

Observations

- ❑ Over time, **equity markets will reward long-term investors.** The American public is becoming better educated. Wiser choices will be made and American companies will adapt with the times to generate profits. There will always be motivation to earn and grow profits. Despite not being a perfect system, capitalism and free enterprise have allowed America and those who have come here the opportunity for a better life. More people worldwide are striving for a life like what may be had in the US.
- ❑ **The next several years will be challenging.** The clean-up of the financial mess does not disappear with the stroke of a pen. Millions of Americans are out of work or remain underemployed. Current and future unfunded/underfunded debt obligations are elephants in the room that cannot be ignored. Government at the federal, state, and local levels must step-up and show leadership to implement plans that fix and prevent problems instead of just reacting to treat symptoms. The corruption and incompetence in government needs to be cleaned-out and kept out in order for the system to maintain trust and confidence. It can and must be fixed.

Facts & Figures of Importance

Economic

If traditional economic indicators are unclear, what if anything can these ten **unconventional measures** tell about the future?

1. Sales of men's underwear (men do make hard sacrifices).
2. Sales of do-it-yourself hair color kits (women (and some men) will look to reduce what they spend at a salon).
3. Sales of seed for home gardening (grow your own fruits and vegetables) as people look to reduce food expenses.
4. Beer sales (theory being people "trade down" to beer in tough times).
5. Big Mac index (evaluates cost of a Big Mac worldwide based on exchange rates).
6. Dry cleaning sales and pick-ups (people delay picking up items to avoid paying the bill in a recession).
7. Rounds of golf being played (it's been easier to make a tee time lately).
8. Starbucks sales volume provide insight into discretionary spending by consumers (do you really need a \$5 cup of coffee?).
9. Hotel occupancy rates (are the business and leisure travelers opening their wallets?).
10. Sales of cardboard which is used for boxes to both package and ship goods (Warren Buffet has previously mentioned this).

Economic Outlook

- Party like its 1979? **Stagflation** may be hiding in the weeds. Government debt crowds out the private sector. Excess regulation, rising commodity prices (especially gold & oil). What is the basis for job creation and lower prices?
- A **healthy economy built for the long-term** is easy to identify. There is growth as measured by goods and services produced. The rate of unemployment in the four to six percent range. Government spending and taxation are low. There is a balance of international trade.

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%	1,418	14,257
2007	3.45%	4.04%	1,468	14,819
2008	1.94%	2.96%	903	9,087
9/30/09	2.31%	3.31%	1,057	10,945
YTD Return			19.26%	20.45%

Mind Games. How do you choose to view the US stock market returns from where it was at a past point in time? We see them as all true. The S&P 500 index is :

- **18% lower** since October 1, 1999 (ten years)
- **5% lower** since October 1, 2004 (five years)
- **31% lower** since October 1, 2007 (near market peak)
- **11% lower** since October 1, 2008 (one year ago)
- **17% higher** since January 1, 2009 (year-to-date)
- **56% higher** since March 9, 2009 (market bottom)

Remember, there are no guarantees when it comes to investing and past performance is no guarantee of future results.

Investment Outlook

- The world and financial markets are unpredictable in the short-term. The proper course is to create a long-term investment strategy and **stick to that asset allocation.**
- Over the long run, small cap and value stocks tend to outperform other equity categories.
- Expect the US dollar to rally during periods of uncertainty. **Do not underestimate world geopolitics and the dangers that exist in the world.**
- Increased consumer savings should aid future equity returns.

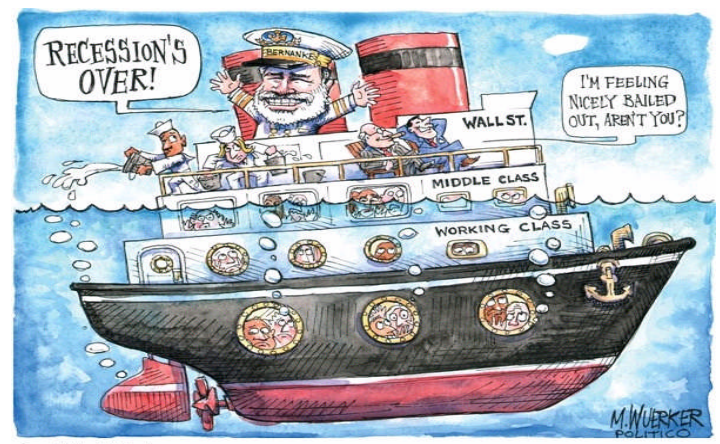
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Insightful Thoughts of Others

(If you drive a car), I'll tax the street,
 (If you try to sit), I'll tax your seat,
 (If you get too cold), I'll tax the heat,
 (If you take a walk), I'll tax your feet.
 - The Beatles (*Taxman*)

And the parting on the left
 Is now the parting on the right
 Meet the new boss. Same as the old boss.
 - The Who (*Won't Get Fooled Again*)

Five year plans and new deals wrapped in golden chains
 And I wonder, still I wonder who'll stop the rain?
 - Creedence Clearwater Revival (*Who'll Stop the Rain*)



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A Few More Things

- ❑ **What will the economy look like going forward?** To paraphrase JP Morgan, it will fluctuate. Throughout history, our economy has had a “W” shape in that it goes through cycles. There is no reason that the economy should not continue on a path of growth. The question is more how high the peaks, how low the troughs and how long does each cycle last?
- ❑ One thing history has taught us is that an economy cannot be “managed” without unintended negative consequences. **Proper regulation and oversight**, not controls, can help restore prosperity.
- ❑ **What will bring back the US economy and jobs?** In the 1950s and 1960s, we had strong manufacturing led by the automotive industry. The 1970s saw the beginning of a shift away from manufacturing towards service industries. The 1980s were led by defense spending, which transitioned into the technology growth that fueled the 1990s. The first decade of the new millennium started off with the bursting of the tech bubble, however the real estate market, especially residential housing, propelled the economy forward before that bubble popped. Today, we are seeing growth in government, which cannot be the basis for long-term healthy and growing economy. A private sector producing tangible items that are in demand can cure today’s ills.
- ❑ Politicians love to regulate, but they have no desire to properly regulate themselves. How about we **require politicians to pass exams** (not just elections) before they take office and publish the results so we know their knowledge of topics for which they will govern? It would be reassuring to know the level of understanding these individuals have on particular topics so that we can separate truly good ones from the empty suits.
- ❑ **It is about power & control and healthcare is only an instrument.** Lower costs and improved access for all Americans is feasible, however it requires less regulation and the transfer of responsibility away from government, employers, and insurance companies to individuals. Allow individuals more control and information to make better decisions. People do not purchase car or property insurance via their employers. So why is the healthcare system set-up in that manner? If we can purchase medical insurance in an open and competitive marketplace, coverage will become more affordable. Have people be more responsible for their medical care and payments and watch how quickly the market adjusts with lower prices.
- ❑ Have a **Happy Halloween** and check for ghosts & monsters in your closet, under your bed, or in your portfolio.

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