

Let us begin by stating the obvious that the future is uncertain. Or some might say that the future will be like the past, only different. So the question for investors becomes what should be done to plan for future goals? The answer is stick to the basics. With thoughtful planning, a strategic focus, and proper implementation investors can achieve goals over the long-term. Despite the headlines, there is reason to be optimistic as crises come and go. No doubt, you have heard the saying in the news business, "if it bleeds, it leads." OK, but what about the economy and the market right now? There is a whole bunch of bad stuff happening out there.

In order to attempt to solve a puzzle that has no end (what will happen in the future), the first thing an investor has to accept is to only be concerned with his/her/organizational objectives and try to filter-out unnecessary or useless information. This is easier said than done in the information age where we are consistently presented with more and more information, which is not always factual, nor accurate.

As we look at the US economy, there are three key drivers to the economy of the next several years. These three drivers are all inter-connected via geopolitical and economic dynamics. The first and primary driver is the success of the war on terrorism. Setting aside political points of view, economic security and physical security go hand-in-hand. You must have one in order to have the other. A more stable world political environment should lead to lower energy costs.

The second driver is interest rates. Here is where the Federal Reserve is in a precarious position. The US currently has a "crisis" as it relates to sub-prime mortgages and other debt. There is also a substantial amount of US mortgage debt to for an interest rate adjustment in 2008 and 2009. If rates stay low and borrowers are able to re-finance without incurring significantly higher expenses, the spread of the sub-prime problem to other areas can be avoided. On the other hand, the US is a competitor for foreign investment in capital markets. Low interest rates have contributed to a huge trade deficit as well as the slide of the value of the US dollar. Foreign investors are looking elsewhere for better returns of investment. The foreign investor sees a devalued dollar (which means US goods and services are now more affordable overseas), a slowing US economy, and a Federal deficit and wonders if America is still the best place to invest. The dilemma to foreign investors is so where is it better? Are there places in Europe, Asia, or developing nations that are as creditworthy as the US and what return on investment will be realized?

If you have not noticed an uptick in the price of foreign goods, expect to see one soon as the decline in the dollar has or will increase the price of imported goods. This could lead to inflation in the US as we import most goods. This circles back to the position of the Federal Reserve, whose primary function is to keep inflation in-check. Which leads to the fundamentals of supply and demand as taught in Economics 101. As the US economy slows, and we purchase less from overseas, what happens to the other world economies? To what degree will they down shift? If world growth and demand slow, should that not lead to a reduced demand for energy, which would imply reduced prices? You can now see how this is a complicated puzzle with many pieces where the connections are not always clear.

The final driver is tax policy in the US at all levels. History has shown that tax cuts tend to stimulate an economy that is slowing. Tax increases have the effect of slowing a growing economy that is danger of overheating. Very intelligent and well-informed people have been presenting ideas for how to solve budget deficits at all levels of government. There are several elephants in the room that should be given attention sooner rather than later. The biggest elephant is the coming Social Security and Medicare expenses as our population ages. State and local governments face similar situations with respect to pension and health care promises. Many US corporations have already started addressing these issues with some arm twisting from the government. Now would be an appropriate time for governments to heed some of its own advice. It is not as if these "problems" are a recent discovery. While some politicians have attempted to provide solutions, in an election year, these are known as "third rail" issues.

Despite the above, the US still has a huge productive and slowly growing economy. It would be unthinkable to see a collapse of our economy where inflation and unemployment reach the levels of the late 1970s. We live in a country of talented and creative people who continually strive to improve the quality of life for not only Americans, but others throughout the world.

There always have and always will be problems that require attention and real solutions, not temporary patches. There is political discussion of building a wall to keep people from coming to the US illegally. There is no discussion of building a wall to keep people within the US. We have a rule of law that generally works. We enjoy more freedoms than the vast majority of the world. Many people worldwide still see the US as a land of hopes and dreams. They desire to come here to learn at top-notch educational institutions. To be free to raise families and pursue careers, dreams, and goals. We Americans are blessed to live in a land that offers us so much opportunity and should never forget how fortunate we truly are.

So what should an investor do right now? Create or re-examine your financial plan with high quality information. Set realistic expectations and give careful consideration to long-term goals. Then, take the actions steps that are necessary to put the plan in motion. Finally, do not let the doom and gloom crowd or the naysayers of the world to frighten you.

Finally, we wish everyone Happy Holidays, Merry Christmas, and a Happy New Year!