

Hold The Wheel And Drive



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Hold The Wheel And Drive

In The Current Cycle To This Point, What Are The Key Drivers Of The Economy And Financial Markets?

\$SPX (S&P 500 Large Cap Index) INDX

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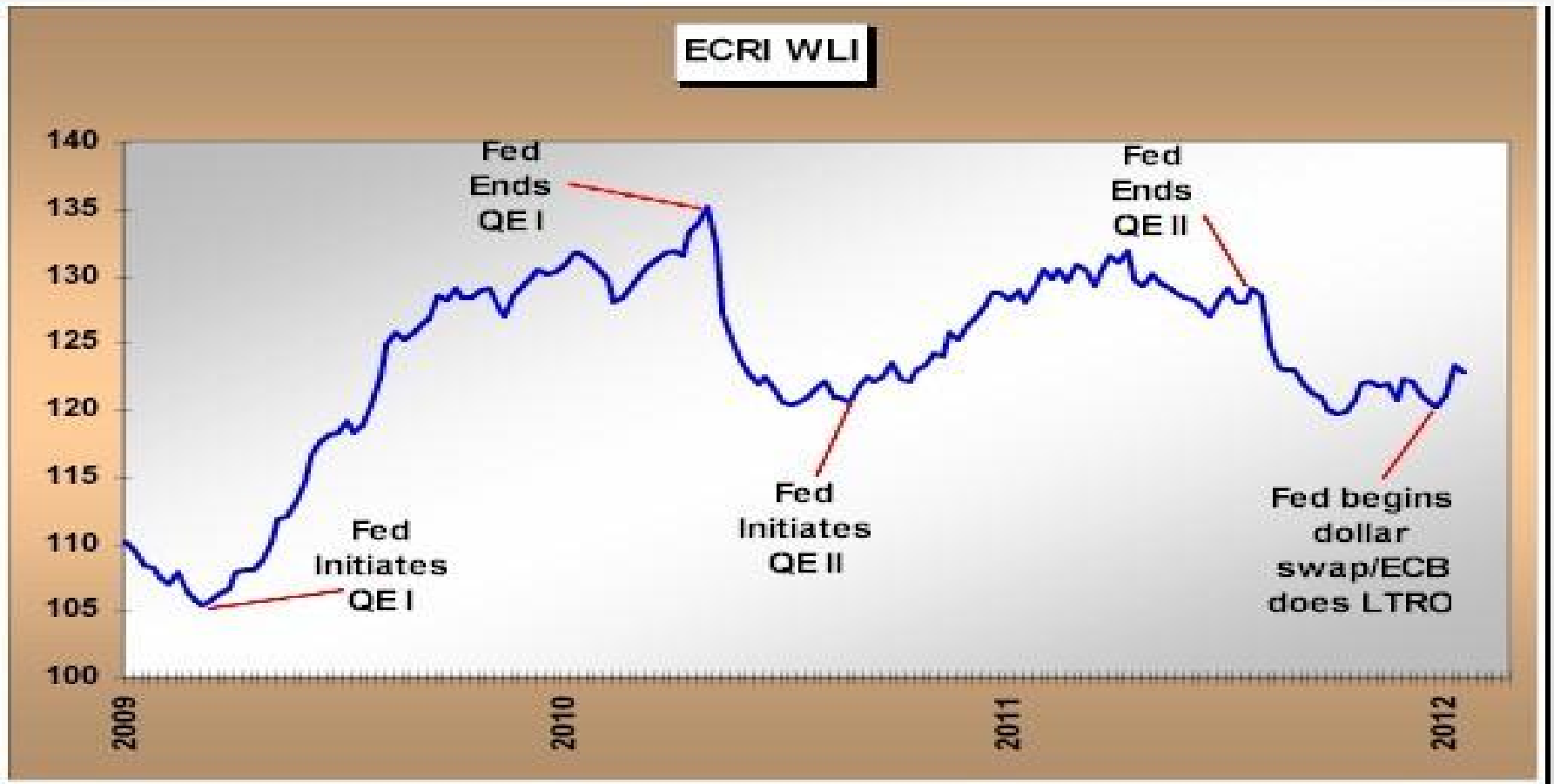
27-Jan-2012 O 1315.29 H 1333.47 L 1306.06 C 1316.33 V 15.8B Chg +0.95 (+0.07%) ▲



FURTHER

The Merry Pranksters At The Fed Also Influence The Real Economy

“Cowboy Neal At The Wheel Of The Bus To Never-Never Land”



DELEVERAGING ENVIRONMENTS DEMAND DIFFERENT ECONOMIC MODELS

The “New” Rules Of The Road?

