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MEMBER FINRA & SIPC   INSURANCE AGENCY   DONOR ADVISED CHARITABLE ORGANIZATION

OPINIONS & FACTS…

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Welcome Back to Opinions and Facts. We've Enjoyed the Ride Upward!

The 2009 fall months have been good for our clients and for us with the domestic and global markets continuing to grow and expand. The economy, of course, is another story. With unemployment at 10%+, obviously there has to be reasons other than retail consumption to make the market move. The fact is that the stock market was down so much and has made such tremendous growth since March 9, 2009, we have become accustomed to having double digit returns over short periods of time. However, many people neglected to invest during these "Bull Market months" for fear of another Bear Trap. We probably should refer to this period as a "Fear Trap".

"Low interest rates are…Interest-ing"
We can assure you that this will not continue over longer periods of time. It is very difficult for companies to expand and increase their workforce, when there are so many people out of work and unable to make higher priced purchases: longer lasting items such as refrigerators, cars, etc. This is one of the reasons we believe the Federal Reserve will keep interest rates low for quite some time. If this situation remains as it is, inflation should also hold off until the economy begins its long road back.

"Welcome to the New World…"
One of the main differences between this recession and others is that the recovery is taking quite a bit longer. We have moved into a different world. Global markets which often have lagged the United States market for years have now come alive. Our country is in a position somewhat like a person with his left leg in cold river water, and his right leg on the warm bank where the sun is shining. *On the average he is feeling pretty good, but he knows something is wrong with this picture.* In addition, the present Congress and Administration prefers spending rather than across the board tax cuts.

UNCERTAINTY FROM WASHINGTON: A 21ST CENTURY TAPDANCE?
So what is the reason for this? Why are people hesitant to make decisions, purchases, and in short, lost the positive excitement of the past; why do different market sectors seem to lead the way every quarter, and why so much volatility in the market?

When times change so dramatically the way they have in the last 12 – 18 months and we see unemployment so high it takes us back in our memories to the end of the agricultural age where over the years the 70% agricultural worker count has diminished to only 3% of our population.

Now it's quite difficult for untrained people in their 50's and 60's to find work in new industries utilizing new technologies. There is a new breed of producers as well as consumers, and the workforce, unless changed by education and experience, will not reduce the unemployment percentage for quite some time.

Many economists predict up to 3 – 5 years of steady unemployment in this economy.

The people managing our money have predicted single digit returns in the market and a need for careful research when managers make ownership choices in the market for stocks.

"*These* changes are different *changes*."
As we have quoted in some of our other writings, a standard description of our economy has been coined by Messrs. Bill Gross and Mohammed El-Erian of the Pimco organization: "The New Normal". They have pictured a temporary "dead end" financial system that is unable to continue on its positive path due to debt exhaustion and poorly capitalized activities.

When people find themselves deeply in debt (the same applies to corporations) the first thing they attempt is to get out of debt and then, rather than invest their money, they begin to *save* not *invest* (It's difficult to forget hard times). The US savings rate has gone from approximately 0% in the year 2000 to 5% - 6% savings rate currently. This de-leveraging by the populace and businesses has disrupted the normal functioning of markets and the global economy; and on top of all this comes the desire of a new Presidential Administration to develop an agenda which has caused much controversy and is directly contrary to the President's campaign promises.

"We hate mysteries"
Within the first year of Barack Obama's Presidency he has introduced through Congress, a mystical and costly universal health plan, which according to experts would affect 1/6 of our entire economy causing losses of jobs and higher taxes across the board and then the attempt to combat "climate change" (formally called global warming) through "Cap and Trade" has hastened most business people to put off any plans for expansion or hiring.

Oh, yes, I almost forgot. The Taxpayers are now owners of a huge insurance company – and, of all things…an automobile company! So much for uncertainty from Washington.

"Let's hear again…How'd it happen? Briefly"
With Wall Street leading the way, a conglomerate of complicated structurally mysterious and terribly risky investment ideas had disrupted global markets all over the world created by these "Investment Bankers". The freeing from the constraints of the Glass-Steagall Act in 1999 and the melding of banks and securities firms made it possible to create another stratum of billionaires (no "trickle down", this time).

The Bush Administration was consistently pro business and in many respects, and as always in politics, swung the pendulum too far. According to a recent Securities Industry Association newsletter: "They made it very clear that its intent was to allow free markets to prevail, no matter what, even if oil hits $500 a barrel. The free market system was better than government intervention." Now the Obama Administration comes trying to be all things to all people.

