

It is that time of year when New Year's resolutions and fearless forecasts for the coming year are made. As we all know, very few of those resolutions make it more than a few weeks and most prognosticators miss the mark. In the "right now" world in which we live, few people ever look back to see how accurate the forecasts held-up over the year. There is always next year.

At QRS, our focus is on the long-term and not the immediate future. Short-term events are random and too unpredictable which makes these forecasts little more than guesswork. People focused on their long-term financial well-being know that taking action based on short-term conjecture tends to have adverse consequences. There are several events that need to be monitored as to our thinking for allocating investor portfolios for long-term success. Our outlook that follows looks beyond 2008.

Let's start with geopolitical topics. The war on terrorism with a focus on events in Iraq, Iran, and Pakistan needs monitoring. It should be obvious that tensions could result in increased energy prices, which would not be good for world economies. As more people around the world are offered the opportunities of an improved standard of living that is associated with capitalism, our world should become a safer place. There are many examples of successful nations embracing capitalism and prospering. With improved communications and better educational tools, the spread of economic liberty and capitalism presents tremendous opportunities.

Meanwhile, back in the US, the economy should continue to chug along. The rate of growth, as measured by the Gross Domestic Product (GDP), will likely slow, although a recession is unlikely. The US consumer will continue to be the primary driver of the economy. A dangerous combination of high levels of consumer debt (mortgage, credit cards, and installment loans) along with a Federal Reserve trying to balance fighting inflation, unstable credit markets, and a weakening dollar places the economy in a delicate position. We will also be keeping an eye on both the budget and trade deficits.

Many adjustable rate mortgages are due to re-set in 2008 and 2009 at higher rates of interest. Those homeowners whose mortgage interest rate adjusts will now have to devote more money to the monthly mortgage payment. Falling real estate values mean re-financing and "cashing out" of home equity is unlikely. Thus, the consumer is likely to slow their rate of spending either by choice (to pay down existing debt or from higher mortgage payments) or by force (lender's standards will remain tighter until credit markets stabilize).

And let's not forget about the 2008 election. During this seemingly endless campaign, there will be many promises made that cannot be fulfilled. Mud will be slung in all directions and somewhere underneath it all will be the truth. We will continue to seek reliable and credible sources for information to assist with our analysis (see the links page). We continue to advise people to be equally informed on local elections as well as national elections. If you have a few minutes for kicks and would like to take a political quiz to see which candidate is most aligned with your beliefs, checkout glassboth.org. We can only take the website owners at their word that they have no agenda and that their methodology is nonbiased.

For our 2008 forecast, we will pick the low hanging fruit. Those obvious items that tend to have all of us rolling our eyeballs as a media with too much time to fill endlessly hypes:

1. the Super Bowl and the advertisements
2. election year politics
3. stock market fluctuations
4. reasons for cold and snowy weather in the winter and heat in the summer
5. celebrities behaving badly
6. Christmas unexpectedly arriving on December 25th it does each year

All the best for a prosperous 2008!