- Federal Reserve Monetary Policy Is Largely Impotent In Sparking Credit Acceleration In Deleveraging Environments Where Long Term Credit Cycle Reconciliation Is Colliding With Short Term Business Cycles**
- Policy Makers Have No Road Map For The Current Environment So Policy Making “Risk” Is High (Globally)**
- The Global Economies Are Joined At The Hip Via Their Financial Sectors. The Whole Idea Of Decoupling Short Term Is A Pipe Dream**
- In A Zero Bound Rate Environment, It’s Now The Short Term Change In Business Input Costs That Act As The Fed Funds Rate And Influence The Economy Directionally Short Term**

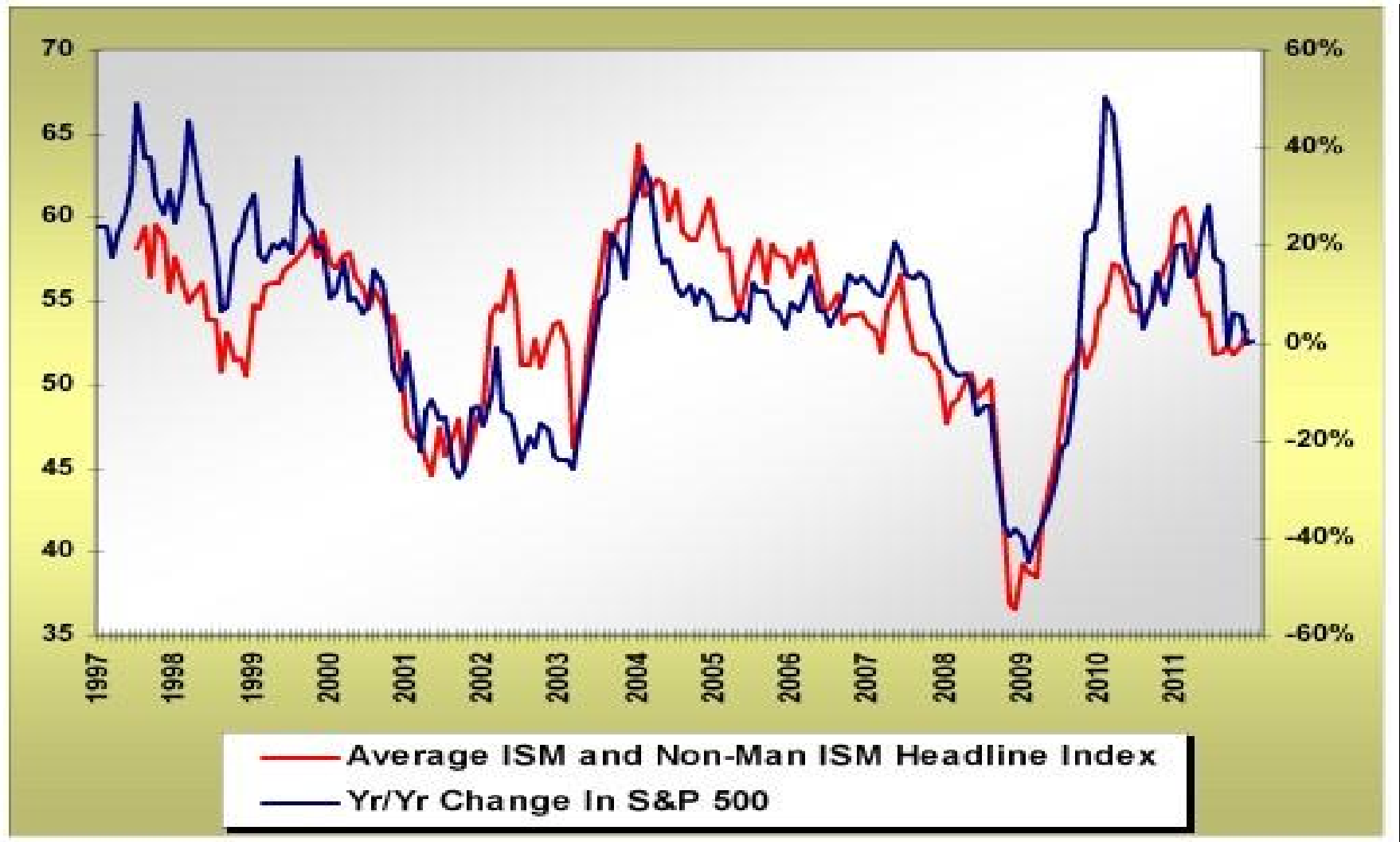
Will I Choose Water Over Wine And Hold My Own And Drive?



Time To “Come On Down” For Economic Recovery? It All Depends On Whether “The Price Is Right?” (At Least Over The Very Short Term)



C'mon, Just How Closely Are The Markets Really Watching Leading Manufacturing And Service Sector Economic Indicator Data?



It Don't Mean A Thing If You Ain't Got That Swing?

