



OUTLOOK

“The Challenges of a Global World”

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The resurgence of stocks in the last quarter of 2011 and the exceptional performance of bonds over all of last year have not combined to lessen the fear that most of us feel over the future of our country and, specifically, our economy. None of us have forgotten the panic of 2008 and our painfully slow recovery over the past three years. Moreover, as the U.S. recovers somewhat, the rest of the world struggles and the drag it is producing is a major reason for the pessimism that continues to plague our collective consciousness.

2011 will be viewed by historians as a year fear triumphed over optimism. Most “experts” were predicting a breakout to the upside and instead we saw a year that produced no significant major gains for any of our equity markets, and significantly negative results for many foreign markets. It will also be viewed as a year where a “perfect storm” of disasters of a non-economical nature influenced the lack of positive performance by all global markets. The onset of the “Arab Spring” drove oil prices higher, the tsunami in Japan disrupted the global supply chain, and the debt ceiling crisis in Europe shook the U.S. psyche as we began to see that defaults in Greece and other European Union countries could even have a negative impact here in the United States. Today more than ever before, a global world is a world so interconnected that an illness in one part of the body affects the health of the entire body.

Here in the U.S., as in many parts of the developed world, debt remains our most significant obstacle to progress, both economically and socially. The advancement of equity markets which began in October 2011 was fueled by consumer spending, and consumers are continuing to get their financial houses in order by paying down personal debt. Now if only our legislators can find the courage to do the same! The Obama administration has been ineffective at best in finding a common ground for consensus, and that administration’s policy of keeping interest rates unnaturally low has exacerbated our debt problems. So, where do we go from here?

The stage is set for a stronger recovery in equity markets going forward. Still, 13 million people are unemployed and the reduction of the unemployment percentage is a myth

because many people have just stopped looking for employment. 2012 promises more volatility in our markets due primarily to presidential year politics. So why be optimistic now? One primary reason: there is so much disparity between bonds that are historically over valued and stocks which are historically under valued.

We expect the next several months will be volatile with little measurable progress in stocks and, in fact, a strong potential for a pullback correction of 5% or more if political news continues to be negative. However, for the rest of 2012 we see strong possibilities for a stronger equities market as bond holders begin to divest those negative yielding positions in favor of good dividend paying stocks. We are bold enough to go out on a limb and project that 2012 will see double digit growth for the year (perhaps even in the teens).

Paralyzing debt is still our most challenging hurdle and tax increases alone will just not get the job done. * We need to grow our economy to grow government revenue to work in concert with debt reduction in order to stabilize our nation's future. Regardless of our current debt crisis, we still lead the world and it takes its cues from us. Success of the global economy depends on success of our economy and we believe 2012 will build that successful model.

*Editor's Note: It is not such a long stretch to see that if we continue to allow and underfund entitlements we could soon find ourselves in the same crisis that Greece and some other European countries now face. One reason why the Obama administration via the Federal Reserve is keeping rates artificially low is that if rates were to rise significantly the government would not be able to pay the interest on our \$15 trillion debt causing a true default and global panic.

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