

November 2008 - The Economy and its Outlook

I wanted to start this month's letter by taking the time to thank everyone whom has been concerned about how I was handling these challenging times over the last 2 months. I can only say thank you for your concern but in the end this is my job to help guide people during difficult times. I believe at the end of the day providing prudent conservative advice will hold true beyond short term down cycles in the market and economy. I look forward to coming to work everyday trying to make a positive difference in people's lives. That is what gives me purpose and what I can thank God for blessing me in being able to work with so many wonderful people.

Currently, what the US market has just gone through has been unprecedented in nature. Without going into all the factors as to what got us to this point and what could have been done to have avoided this downturn has already been addressed across every media outlet. What I think needs to be the focus is what to expect in the near and longer term. The US govt. has lowered interest rates to 1%. They have or will be putting almost \$1 trillion dollars into the economy with another \$1 trillion probably not far behind. We have seen, and will continue to see, a bailout of the automobile industry. We have seen the merging of several major banks and brokerage firms in this country with the government taking an ownership interest. We are close to seeing the government buying up many home mortgages to help reduce foreclosures. This stimulus seems to be only the start of more to come. What does all this mean for the near term and longer term?

Near term over the next 4-6 months, we should continue to see gloomy news about a global recession or at least a slowdown in the US and global economies that will feel like a recession. We should see headlines about the automobile industry in peril potentially losing jobs. We probably will see gloomy holiday retail numbers. The markets will continue to be extremely volatile based upon news coming out daily. What will probably not happen! The world will not come to a halt. Business will keep going as usual only at a slower pace until the US and other foreign government's stimulus has a chance to work its way into the economies of the world. That leads us to the longer term outlook.

Long term – I have enclosed one of the best brochures or articles about the performance of the markets over the long term as it relates to Presidential elections and the returns of the market for each Presidential term in office. Except for President Bush, each administration has enjoyed a relatively high average rate of return over their administration. What this brochure shows from the American Funds is that over any market cycle we have periods of downturns that last 1-2 years. Each down cycle has a different cause but is then followed by prolonged periods of recovery and growth. Each growth cycle has its own genesis in a positive event that starts to lift the economic boat for the market and economy that starts the cycle anew. As the market recovers, it should achieve new highs both in the values of our 401k and IRA accounts. This is why it is imperative to keep funding your 401k's or stay invested in the market by having equity exposure to take advantage of future upside growth.

Now the question becomes when will this new cycle take place and what will be its genesis. My thought is that we should see the housing market start to improve next spring. With interest rates at 40 year lows, we should see home sales pick up momentum from buyers aggressively looking for bargains. Mostly, it will come about from the massive \$1-2 trillion plus stimulus that is being pumped into the US economy that doesn't take into account what other foreign governments are doing that we haven't even addressed. It is hard to articulate what a trillion dollars means as its affect but let me assure you it is a massive number. When it takes hold and has time to work its way into the economy over the next 4-6 months, the movement in the market should be dramatically positive. Beyond this stimulus going into the economy over the near term, one only has to focus on demographics. As I discussed in last month's letter, infrastructure will be the main theme of growth in the world to accommodate another billion people moving into the middle class over the next 3-5 years. Coupled with this population growth demanding more goods and services is the need for developing new energy technology to fuel the world's growing needs. Along with cleaning up the environment that has no expiration date on being completed, the US can quickly start a new growth cycle that has the potential to create a tremendous amount of new jobs and technology. Please read what the American Funds brochure is trying to

tell us about investing and creating wealth and it might give us a different perspective than what we read and see on the nightly news each day. The cause of this market downturn is different than any other down cycle, but the long term positive outlook to me is not in doubt.

Financial Planning Recommendations – My theme for the remainder of 2008 and going into 2009 is to continue my advice for individuals to pay down debt and to continue investing into this down market. Managing one's net-worth is about balance. Think about this analogy of sitting on a 3 legged stool. If one leg of a stool is longer than the others then you would topple over in the chair. You want to continue to keep all in balance with the goal of increasing your net worth through paying down as much debt as prudently possible but still building up your investments. My recommendation of paying off debt is in the order of paying off credit cards then car loans then mortgage debt. Many people continue to ask me that having a tax deduction with a mortgage is a good write-off verse paying off their mortgage. My advice has always been that you never make investment decisions for tax reasons. (Period) Remember the 1980 limited partnerships. If you don't, call me. Tax write-offs are always secondary benefits. Paying interest to a bank is in the bank's best interest not yours. Perhaps in this market, the hardest thing to continue to do is to keep funding one's 401k. Markets like these are what a 401k was made for and that is to accumulate shares in investments at lower prices so when the economy and market improves, your accounts will be worth more money. Keep dollar cost averaging into the market. Here is a good analogy with Christmas and the holiday's right around the corner. Most stores have Christmas ornament sales right after the New Year offering 50-60% off Christmas ornaments to clear out their inventory. Obviously if you buy them post holiday season, you will not use them for another year but that is irrelevant. You are shopping for the future benefit of seeing more ornaments decorating your tree and home for next year. Next year, when you are enjoying the benefits of all your new decorations, you will be smiling and thinking to yourself that you bought all those ornaments for next to nothing and they sure look good. When the economy recovers into a new growth cycle, all the extra shares that you purchased at a 40% discount will have appreciated more and you will be smiling for having kept your 3 legged stool in balance.

How Can I help you? Many people use our investment and financial planning services because we provide prudent and conservative advice to people who value having a trusted client-advisor relationship. Honesty, professionalism, compassion, and respect have been the tenets of working with my friends, clients, and professional partners for over 14 years now. If you think that others might value this kind of advisor - client relationship, then please let me know how I may be able to help them.

Please feel free to e-mail me at rich.hendry@raymondjames.com or call me at 678-578-2430 or toll free at 877-811-9090 to discuss any market concerns or financial planning that needs to be done for this coming month or year. Visit us at www.richardhendry.net. **We are proud to be part of your wealth management team.**

Sincerely,



Richard P Hendry, CDFP
Registered Principal, RJFS

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Investors are reminded that dollar cost averaging does not assure a profit and does not protect against loss in declining markets. Since it does involve continuous investments in securities regardless of fluctuating markets, investors should consider their willingness to continue purchases during market downturns.