Fed Actions Can Stimulate Short Term, But They Also Sow The Seeds
For The Next Economic "Soft Patch"

\$CRB (Reuters/Jefferies CRB Index (EOD)) INDX

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27-Jan-2012 **Open** 311.54 **High** 319.35 **Low** 311.10 **Close** 317.81 **Chg** +7.90 (+2.55%) ▲

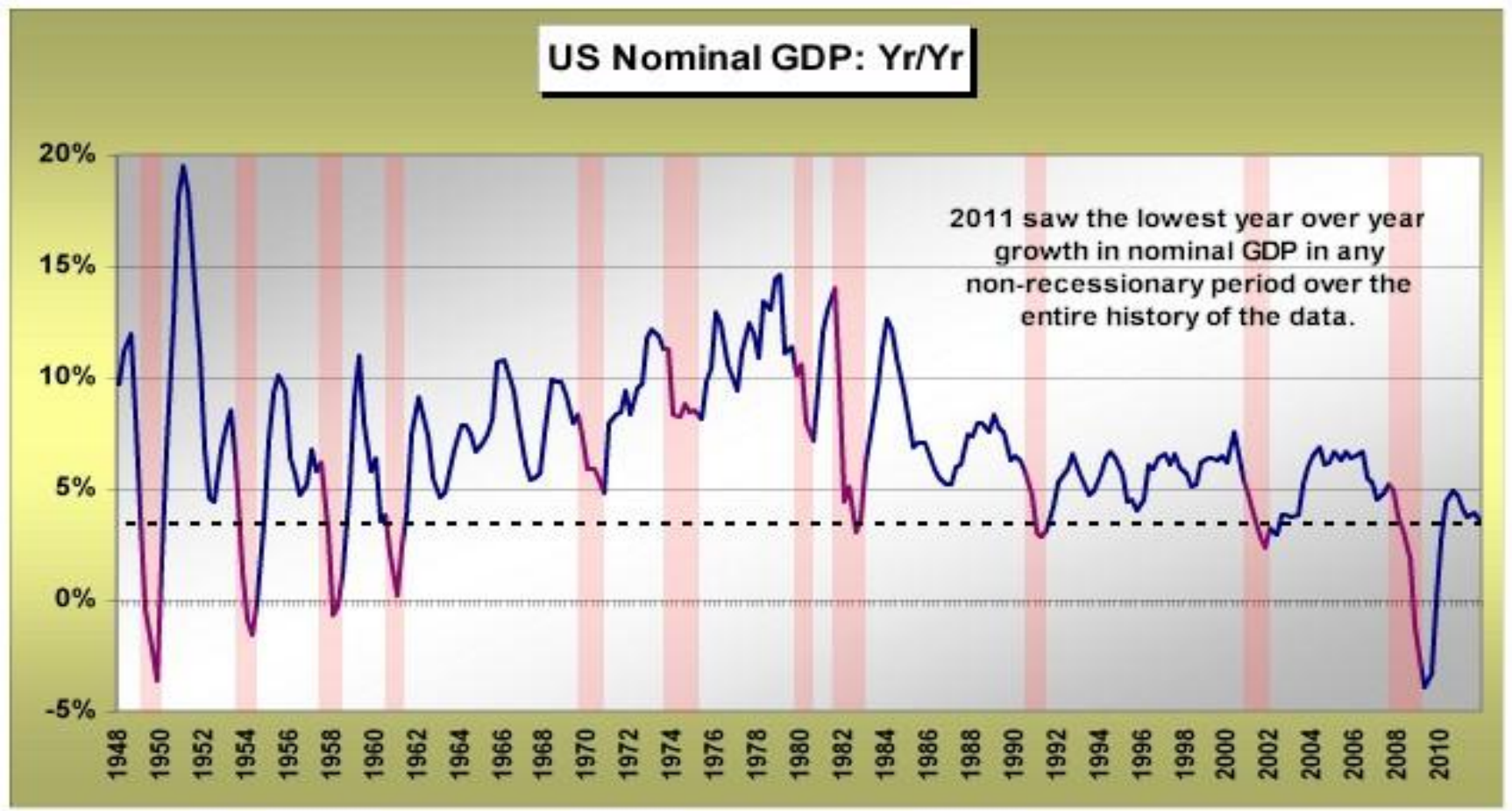
Ⓢ \$CRB (Weekly) 317.81



Keeping Decision Making Time Frames Firmly In Mind Is Mandatory

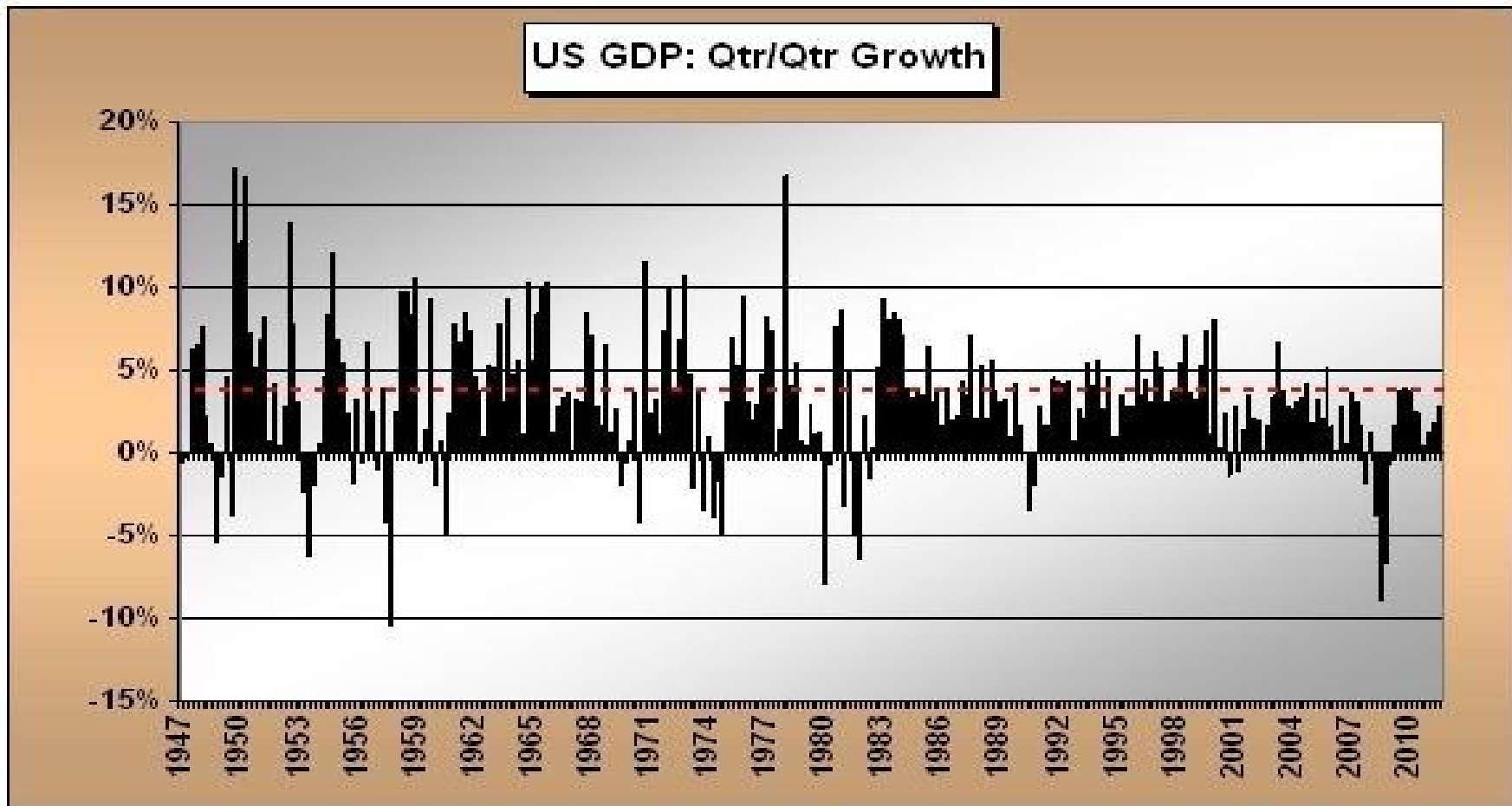
Big Macro Remains - This Is A Slow Growth Environment

