QRS Wealth Management LLC

Overview

www.qrswm.com (856) 979-7788 October 2011

Observations

- How much trust do you really have in government? The "marketing" by government should be a concern to all of us. Even the Federal Reserve with its latest program called Operation Twist. Prior to that, we had Quantitative Easing I & II. Why cannot government communicate with us like adults? We must become more knowledgeable and hold politicians to a higher standard. If it has to be packaged, beware. Remember **a pig wearing lipstick and earrings is still a pig.**
- There is an old saying that when the tide goes out, you see who is swimming naked. When there is a European debt default (yes, we all know Greece is first up), we will see **who's skinny dippin'**. Do not be surprised to see the bare derriere of some US financial institutions that could not resist the quick dollar earned on a credit default swap knowing that the US government will step in with bail-out funds. It feels like 2008 or déjà vu all over again, right Yogi Berra?

Facts & Figures of Importance

Economic

Credit is due elsewhere for the following table that puts into perspective what the US Government financial picture would look like if it were viewed as a household. Start with the real numbers in trillions (available at the White House website).

Tax Revenue:	$2,174,000,000,000
Budget or Spending:	$3,819,000,000,000
Deficit for Which We Borrow:	$ 1,645,000,000,000
National Debt:	$14,764,000,000,000
Budget Cuts for this Fiscal Year:	$38,500,000,000

Now let's pretend this is a household's financial picture.

Annual Income (cash in):	$21,740
Spending (cash out):	$38,190
New Debt (credit cards/loan sharks):	$16,500
Outstanding Loans (credit card)	$147,640
Budget Cuts (pinching pennies)	$385

The pain inflicted by these dramatic cuts must be unbearable. The White House projects tax revenue increasing 20% next year. And just where will all this additional tax revenue come from? Tax revenue does not just appear out of thin air. Americans must become better informed about the financial train wreck that is rapidly approaching.

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
9/30/11	0.96%	1.92%	1,131	11,842
YTD Return			**-8.68%**	**-11.36%**

Keep an Eye on This Agency

The US Commodity Futures Trading Commission was created by Congress in1974 as an independent agency to regulate commodity futures and options markets in the US. They are supposed to protect markets and the public from fraud, manipulation, abusive practices, and systemic risk. What is interesting is that since 1991, CFTC granted secret exemptions to 19 major banks and market participants. This information came to light as investigations into the 2008 financial meltdown was being investigated by Congress. Yes, you are correct that these exemptions remain in place today. Yes, you are correct in that these exemptions can and have likely contributed to speculative price swings that impact the American public (and world markets for that matter) on prices of foods, energy, and metals. Look for the truth in the recent swings of metal prices to come out in the next 6-12 months.

Economic Outlook

- What you see is what you get. A US economy that treads water at best for the next year as politicians focus on 2012 elections. Europe flounders in trying to resolve their debt crisis. Asia and emerging market economies slow as demand softens from their largest customers.
- Unemployment and minimal wage increases mean the US consumer wallet remains either empty or closed. Don't look for much in the way of GDP growth without consumers.

Investment Outlook

- Periods of short-term equity volatility are here to stay. Longer-term fundamentals should propel equity prices higher as companies adjust to marketplace changes.
- The investor or savers dilemma continues. With inflation projected around 3% how can one justify purchasing a 5 year Treasury that yields 1%? Income generating equities look attractive, however does the investor and take the plunge with equities knowing prices could fall?

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Insightful Thoughts of Others

Four billion dollars was spent during the 2008 election cycle, and an estimated $5.5 billion will be spent for 2012. Meanwhile, people are out of work, the economy continues to flounder, and nothing's getting done in Washington. This is no longer a crisis of leadership. It's an emergency. The lack of cooperation and irresponsibility among elected officials today, as they have put partisan agendas before the people's agenda, is stunning and outrageous.

-Howard Schultz, CEO Starbucks

We cannot spend our way out of this. We cannot tax our way out of this. We cannot artificially stimulate our way out of this. We cannot regulate our way out of this. Shaming the successful or redistributing income won't get us out of this. We cannot fund our government coffers by following the "Buffett Rule," i.e., raising taxes on Americans earning more than $1 million a year.

-Charles Schwab CEO Charles Schwab & Co.

A Few More Things

- It is difficult to be optimistic about a **near term resolution to Europe's financial crisis** with 27 competing interests trying to reach a compromise. A real willingness of both creditors and borrowers to make sacrifices is not yet present. An effective solution is easy to envision; it is the details that are complex. Lenders will eventually accept something less than 100% on their loans. More important, borrowers will have to institute and enforce real reforms in order to earn back the trust of financial markets. One would think that after two world wars fought on their soil within the past 100 years, they would have learned something.

- The **US Government has really stuck it to its citizens**. Massive deficits and debts. Artificially manipulated interest rates are projected to be below inflation for at least the next few years. These low rates allow government to borrow even more at the expense of all citizens. Savers are punished by the low returns on their capital. Refinancing debt is more difficult for consumers and businesses. Private businesses, the job creators, are unwilling to take growth risks in an uncertain environment of higher taxes and mystifying regulations. Hence, higher unemployment and citizens on the hook to repay massive debts for at least 25 years or more. So where is the return on all the money that has been spent? This was a calamity that should never have happened.

- The Federal Reserve's "Operation Twist" is another attempt to **punt a cinder-block with a bare foot**. Attempting to lower what are already historically low interest rates will not deliver the promised benefit. If it were such a great idea, why was this not implemented over the past three years? If one of the goals is to encourage mortgage re-financings with lower interest rates in order to give a boost to the American consumer, it will fall short. With approximately 25% of homes with mortgages worth less than the mortgage amount and much tighter lending restrictions, just how many people will this help? Most of those eligible for mortgage re-financing have already done so. Extend that to most borrowers be it households or businesses as the majority of debt re-structuring has been accomplished. If lower interest rates are designed to spark more demand, it just is not in the cards. Reduce interest rates to zero and both households and businesses will still be leery to borrow with uncertainty over jobs, real estate prices, taxes, and changing regulations. Who would want to play a game when the rules are constantly changing against you?

- **Take off your political jersey for a moment and try an objective view of a proposed economic solution.** The current administration has failed miserably to improve the economy. Yes, the President inherited a disaster from the last guy, but his promises have gone unfulfilled. Congress deserves a hefty share of the blame, especially for the shenanigans on Wall Street. The Fed has achieved zilch. Where is the oversight? Without any bias, evaluate Herman Cain's 999 Plan. In a nutshell, the plan calls for a 9% business flat tax, 9% individual flat tax, and a 9% national sales tax. This is neither an endorsement of Cain nor his plan. There needs to be an evaluation of details and an analysis as to whether the numbers make economic sense. Simply consider the economic mess we are in and how those in office now have failed to fix the problem. Those running for president have offered nothing substantial. Give Cain his due as a plan where we all have skin in the game will likely encourage better long-term results.

- **Happy Halloween**. Beware of the scary politicians who want to steal candy from your basket and money from your wallet.