"I'm for weekends, apple pie and baseball."
When Obama was on the campaign trail he vigorously supported the TARP bailout, but once he became President, he acted surprised that the TARP money was used by many of the largest firms on Wall Street to pay huge bonuses. And along with the evident confusion, the government is attempting to punish the very people who followed all the rules passed by Congress over the years: the commercial banks who continue to make small business loans and serve Main Street while admonishing the profitable Wall Street banks for paying bonuses on money made available by the government itself. Add to this, the personal choice by President Obama to head the SEC received a "going away gift" of $25 million from FINRA, a non-profit, self regulatory group that she was in charge of. Well, so much for recent history. This scenario could sound like a Nick Charles, "Thin Man" episode in a B movie we used to watch on a Saturday afternoon!

But back to the point…
To quote Pimco's Mr. El-Erain:

> "It's not just about the major realignment of the financial system and the extent to which governments have intervened to offset market failures, it goes beyond massive increase of government deficits and government debt in virtually every systemically important country in the world. The problem also is about the structural change in how savings are mobilized and allocated, nationally and across borders. The problem of shifting balance between the public and private sectors has multiplied the long lasting consequences of the erosion of trust in such basic parameters of a market system *as the sanctity of contracts and property rights, the rule of law, and the robustness of the capital structure.* Such trust can be lost quickly but takes a long time to restore."

As many of our readers are aware, our clients' equity accounts during the bear market held up comparatively well with better results than market benchmarks; however, we have been concerned about the effect this drastic downturn has had on the nation's businesses and economy. Despite the first quarter 2009 meltdown of domestic markets, most of our equity accounts are up beautifully for the year; however the bear market during 2008 and the first part of 2009 did some severe damage to many long-term dreams.

"Let's continue to look at the crystal ball…"
Some of us believe that in the next 3 – 5 years the economy could feature a whirl of *muted growth*. We, along with many of our money managers, believe that inflation will cause considerable concern but not until the latter part of 2010 and 2011. This is the effect of the unemployed number. Because of these problems we look for excessive regulation, higher taxation and government intervention as do the people managing our money. And in conjunction with this observation, market leadership trends toward Global and Emerging Markets.

"Stay with us…The victory goes to the persistent!"
We write this having spent months attempting to convince our clients and others that since we do have free elections in this country they will have a chance to change things if they aren't happy with the way government works now. However, it has been an uphill road for us here at Omega Securities to convince our clients that this Administration and Congress does not have Socialism in the back of their minds. **We do not believe that this is intentional on the part of our leaders, although we are convinced that there is a vast chasm between the thinking of the "Conservatives" and the "Progressives", aka liberals.**

Hold the course. We haven't given in to fear and greed. Optimism reigns in sometimes hidden parts of free market thinkers.

Meanwhile back at the ranch.
At this same time when many people are confused as to what action to take, we still believe that the free market system and a capitalistic concept is a beautiful path to financial freedom. While we've observed that many people have strictly relied on the growth of the stock market and/or real estate market to take care of them over the years they have forgotten that they need to add to their holdings as well as have cash savings for emergencies and opportunities even at current low interest rates.

How many times have we tried to explain to clients that when they own dividend paying mutual funds and the market for stocks goes down, that during a 12 or 24 month period, or even longer, if dividends are being paid, those dividends being reinvested are acquiring shares at bargain prices. When the market turns (remember that markets are **cyclical**) those shares that are acquired at lower cost will compound in a beautiful manner. They compound even more so when the dividends are cross reinvested into volatile growth and growth and income funds (Two-Dimensional Investing).

"Don't you know that markets always come back?"
A number of investors, who continue to look for short-term bursts of growth in their portfolios, become disappointed; this creates fear and loss of faith in our economy. Thus those people have had a tendency to retreat, give up on the growth of equity, US and global business ventures and go to cash. That cash is now earning anywhere from 0% - 1% and the market is up over 60% since March 2009.
Go figure.

While we hope to bring on to the scene creative investments, which we believe will help our clients avoid drastic down turning prices, we still believe that long term growth in actively managed equity funds will be of great benefit to us, our clients and our country. Statistics show that consistent diversified investing in all types of markets have been proven to accomplish goals set by investors.

"Welcome back, Nick!"
Please take the time to read the nearby column written by one of our regular contributors, Mr. Nick Murray. We especially direct your attention to the last 2 paragraphs of the column. We strongly agree.

