

## Observations

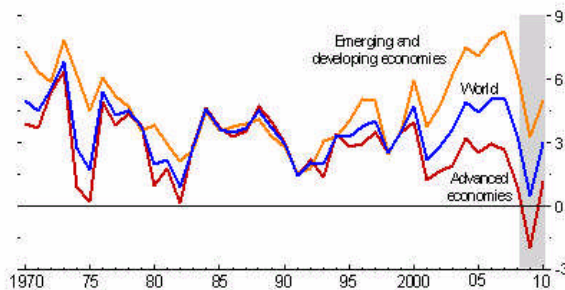
- ❑ The stock market showing signs of life on upbeat economic news was refreshing; however **let's not get ahead of ourselves**. The economy is still not healthy and it is too early to see both the positive and negative impacts government stimulus will have. There is an old saying somewhat to the effect, "the stock market has forecast ten of the past three recoveries". Watch the bond market (which tends to have more worried natured folks) as it is more likely to accurately forecast the direction of the economy. Cheers to seeing a normal yield curve.
- ❑ Over the next few years, **look for shareholder blowback on executive compensation**. It is better shareholders and corporations self-regulate, rather than government intervention, or worse yet, the class action lawsuits.
- ❑ The new presidential administration has yet to be in office 90 days and like most new administrations, has stumbled out of the starting gate. There is an initial honeymoon period and then the approval rating polls begin to slide as campaign promises go unfulfilled. **Root for President Obama to govern more from the center** and hope gridlock restrains all politicians from doing more foolish things that delay the economic recovery.

## Facts & Figures of Importance

### Economic

The IMF projects world growth to fall ½% this year measured in terms of purchasing power parity, its lowest since the end of World War II.

Figure 1. GDP Growth  
(Percent change)

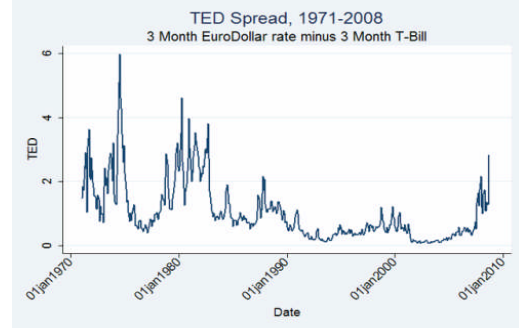


Source: IMF staff estimates.

### Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
2007	3.45%	4.04%	1,468	14,819
2008	1.94%	2.96%	896	8,945
3/31/09	1.67%	2.71%	798	8,113
YTD Return			-10.98	-9.30

Credit spreads are an important indicator of credit risk in the system. As conditions improve, look for spreads to narrow, which is helpful.



### Economic Outlook

- The bottom is zero and the top is infinity. The economic bad news will eventually stop. It will still be an uphill climb back to the 5%-6% unemployment rate. GDP will likely be positive by June 2010. It's always darkest just before the dawn. Stay positive and work smart.
- The government printing presses are working overtime turning out money. So just when and how will both the Fed and markets react when inflation reappears? Look for future higher interest rates once the economy improves and the Fed decides to reduce liquidity.

### Investment Outlook

- When all is quiet in Washington DC, the market tends to rise. The Congress or the administration can take the legs out of the market very quickly as we have seen. Stay equal to slightly underweighted in stocks depending upon your investment horizon. Focus on earnings which are the primary driver of stock prices.
- Precious metals and commodities present an interesting dilemma for investors, especially those seeking an inflation hedge. There are no immediate signs of when the recovery or inflation will appear, so just how long will investors be patient, especially if these investments decline?

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## Insightful Thoughts of Others

*The problem with socialism is that you eventually, run out of other people's money.*

--Margaret Thatcher

*Elections should be held on April 16th- the day after we pay our income taxes. That is one of the few things that might discourage politicians from being big spenders.*

--Thomas Sowell

*There's a lot of evidence you can sell people on tax increases if they think it's an investment.*

--President William Clinton



## A Few More Things

- ❑ It is April and **as spring is blooming, thoughts naturally turn to income taxes that must be filed by April 16.** Ever wonder just who pays taxes? The short answer is American consumers pays all taxes either directly or indirectly. According to the IRS, in fiscal year 2008, \$2.3 trillion of net taxes were collected as follows: 1% from estate and gift taxes; 2% from excise taxes; 13% was paid from the corporate income tax; 38% from employment taxes; and 46% from individuals. Individuals pay estate and gift taxes, employment taxes directly, and corporate and excise taxes are passed along to consumers in the price of goods and services.
- ❑ **Delve deeper into the numbers and see just how politicians can incite class warfare.** Let's look at facts. The latest IRS data is for tax year 2006 with 138.4 million returns filed. It shows that those with an adjusted gross income (AGI) of \$200,000 or more comprised 3% of all tax returns filed. That 3% of the population earned 31% of the total AGI, yet paid 53% of all federal income taxes paid by individuals. Only .2% of returns filed had incomes over \$1 million and they paid 27% of total taxes. Those with an AGI under \$75,000 comprised 80% of all returns filed and they paid 17% of all federal income taxes. And those 17% in the middle with an AGI between \$75,000 and \$200,000, they paid 30% of all federal income taxes paid by individuals. It is foolish to believe we can tax our way out of budget deficits without everyone paying much more.
- ❑ **A major political battle is brewing** between the politicians, private sector, and public sector employees. Private sector employees, both union and non-union have seen benefits reduced. Is it fair to those public sector employees, especially those who risk life and limb like firefighters and police officers, to incur benefit cuts? The reality is that the money is not going to be there for generous pensions and life long healthcare. Employer provided defined benefit plans and free healthcare for life are quickly going the way of the dinosaur. Soon public compensation plans will begin to take the form of the private sector, but not without some shouting.
- ❑ Does it seem that government is lost and just managing by the seat of its pants? Is the popular press more concerned about reporting facts and the truth or selling advertising time? **Congress and the watchdog press both failed to obtain answers** to what exactly AIG and the banks were going to do with those billions of dollars before funding the bailouts. Shouldn't Congress and the press have discovered **AIG was the casino** that could not cover its bets (those credit default swaps which paid 100% to other banks that received TARP money and foreign institutions) before requiring the US taxpayer to foot the entire bill? Too big to fail is a myth. The evil corporate executives and special interest groups will increase lobbying expenses by an expected 12% to \$3.2 billion in 2009. Guess who is on the receiving end of those K Street checks (not to mention campaign contributions). Will the politicians refuse to take these funds? Will elected officials travel on corporate aircraft to junkets at glamorous retreat locations given the current economic climate? Democrat, Republican, or independent, we can depend on our elected representatives to provide more tragic comedy on our tax dollar.