2011 Marked The Slowest Yr/Yr GDP Growth In A Non-Recessionary Environment Since 1947

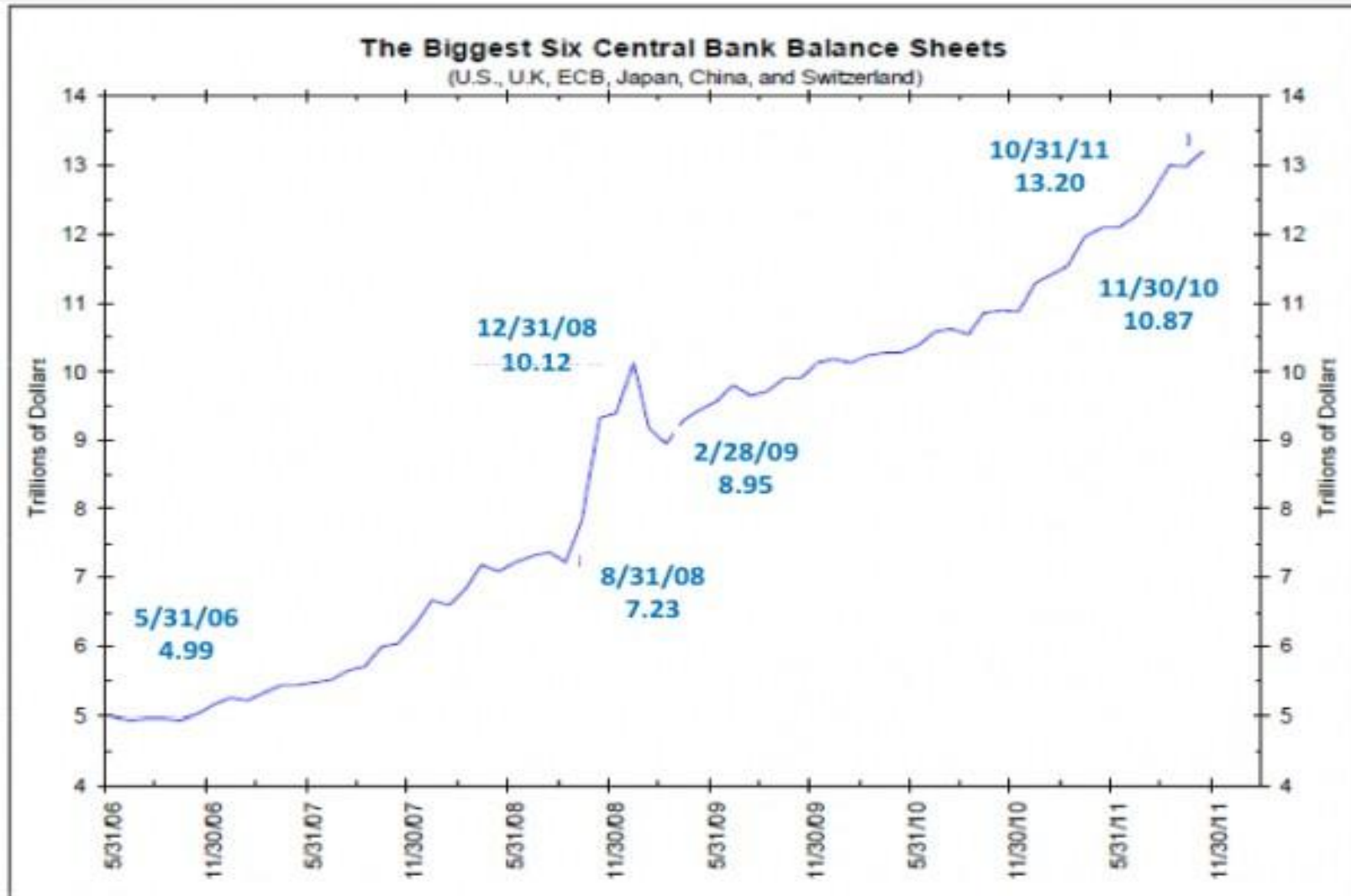


Drawn And Quartered

At Least So Far In The Current Cycle, We Have Not Been Able To Achieve Qtr/Qtr Growth In Excess Of 3.8% (And That Was In 2010). This Has NEVER Happened In Any Recovery On Record.