"(Human flight in a machine) might be evolved by the combined and continuous efforts of mathematicians in from one million to ten million years."
—from an article in The New York Times, October 9, 1903

"We started assembly today."
—from the diary of Orville Wright, October 9, 1903

The world is still emerging from a financial panic and an economic seizure which has few parallels in history, and none in our lifetimes. A global debt bubble metastasized in the single-family home market, and manifested as a whole new generation of mind-bogglingly complex mortgage derivatives, which turned out to be, in Warren Buffett's memorable phrase, "financial weapons of mass destruction." In response to the functional insolvency of the bank-

ing system and the total cessation of the credit function, Western governments plunged into deficits of historic proportions. No one can currently imagine how the accretion of public debt can be reversed, and hyperinflation scenarios grow like weeds in the blogosphere as gold makes new record highs (if only in nominal terms).
Even as global economic activity and equity markets continue their remarkable recoveries, this is The Great Gettin'-Up Morning of catastrophism. Equities had essentially no return in the ten years through 2009, and surely the future looks at least equally bleak. Such is the self-hypnosis of extrapolation. Such is the pathology of pessimism.

As the forgoing quotes from the very same day in 1903 suggest, pessimism always misses the key point in human development: not just the continuing miracle of technological progress, but its second derivative—the change in the rate of change.
Powered human flight offers an almost perfect paradigm for this phenomenon. On their fourth and final flight on that historic day in December 1903, the Wrights flew 852 feet in 59 seconds. In 1923, two men flew 2500 miles across the United States nonstop, from Roosevelt Field on Long Island to San Diego. Lindbergh's transatlantic solo flight came in the spring of 1927. Heinkel perfected a turbojet engine in 1939. Yeager rocketed through the sound barrier in 1947, and Crossfield reached Mach 2 in 1953. Sputnik orbited the earth in 1957, and a man walked on the moon in 1969. Any way you graph this progress, you must be struck most forcibly by its exponent.

At any given moment, progress always appears to us linear, when it is in fact always exponential. Thus, there may very well be as much progress in the hard sciences, in information technology and in medicine in the next ten years as took place in all of human history to this point. It is just this progress—and its profound implications for economic growth and returns on equity capital—that the pessimists miss. But they would have to, because otherwise they could not persist in their pessimism.

Innovation compounds apace. Equities may have provided no net return for the ten years through 2009; this is grist for the pessimists' mill. They conveniently ignore the fact that this decade followed the greatest ten years in the history of equities. They even more studiously ignore the fact that, even as equity prices did less than nothing in the most recent decade, the dividend of the S&P 500 doubled. But even this is beside the point, which is that Moore's Law rolled over five times during this allegedly "lost" decade, such that computing power which cost a dollar at the beginning of 2000 costs three cents today. And thereby hangs yet another tale—of flight, of technology, and of the unquenchable human spirit.

On April 13, those of us who reverence the event will celebrate—and heaven knows, that's the right verb—the fortieth anniversary of the night the Apollo 13 spacecraft, with three astronauts on board, blew up. On that night this year, I suggest we gather our families and friends, and watch Ron Howard's magisterial film ***Apollo 13.***

Aside from the drama itself, look for the moment—about halfway through the film—when the world's foremost space scientists and technologists begin working the problem of how to get those three heroes home alive ***using slide rules***. Because at that point, NASA's mainframe computer is essentially fried; they have asked it for so many calculations that it can no longer respond in time to save the astronauts.

As you watch these scenes, take out your BlackBerry, iPhone, or similar device. And know that the computer embedded in it is a million times smaller, a million times cheaper, and a thousand times more powerful than all the computing power that was available to NASA the night the Apollo 13 blew up.
Over the next quarter century or so—well within the life expectancies of today's retiring baby boomer couple—this billion-fold increase in computing power per dollar will happen again. As it does, information technology will solve all our most vexing problems, including but certainly not limited to energy, the environment, poverty and disease.

We realists—a term I prefer to "optimists," though they are in fact synonymous—will invest patiently and persistently in this progress. By doing so, we may enjoy long retirements full of dignity and independence, even as we endow legacies to those we love and must leave behind in the world.
Pessimists will miss it, increasing the chances that they may run out of money in retirement and die destitute and dependent upon their children—all in the illusory quest for "safety."
Welcome to 2010. Just one man's opinion, of course, and no one else is responsible for it. But: I think it's at least possible that this is the first year of the worst decade to be a pessimist in all of human history.

That's Nick's take. Yours is welcome.

Joseph L. Hardgrove John Dickens Tom Hardgrove

"FROM THE VIOLENT NATURE OF THE MULTIPLE STAB WOUNDS, I'D SAY THE VICTIM WAS PROBABLY A CONGRESSMAN."

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