

## Observations

- ❑ **1934 or 1994?** Financial markets seem to be frozen by the lack of political leadership. Do the Dems hold their majority in the mid-term elections (see 1934)? Will the R's win enough seats to grind Washington to a halt (recall 1994)? Markets like to know the rules policymakers are setting. The environment since early 2008 seems to be government by the seat of its pants. If history is any indication and you are concerned about the economy, root for 1994, not because of the Republicans, but because political gridlock is usually good for America.
- ❑ The Federal Reserve's decision to purchase Treasury debt with proceeds of matured mortgage debt rings a bit like the drug therapist advising the addict to take another hit from the crack pipe. At the risk of pointing out the obvious, all this credit fueled spending is what got us into this mess. The Fed can pump all the money it wants into the system. **Until consumers have income (from steady jobs), and conviction in the American way, the economy will keep swimming in quicksand.** The Fed cannot create demand by simply printing money.

## Facts & Figures of Importance

### Economic



The above graph represents the last 30 years of Japan's nominal GDP. Japan has an aging population and its social contract offers citizens generous benefits. After peaking in 1990, their economy has been sputtering. In order to spur the economy, the government has increased spending and the Bank of Japan substantially lowered interest rates. These policies have been a pure disaster. Today, Japan is concerned with a strengthening yen as it seeks to further ease monetary policy. Does any of this sound familiar? Hello US Government law and policy makers. This is our future if you do not learn from Japan's mistakes.

### Economic Outlook

- Eventually Federal funding to the states dries up and the states and municipalities must make budget cuts. The tax base is not there to for government to tax itself back to financial health. Expect unemployment to creep up in 2011 when states/local governments must start addressing budget woes.
- Deflation, Disinflation, and Inflation are all in the cards. Some prices will fall, others rise slowly, and some more dramatically. When the bond bubble pops, there will be economic confusion for a while.

### Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWS/Nire 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
8/31/10	1.33%	2.47%	1,049	11,001
<b>YTD Return</b>			<b>-4.62%</b>	<b>-4.85%</b>

### Tax Consideration – Charitable Giving in 2010

New tax laws will go into effect on January 1, 2011 unless Congress changes the law. It is an election year and there is a large Federal deficit. Hard to see Congress doing anything in 2010. Those of you that anticipate being in high tax brackets for both 2010 and 2011 should carefully plan for the optimal year for making charitable contributions. In some instances, it may make sense to postpone some or all of your 2010 gift until 2011. With long-term capital gains rates scheduled to increase, gifting appreciated assets is a strategy that can be beneficial. Make sure you work closely with your tax advisor to plan giving over the next two years so that you can maximize the tax benefits and how it will coordinate with your long-term financial goals.

### Investment Outlook

- Governments can only refinance debt so much at these historically low interest rates. Principal has to be repaid at some point.
- Real estate prices will likely remain soft in municipalities that attempt to raise property taxes. A sure recipe for failure from governments that seek a quick fix.
- With fear levels higher than usual permeating through equity markets, there are still bargains available for those who choose wisely. Patience and prudence get you there.

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## Insightful Thoughts of Others

The ultimate drivers of stock price performance are the underlying economic and financial conditions, not "the whims of Wall Street traders." When investors and business leaders feel confident about the future, the overall economy benefits. This is when jobs are created and productivity rises, and we certainly need more of both right now.

Frank Holmes US Global Investors

In an environment in which risk is not clearly or reliably defined, be humble. One of the great risks in investing, I believe, is the impact of one's emotions on decision-making. Humility helps here, too. The best fund managers I have worked with have an instinctive recognition of when they are placing too high a value on their own ability to forecast. Mistakes are made and returns fall short when we place too much emphasis on our hopes. Return generation is what you plan to do; implement your plans in the certainty that your knowledge is limited. Risk management is knowing what has gone wrong in the past and what may go wrong in the future, and understanding that there are many dangers that lurk unseen.

Robert Horrocks Mathews Inf'l Capital Management



## A Few More Things

- ❑ Government signs, especially on highway and road projects that tout the American taxpayer's dollar at work are just demeaning. How much money have all those signs cost (one story reported over \$24 million in Federal stimulus funds)? **Why are these signs not on the front door of every bank that was bailed out?** How about on GM and Chrysler cars? These politicians take our money, spend so much of it irresponsibly, and then have thechutzpah to advertise what a favor they are doing us. Do they think those signs will entice you to break-out the check book and forward a campaign donation? A law should be required that before any project that utilizes public money can be named for any office holder, that person has to have been dead for at least 100 years.
- ❑ **The technology and privacy battle is over and our side has lost.** We face both physical and moral dangers that were not present even ten years ago. You must be on the lookout for drivers and people walking whose eyes are glued to their Blackberry or iPhone. Collisions are inevitable. Stores are installing televisions with ads to numb minds into buying more goods. Even people who do not Twitter, Facebook, or use the Internet are exposed. Technology has made it easier for marketers, scam artists, companies with whom you do business, the government, and any other curious souls to find out information about you. For all the good that technology has promised, it is failing to protect us, especially when it comes to so many of our unalienable rights. Expect future Darwin Award winners to involve more technology.
- ❑ Want to bet that New Jersey is only the first state to get **caught with its hand in the cookie jar**? The state has settled a case with the SEC in which it was accused of "withholding and misrepresenting pertinent information about its financial situation" when issuing \$26 billion in bonds on 79 occasions that began in 2001. So why were there no monetary fines, nobody fired, and no charges, criminal, or civil? The Wall Street underwriters get a free pass. Former NJ governor Jon Corzine was co-chairman at Goldman Sachs. Could anyone believe he did not know about the financial shenanigans? And what took the SEC so long to discover this (were they all surfing for porn)? Other states see no punishment and now have what incentive not to misrepresent their financial situations? It's why we caution readers to pay attention to state and local issues. Your tax money goes there too.

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