

Observations

- ❑ **At some point the economy has to stand on its own without help from Uncle Sam.** Third quarter GDP was revised down from 3.5% to 2.8% with the final release due in a month. We keep hearing that the economy is improving and eventually it will, but it has a long way to go. Until there is at least two or three periods of lagging indicators showing positive trends that are not boosted artificially (think Cash for Clunkers or the first time home buyers credit), be suspicious.
- ❑ **Politicians and the media still do not get it.** The recent articles (with more to come) praising the efforts of government over the last year in averting a full-blown disaster are nonsense. **The majority of Americans understand that it was the unholy alliance of government and Wall Street that created the problems.** To add insult to injury, we see dreadful executives continue to enjoy lavish pay with taxpayer funds despite their sins. Politicians pay lip service to the danger of deficits and yet these creators of chaos go right back to spending more money that does not fix or prevent future problems.

Facts & Figures of Importance

Economic

What Is The Real Unemployment Rate?

The Bureau of Labor Statistics uses six methods to evaluate the unemployment rate. U-3 measure is the one most often quoted in the media. The alternative measures are quite revealing. Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

		Oct 2009	Oct 2008
U-1	Persons Unemployed 15 weeks or longer as a % of the Labor Force	5.7	2.5
U-2	Job Losers and Persons completed temporary jobs as a % of the Labor Force	6.9	3.3
U-3	Total Unemployed as a % of the Labor Force (official release figure)	10.2	6.1
U-4	Total Unemployed + Discouraged Workers as a % of the Labor Force + Discouraged Workers	10.7	6.4
U-5	Total Unemployed + Discouraged Workers + Other Marginally Attached as a % of the Labor Force + All Marginally Attached	11.6	7.1
U-6	Total Unemployed + All Marginally Attached + Underemployed as a % of the Labor Force + All Marginally Attached	17.5	11.1

Economic Outlook

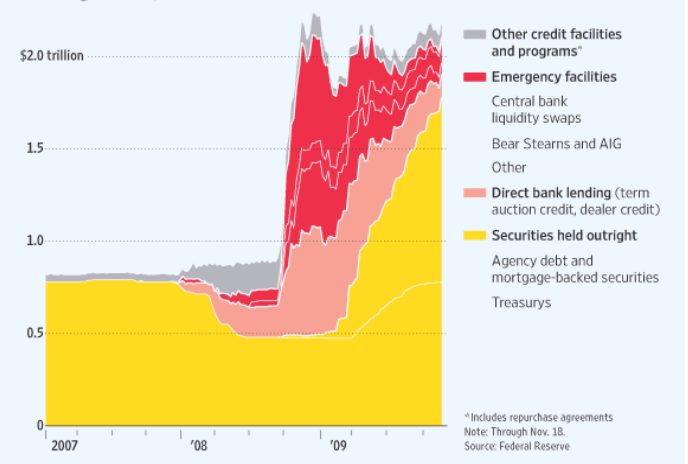
- There is still a wave of foreclosures to come with 23% of mortgaged homes in negative equity.
- Expect the US economy to continue to drag along at this pace through at least mid-2010. There will be fits and starts, however nothing substantial in the near term.

Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
2005	4.35%	4.39%	1,248	12,518
2006	4.70%	4.71%	1,336	14,257
2007	3.45%	4.04%	1,468	14,819
2008	1.94%	2.96%	896	8,945
11/30/09	2.01%	3.21%	1,096	11,207
YTD Return			21.30%	23.14%

Would anyone else care for a better explanation as to why the Fed should not be audited and to see the plan to reduce all this debt?

