

Observations

- ❑ **Get a job** is easier said than done these days. There is only one thing government can do to create jobs and that is get out of the way of the private sector. They can do this by reducing regulations and tax laws so they are more sensible and effective. Stop with temporary patches and enact tax rates that are fixed for at least ten years. Your expectations for unemployment should be for it to remain above average with government the roadblock being as....
- ❑ **One out of seven Americans receives food stamps and one out of six receives some form of government assistance.** The business of government is good. More laws and regulation ensure a less efficient economy. Yes government does some good but more often than not, well intentioned programs create greater problems. If you believe bigger government can solve problems by expanding programs, please consult a basic economics textbook.

Facts & Figures of Importance

Economic

Table 1: Projection for global economic growth

	Share of real global GDP ^a (per cent)	Projected growth (per cent) ^b			
		2010	2011	2012	2013
United States	20	2.9 (2.9)	2.4 (3.0)	3.2 (3.2)	3.3 (3.3)
Euro area	15	1.7 (1.7)	2.0 (1.8)	1.6 (1.7)	1.9 (2.3)
Japan	6	4.0 (4.0)	-0.6 (0.8)	2.9 (2.6)	3.0 (2.5)
China	13	10.3 (70.3)	9.3 (9.3)	8.6 (8.6)	8.1 (8.1)
Rest of the world	46	5.5 (5.5)	4.2 (4.3)	3.8 (3.8)	3.6 (3.6)
World	100	5.0 (4.9)	3.9 (4.1)	4.0 (3.9)	3.9 (3.9)

a. GDP shares are based on IMF estimates of the purchasing-power-parity (PPP) valuation of country GDPs for 2010. Source: IMF, WEO, April 2011.

b. Numbers in parentheses are projections used for the April 2011 Monetary Policy Report. Source: Bank of Canada

The outlook from the Bank of Canada for global growth is bland at best. Flattening oil prices and a pick-up in consumer demand boost the US economy (note to their economist, without US employment growth and debt reduction, what exactly will drive consumer demand?). Exports and low interest rates will be a plus. European debt drags on GDP. The Japanese economy recovers from the tsunami and nuclear plant shut-down. Emerging markets and China implement monetary policy to hold inflationary pressures in check even with increased consumption.

Kind of feels like we are watching paint dry.

Economic Outlook

- **Uncertainty** as the US economy is swimming in quicksand. More downside risk than upside potential, with stuck where we are the most likely course for the near future.
- Beware of Europeans announcing problem solved, again....and again. Beware all politicians everywhere.
- The "my currency is lower than your currency" policy game is in effect despite political babble. Translation, developed nations try to inflate their problems away.

Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
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
2010	2.06%	3.38%	1,258	13,360
7/29/11	1.35%	2.82%	1,292	13,702
YTD Return			3.87%	1.93%

From the 2011 Annual Reports on Social Security and Medicare. Trustees include the Secretary of the Treasury, Secretary of Labor, and Secretary of Health and Human Services.

Projected long-run program costs for both Medicare and Social Security are not sustainable under currently scheduled financing, and will require legislative corrections if disruptive consequences for beneficiaries and taxpayers are to be avoided.

The financial challenges facing Social Security and Medicare should be addressed soon. If action is taken sooner rather than later, more options and more time will be available to phase in changes so that those affected can adequately prepare.

This is not an earth shattering surprise as it has been known for years. So why would the President and Congress continue to play politics (not assuring the public that Social Security checks will be sent out in August) instead honestly fixing the problem?

Investment Outlook

- **Uncertainty** will likely breed more short-term volatility.
- Long-term (think ten years out) there is reason for optimism in equity markets given that human beings have an innate drive to prosper. Commerce helps the world go round.
- With the ten year US Treasury yielding approximately 3% and inflation somewhere around 3½%, investors must balance the return on their money with the return of their money. A future chapter in this story will be ugly.

Insightful Thoughts of Others

Show me the man and I'll find you the crime.

-Lavrenty Beria (chief of security under Stalin)

"What is objectionable, what is dangerous, about extremists is not that they are extreme, but that they are intolerant. The evil is not what they say about their cause, but what they say about their opponents."

-Robert F. Kennedy

An individual who breaks a law that conscience tells him is unjust, and who willingly accepts the penalty of imprisonment in order to arouse the conscience of the community over its injustice, is in reality expressing the highest respect for the law.

-Martin Luther King, Jr.

Never ascribe to malice that which is adequately explained by incompetence.

-Napoleon Bonaparte



A Few More Things

- ❑ It is good to see more attention being paid to the madness taking place the justice system, especially in the Federal criminal area. From a recent *Wall Street Journal* article, "The U.S. Constitution mentions three federal crimes by citizens: treason, piracy and counterfeiting. By the turn of the 20th century, the number of criminal statutes numbered in the dozens. Today, there are an estimated 4,500 crimes in federal statutes, according to a 2008 study by retired Louisiana State University law professor John Baker". Include the thousands of regulations that contain criminal penalties, and we now have a system that nobody can understand. Reactionary legislators who jump at the latest headlines or bow to special interest groups have empowered prosecutors who ensure their job security. Ambitious prosecutors may even abuse power on their way to higher public office (anyone remember Elliot Spitzer?). All these statutes allow prosecutors (who have unlimited funds) to throw the book at defendants who have to evaluate the cost of defending themselves and the risk of conviction, even if they are innocent. Defendants wind-up taking a plea allowing prosecutors and judges to claim the system works.
- ❑ In America, the rule of law is supposed to prevail. We should not be a nation of laws. The steps to correct this are simple, however it is not in the interest of those in the justice system to fix it as it would eat into their wallets. First, simplify and reduce the number of laws so that most laymen can understand the law. This will also reduce both arbitrary and selective enforcement. Next, more disclosure and scrutiny of justices. Evaluate judges on volume of work, accuracy, and timeliness of decisions. Compensation while during time on the bench and pensions can be adjusted based upon past decisions evaluating what the court knew and when the court knew it. Finally, apply the same standard to prosecutors and hold government liable for factually based wrongful convictions.
- ❑ The Alternative Minimum Tax was first enacted in 1969 as a reaction to approximately 155 high income tax returns that paid zero in federal income taxes by taking advantage of benefits and deductions. Today, those with income in the two highest tax brackets usually do not pay AMT as their income is greater than the threshold. Instead, households with incomes between \$40,000 and \$400,000 are more likely to incur AMT. Attempts to avoid the AMT, usually result in a greater tax liability. Tax reform anyone?
- ❑ Once again, the reality of politics triumphs what is right for America. The farce of debt ceiling debate has been nothing more than political theater. The GOP has no incentive to pass a real long-term plan as they want to keep the budget in the headlines next year to attack the President and the Dems during an election year. The Dems know spending cuts doom them with their hard-core political base. No matter the issue, the politics of a coming election incentivize politicians to find short-term fixes to long-term problems. Two aspirin will not cure a broken leg. Waiting for the next election cycle should not be an excuse to fix a problem.
- ❑ With the growth of media and opinions, especially on the internet, people have a tendency to seek out sources that confirm their political beliefs and biases. Do not fall into this trap. If you seek out more objective sources and legitimately evaluate other viewpoints, you may find yourself enlightened as you see the world from other perspectives on your journey to find the truth. Facts, reason, and logic will lead to solutions and actions that solve problems and prevent future ones.

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