

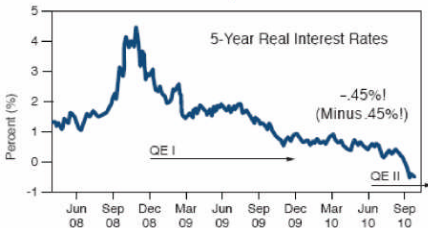
## Observations

- ❑ If you are expecting a sudden, great improvement in the economy post-election, as they say in Jersey, "forgetaboutit". Political gridlock may help however until government spending is addressed in a meaningful way, the economy moves forward with a piano on its back. The economic problems facing the U.S. are serious and cannot be cured overnight.
- ❑ There are some sadistic people in government inflicting pain on our economy. The resources being poured into trying to bolster the housing market have not and will not help. The market should be allowed to find a bottom sooner rather than prolonging the inevitable. Would not letting prices fall to a point where investors could purchase houses and rent them be preferable to the current situation? Those facing foreclosure could have a burden lifted and then rent with monthly expenses less than what they struggle to pay now. Those waiting for residential real estate to lead the economy forward are in for a long wait. These programs are proof the path to Hades is filled with good intentions.

## Facts & Figures of Importance

### Economic

Are you familiar with the saying it is not what you make, but what you keep? Well the same holds true with bonds, certificates of deposit, and other forms of fixed income. What matters most is the real interest rate, that which you keep after taxes and inflation. If you purchase a five-year treasury at 1.2% and inflation is 1.5%, it is a losing proposition. If the bond is held in a taxable account, the real return is even worse. Safety matters, but at what cost?



Source: Bloomberg

### Economic Outlook

- Low interest rates, but credit is difficult to obtain. Supply and demand for US Treasuries both high. Corporate earnings and stock market rising despite a consumer that is still leveraged and reluctant to open the wallet. The government tells us that there is little core inflation, but ignoring volatile food and energy prices is not real world to consumers. Nobody knows for certain what is next for the economy, but you can be certain strong growth is still much further on up the road. Status quo for now.

### 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
10/29/10	1.17%	2.63%	1,183	12,489
YTD Return			7.84%	8.02%

### Yesterday's News Was Like So Yesterday

Investing is part skill and part luck (some days you get the tiger; other days the tiger has you for lunch). In performing research and advising clients, it is helpful to understand the lessons of behavioral finance and economics. In short, why do people make the financial decisions they do, especially the non-rational ones. One bias many people have is called regression bias. It is a tendency of people to place a higher emphasis on recent events than those that have occurred further in the past. Do not put too much weight on the present. It is important to learn from history to avoid making the same mistakes. There is always the challenge of taking action today with no guarantee of future success. However, that's what makes it all fun; to see what is going to happen next.

### Investment Outlook

- Long-term investors know dividend paying equities are valuable in any portfolio. Unless Congress acts quickly, it will be interesting to see individual investor demand when dividends are taxed as ordinary income beginning Jan. 1.
- It is all talk regarding the Fed and the planned purchase of more debt (QEII). What matters is how much if any they really do. Interest rates cannot go much lower. Intermediate and long-term bonds are likely to take a hit when rates rise.

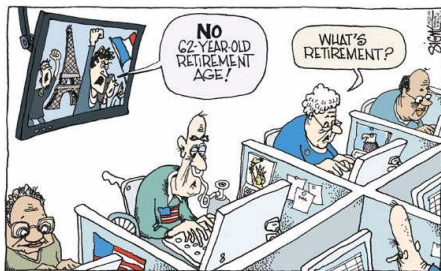
## Insightful Thoughts of Others

We are, as even some Fed Governors now publicly admit, in a "liquidity trap," where interest rates or trillions in QEII asset purchases may not stimulate borrowing or lending because consumer demand is just not there. Escaping from a liquidity trap may be impossible, much like light trapped in a black hole. Just ask Japan.

-- Bill Gross, PIMCO

It is perplexing to think that investors/speculators continue to provide so much cheap capital to governmental issuers whose finances, generally speaking, can only be described as horrific. As one observer put it, "Borrow more to pay less, is still working brilliantly for the US Government." Perversely, lower interest rates make it easier for our government to ignore much needed structural change in the way it does business.

-- Curtis Jensen, Third Avenue Management



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## A Few More Things

- Thank goodness this election cycle is over. At least the television ads and robo calls will cease for a year, however, there should be a law that prohibits them from soliciting money 365 days a year. With gridlock more likely over the next two years, expect the economy to heal ever so slightly with government tied-up in a knot.
- While one should be vigilant year round, beware as the holiday season begins. Scammers have turned to pretending to be from governmental agencies. Attempt to verify all street addresses, e-mail addresses, and phone numbers. Know that the IRS will not contact you by e-mail. Always check a phone number and call a financial institution if you are not completely sure that a website or e-mail is legitimate. Investigate a charity before donating, and then give by check or credit card so that you have a receipt. Do not give cash to charities. Please look out for the senior citizens as they are a common target for fraud and abuse.
- Careful with year-end tax planning especially with capital gains. Even though capital gains rates will increase from 15% to 20% at year-end, those who will likely be snared by the alternative minimum tax should crunch the numbers to understand the real rate at which their capital gains will be taxed.
- It is that time of year when employees sign-up for benefits. Read materials with a sharper eye this year. Pay attention to changes that will take place in 2011 to flexible spending accounts (FSA). For example, unless prescribed by a doctor, over-the-counter medications will no longer be eligible for reimbursement in an FSA. If you still have funds in your 2010 FSA, consider what over-the-counter medications you may require in early 2011 and possible making those purchases before year-end.
- If by summer 2012, the new Congress and President continue bickering without reducing the deficit, have GDP in 3% range, unemployment below 7½%, and inflation under control, expect both the Republican and Democratic parties to shrink and a rise of a third and possibly fourth political party.
- For a limited time we are offering free colorful leaves to anyone willing to come to our office and take them away. Feel free to contact us to take advantage of this special offer. **Have a Happy Thanksgiving!**

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