Shifting Focus | Assets on the Fed balance sheet



Investment Outlook

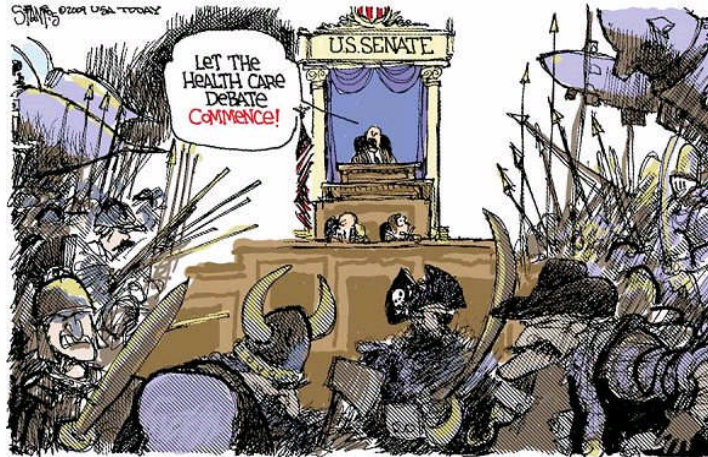
- Carry-trades seem like a good idea until the unexpected like exchange or interest rates fluctuations, or margin calls.
- Investors have a choice of earning a real interest rate of zero or less by staying in cash/short-term treasuries or investing in riskier assets. Low rates will help buoy equity markets as long as earnings can continue to grow.

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Insightful Thoughts of Others

A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largess from the public treasury. From that moment on, the majority always votes for the candidates promising the most benefits from the public treasury with the result that a democracy always collapses over loose fiscal policy, always followed by dictatorship. The average age of the world's greatest civilizations has been 200 years. These nations have progressed through this sequence: "From bondage to spiritual faith; From spiritual faith to great courage; From courage to liberty; From liberty to abundance; From abundance to selfishness; From selfishness to apathy; From apathy to dependence; From dependence back into bondage."

- Alexander Frazier Tytler (in 1776; see Tytler Cycle)



A Few More Things

- Are you comfortable with Congress voting on important legislation such as healthcare on a Saturday night? Why could this legislation not be debated and voted upon during normal business hours? It is not as if the healthcare debate required action right this second. Representatives voting on a 2,000+ pages of legislation and **admitting they have not read the bill** is just wrong. Heck, any piece of legislation that requires more than 100 pages sounds perplexing and too complicated to be law. Some in government propose to take your money and the ability of you and your doctor to make decisions.
- Here is a website that lays it all out for you. Spend a couple minutes at **USDebtClock.org** and see for yourself.
- Matt Taibbi has written another excellent piece in **Rolling Stone on Wall Street**.
- There will be **other Dubai World like surprises to come**. United Arab Emirates will step-up with financial support to minimize damage to both the government and region. Again, the US leads the way by exposing its ills and starting on a long path to recovery. Now parts of the world that were thought to be swimming in wealth will be shown whether they were also swimming naked as the tides goes out (credit to Warren Buffet who said "when the tide goes out, we get to see who is swimming naked."). OPEC may want to consider reducing the price of oil to prevent another possible "financial crises" and to stimulate demand so that they continue to benefit from a healthy oil revenue stream. Another reason for America to diversify into more efficient and less costly sources of energy in order to reduce our dependency on oil.
- Weaker US dollar? Maybe, however a collapse is highly unlikely. The US dollar is not immune from currency cycles. When the chips are down, the US is still the world's safe haven. All developed markets face financial challenges that are just as difficult as those in the US. It is the **Chinese who face the most complex decisions** as the largest foreign buyers of US debt and just how much to allow the yuan to float against the US dollar.
- Most people acknowledge that the earth's climate changes. The real questions are why and can humans control climate change? The **scandal at Hadley Climatic Research Unit** at Britain's University of East Anglia is particularly disturbing given the amount of information provided by governments worldwide that man is destroying the earth. How scientists, many with renowned reputations, could **put political agendas ahead of the truth** is disgraceful. Science is supposed to help us gain knowledge. The dishonest ones just set back the quest for real energy solutions for many years. You should not mess with Mother Nature.
- Merry Christmas, Happy Holidays, and Best Wishes for a Prosperous 2010!**

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