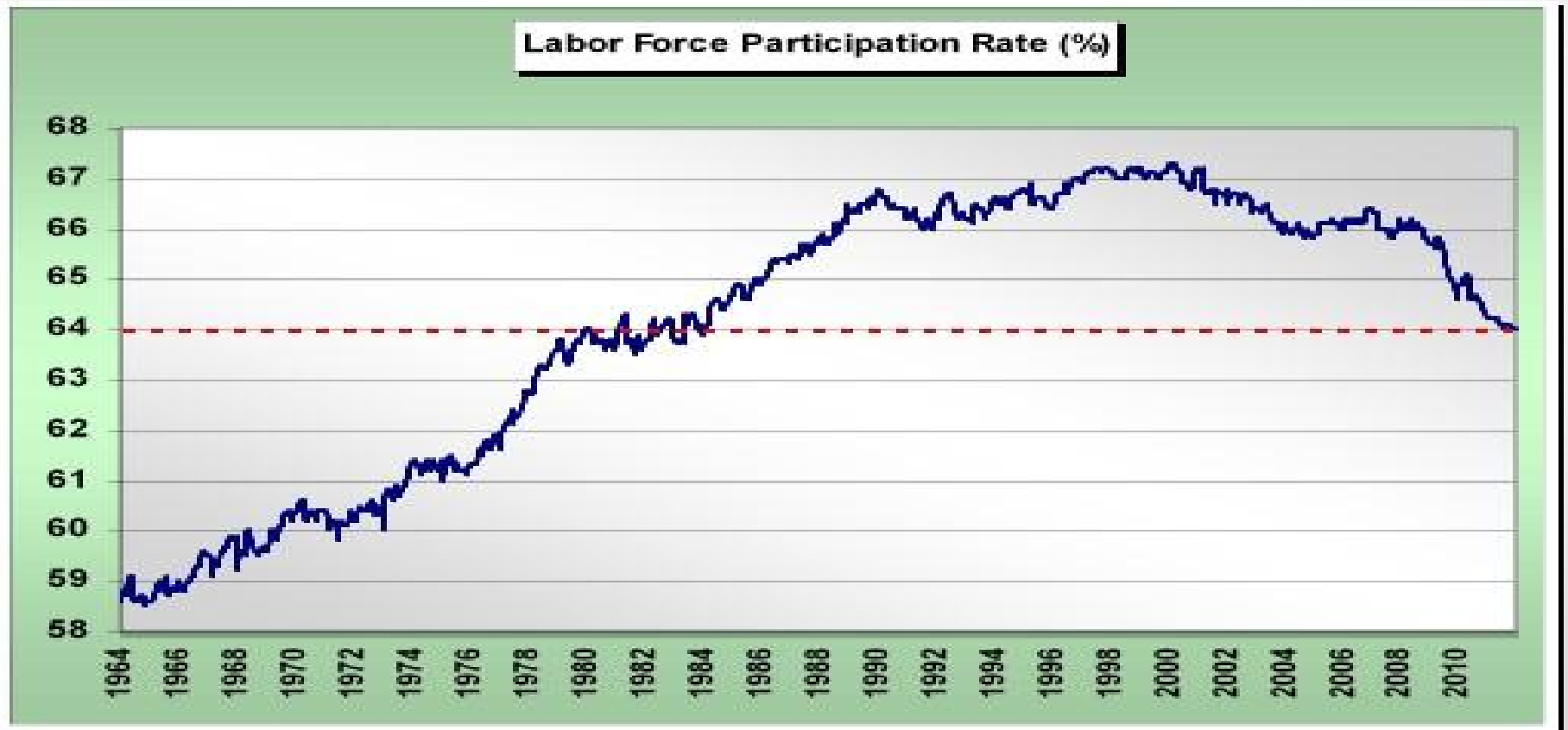


It's Driven Me Before And It Seems To Have A Vague Haunting Mass Appeal

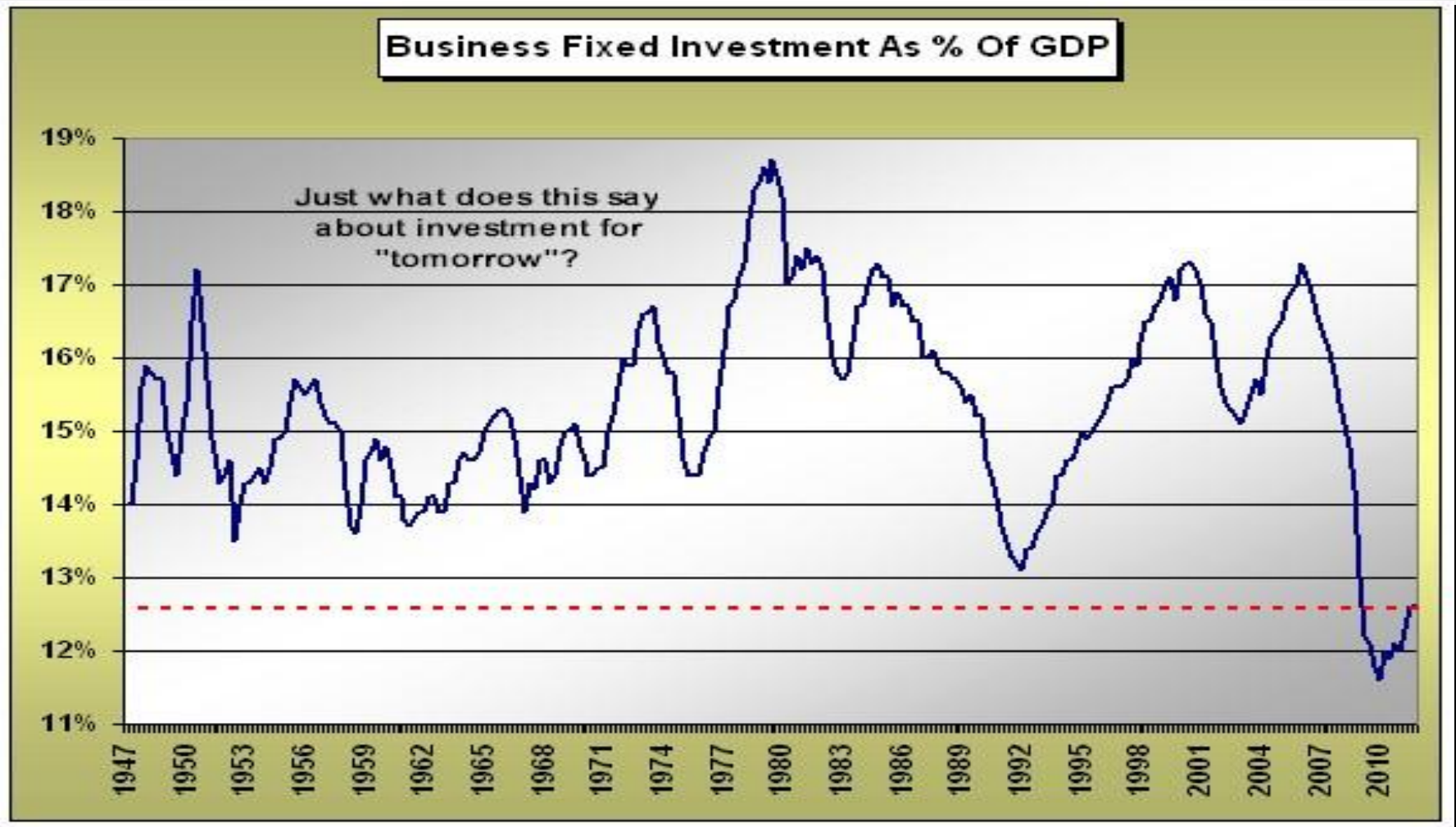


Whatever Tomorrow Brings I'll Be There With Open Arms
And Open Eyes

The Key Drivers Of Long Term Potential US GDP Growth
Are: 1) Labor Force Growth 2) Productivity Growth

