interest rate policy in place for a protracted period while longer term rates are beyond their control. Unemployment levels are likely to remain elevated for an extended future as they are a trailing economic indicator and not predictive of the future.

Feel free to call us to discuss your investment portfolio's global exposure. Thanks for your continued business!

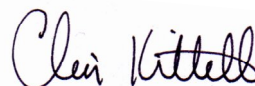
Sincerely,



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