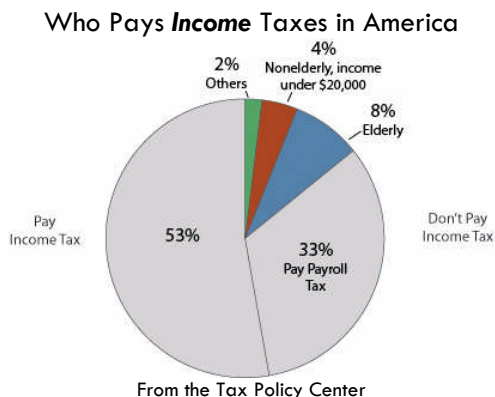


## Observations

- ❑ Thanks Greece for showing the world what is ahead if we do not soon change our free spending ways. The US benefits with a flight to quality (foreign dollars seek shelter of US Treasuries) which keeps our interest rates low.
- ❑ The proposed financial reform bill will create more problems than it solves. The devil is in the details. How frightening is it that the bill fails to include two of the largest culprits of the financial “crises”, Fannie Mae and Freddie Mac? This may have something to do with these organizations basically being owned and controlled by the federal government.
- ❑ Hoorah for the independent voters who carefully evaluate candidates and issues. One should not want a politician to take your vote for granted simply because of party affiliation. George Washington warned us of the dangers of political parties putting their interests ahead of those of the nation. Echoing the wisdom of Marx (Groucho – the only true & serious Marx philosopher the world has known) I would not want to be a member of a party that would accept me as a member.

## Facts & Figures of Importance

### Economic



A bit more analysis with regard to the report that 47% of Americans pay no income tax. Yes, that is true. However, as you can see in the chart above, there are 33% who incur payroll taxes (Social Security and Medicare) but not income taxes. Those paying income taxes are shouldering more of the burden of out of control government spending. Those not paying any taxes earn very little if any income. Most people will receive more in Social Security and Medicare benefits than what they will have paid in taxes. There should be no call for class warfare. The tax system needs to be modified so that all have a greater stake as how Uncle Sam spends.

### Economic Outlook

- The recent uptick in consumer spending is being driven by pent-up demand from the harsh winter, tax refunds, replacement purchases, increased and those facing foreclosure spending on services/goods other than their mortgage. It is not a sign of a significant trend that the economy is on the verge of a strong recovery.
- Residential real estate is likely to soften from the combination of the Fed no longer buying debt, rising mortgage rates, tight credit, and government home purchase incentives disappearing.

### 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	9,087
2009	2.69%	3.85%	1,115	11,562
4/30/10	2.43%	3.69%	1,187	12,477
<b>YTD Return</b>			<b>7.05%</b>	<b>7.92%</b>

Financial derivatives are valuable tools that benefit us by helping to manage risk. It allows the farmer to lock-in a price for a crop. It allows the food manufacturer to fix product costs. Both of these parties would be subject to wild price fluctuations without derivatives (think options and futures). Can you imagine the price of goods at the store without instruments to help stabilize costs? When you purchase a home and applied for a mortgage, the lender likely used a financial derivative to obtain the mortgage interest rate to which you agreed. Your home energy bills would fluctuate much more if it were not for energy companies hedging their expenses.

It is those who are either naïve or take foolish risks when buying or selling derivatives that should pay for their bets gone wrong. Bankruptcy not a bailout.

### Investment Outlook

- Earnings drive equity prices. Keep an eye on both revenue growth and margins to see how sustainable earnings growth can be. There will be market fluctuations.
- Watch out for a market pull back when it dawns on investors that come January 1, tax rates increase, dividends will be taxed at ordinary rates, and capital gains rates increase. Stocks do not react well to taxes which remove capital from markets. Longer term, stocks grind higher.
- Market forces will eventually push interest rates higher. Once the momentum gets going, look out; it could get ugly.

## Insightful Thoughts of Others

All media exist to invest our lives with artificial perceptions and arbitrary values.

- Marshall McLuhan

If one morning I walked on top of the water across the Potomac River, the headline that afternoon would read: "President Can't Swim."

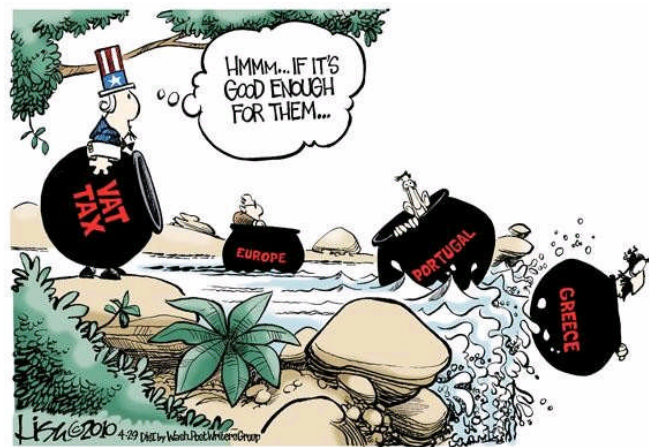
- Lyndon B. Johnson

If I had my choice I would kill every reporter in the world, but I am sure we would be getting reports from hell before breakfast.

- General William T. Sherman

In the real world, nothing happens at the right place at the right time. It is the job of journalists and historians to correct that.

- Mark Twain



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## A Few More Things

- ❑ **Nero fiddled** while Rome burned and the **Securities and Exchange Commission employees diddled** surfing for porn while Wall Street set fire to world economies. Public outrage and then what? How ironic that within one week the SEC levels charges at Goldman Sachs, the porn findings are made public, and Congress debates a financial reform bill. This would be mildly entertaining if not for the fact that there are trillions of dollars and people's livelihoods at stake. This will be swept under the carpet as Congress readies for the next circus.
- ❑ **Would you buy a car from this man?** How does GM CEO Ed Whitacre have the gall to promote in television ads and write a piece for the *Wall Street Journal* that announces with pride how the company is paying back \$5.8 billion of loans from the US Government (i.e. American taxpayers) implying everything is hunky-dory. Here come facts that will get in the way of the feel good story. The total amount of US Government "aid" to date has been \$49.5 billion. As the loan was too expensive to pay back, the vast majority of the aid was converted to common stock. Yes, Mr. & Mrs. US Taxpayer own 60% of GM. Mr. & Mrs. Canadian Taxpayer own another 11.7% of the company. About the \$8.1 billion loans that carry an interest rate of 7% (here comes the "are you kidding me?" part). Turns out, there is a US Government escrow account for "working capital" that carries an interest rate of 5%. You got it. GM is borrowing from another government pot at a lower interest rate to repay the original loans. And of course the company has yet to return to profitability.
- ❑ **So do you think these are people are worthy of receiving a pay check with your tax dollars?** Do a little research on names you may not be familiar with like Alex Kozinski, Cass Sunstein, or Alcee Hastings. If these people did and said these things in private sector jobs, do you think they would still have those jobs today?
- ❑ **Government taxation and policy are squeezing out private charity.** Americans are the most generous people on earth when it comes to helping those in need. We give for it is the right thing to do, not because we are forced to give. Our system works because of the efforts of religious organizations and charities such as the Red Cross, Salvation Army, United Way, and many others working with donors and coordinating to assist those in need. Those who choose to work in non-profit jobs are to be commended and can perform better than employees of a bureaucracy who are subject to political whims.
- ❑ **Happy Mother's Day** to all Mom's and **Memorial Day** remembrance and gratitude to those who served for our freedom.