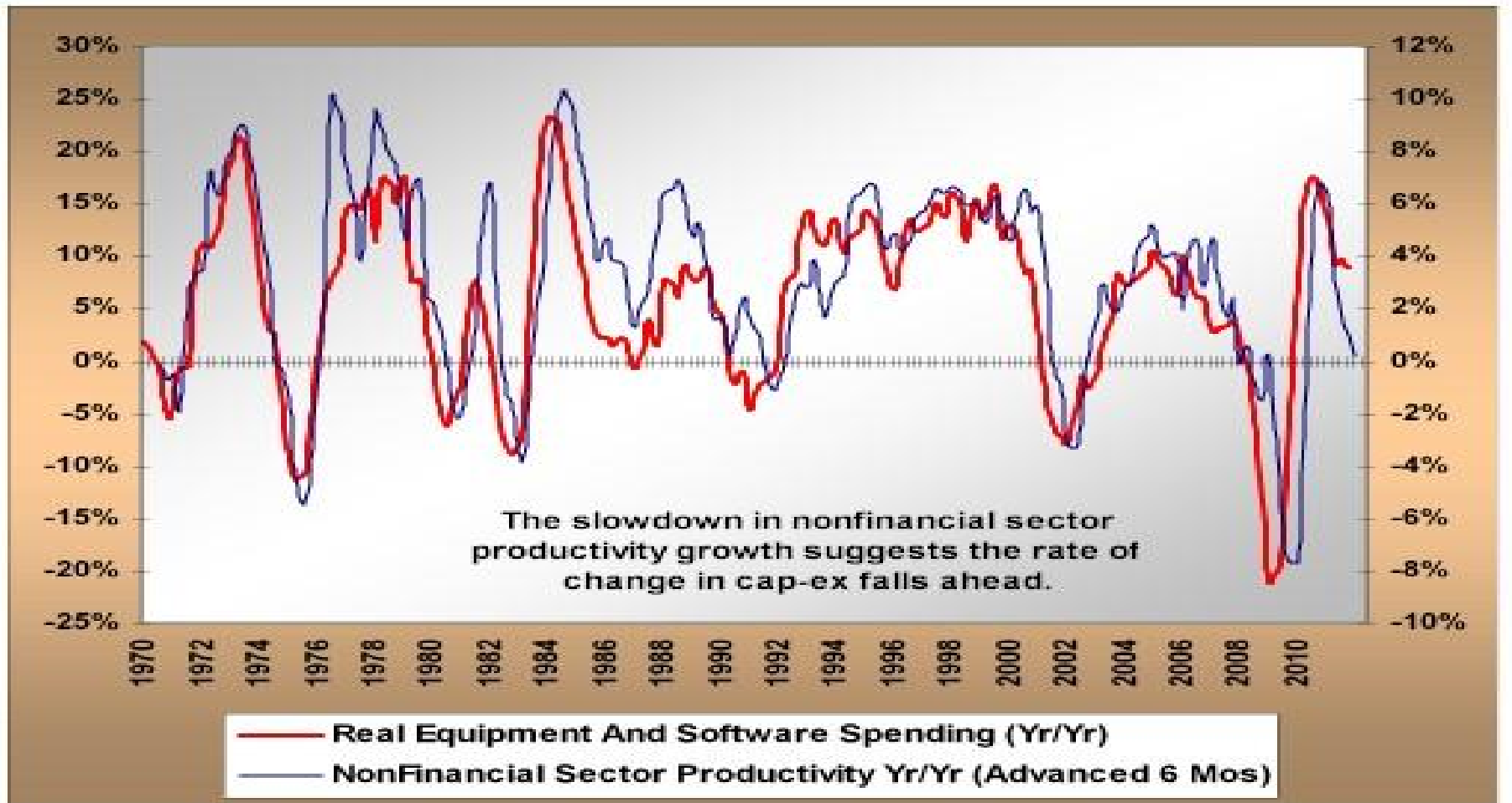


I Can't Help But Ask Myself How Much I Let The Fear Take The Wheel And Steer



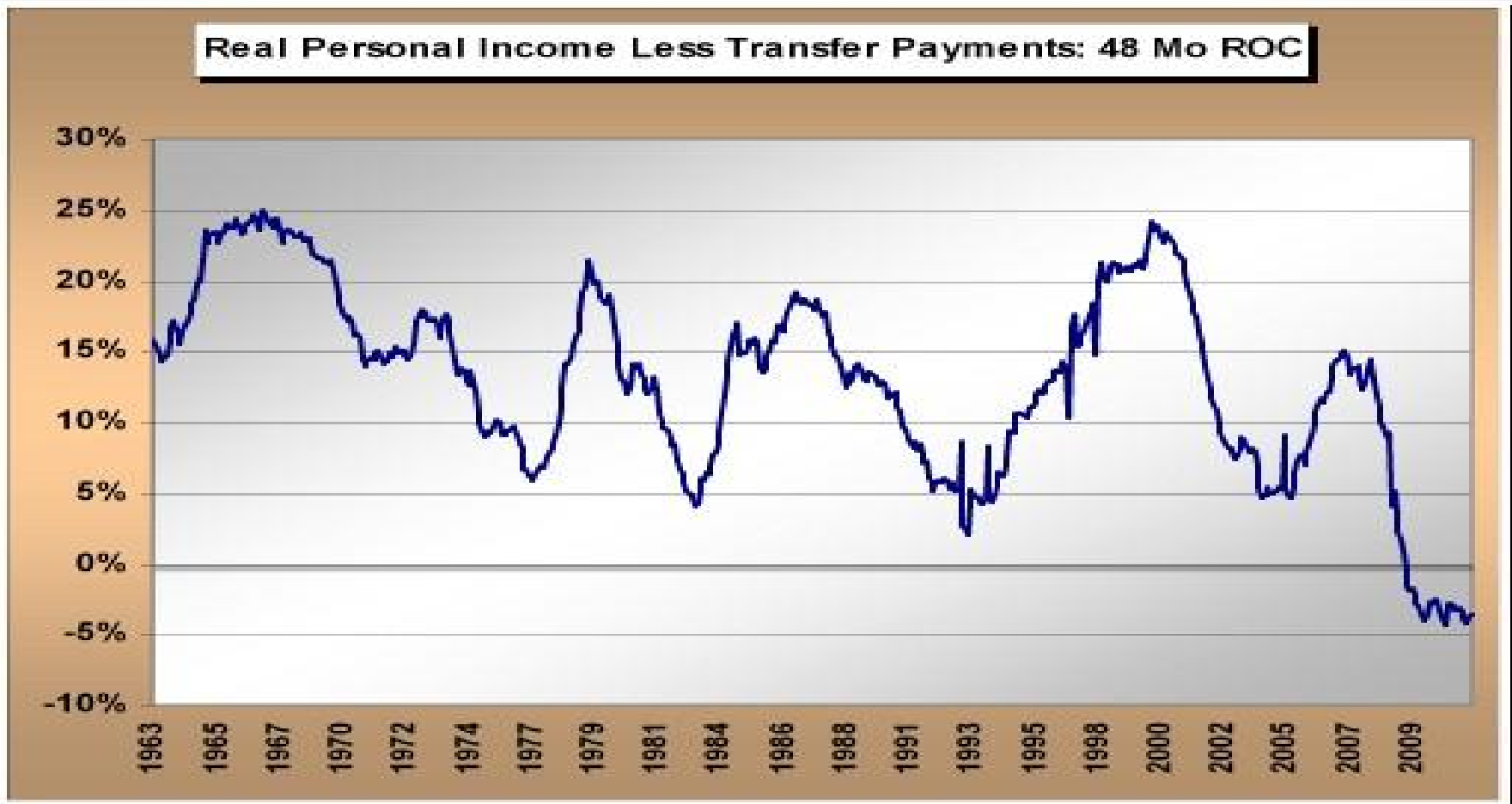
The “REAL” Confidence Index Is Capital Spending

Probably One Of The KEY Watch Points As We Move Forward



Globalization Changes Everything

(Unfortunately This Is One Of The Things It Has And Will Continue To Change. Not Exactly Helpful In A Deleveraging Environment.)



In The Meantime....

- **Global Central Bankers Will Print More Money (Excess Liquidity Will Be A Guarantee, Not A Question Mark)**
- **Will Inflation Really Start To Be An Issue When Interest Rates Start To Climb (Global Capital Markets Are Now At The Forefront Of Repricing Sovereign Risk) As Too Many Sovereigns Are Now On Monetary “Ventilators”?**
- **The Migration Of Public Investments To The Private Sector? It’s The Balance Sheets, Stupid! This Is A Big Positive For Private Sector Assets**
- **Many An Asset Is Becoming Very Cheap By Historical Metrics, Of Course That NEVER Happens Because Conditions Are Good**

For The Insomniacs Of The World

(This is What Keeps Me Up At Night)

- **The Mispricing Of Risk Via Mispricing Of The Supposed “Risk Free Asset”:
Interest Rates As Traffic Lights/A “Spread” World/Mkts Will Not Anticipate
Problems In Advance As The Govt. Suppresses Signals**
- **What Happens If/When Confidence In Central Bankers Is Lost? The
Street/Financial Institutions Highly Levered With Directional Trades. Repo
Market Spreads Critical (Leverage On Leverage). Hedgies/Prop Desks
have been “trained” to front run the Fed.**
- **Federal Debt/Obligations – Reconciliation Ahead Either Proactively or
Reactively (the market’s force it). State/Local fiscal reconciliation to come.
In the end the Government will act to protect itself (taxation).**
- **REMEMBER, IT’S NOT THE PROBLEMS THAT ARE IMPORTANT, BUT
RATHER THE CHARACTER OF THE ECONOMIC AND FIANCIAL MARKET
JOURNEY THAT TAKES US TO ULTIMATE RESOLUTION.**

