

Perspectives

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Why Investors Should Keep an Eye on Washington

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There has been much ado in political and economic circles about the United States' level of debt and the willingness of the Federal Reserve (the Fed) to engage in further quantitative easing (QE). While there are various expert opinions on how this will play out, let me just say that there's no way that Ben Bernanke will be able to stop expanding the Fed's purchases of U.S. Treasuries given the estimated U.S. deficit (8.8 percent of GDP, or \$1.5 trillion in the 2011 fiscal year) and the fact that the Fed has bought up to 80 percent of that deficit in the marketplace over the last three years.

With the end of the second round of QE, the Fed will stop most of its Treasury bond purchases, and it is inconceivable to me that bond prices would not fall—and interest rates rise—very sharply under these circumstances. Given that we're not likely to get any meaningful reduction in the federal deficit in the near term, the U.S. Treasury will issue significantly more bonds to fund the 2012 and 2013 fiscal years, and therefore the impact on interest rates and bond prices will be even more pronounced.

Facing these rising interest rate pressures, I believe the Fed will step in and buy these bonds. If the Fed does step in to buy them, the monetary base of the U.S. is going to increase much more rapidly. With the increase in the monetary base, my view is that the threat of inflation becomes ever greater. In July 2008 the monetary base was \$871 billion. Today that number is a little more than \$2.5 trillion.

Recession Today or Stagflation Tomorrow

If the Fed discontinues its Treasury purchases, we will have a double-dip recession in 2011-2012. However, by increasing the monetary base and printing more money, the U.S. economy will have an even larger inflation effect, whether you want it or not.

The Fed's large purchases of Treasuries are debt monetization, pure and simple. Housing prices will eventually meet their bottom, and all of a sudden bank lending should start up again. With excess reserves so high, at that point the Fed will have no effective means of controlling the issuance of bank liabilities. When this happens, there should be a very rapid rise in the money supply, and my guess is that you will see inflation coming along, even if the Fed does step in and sell Treasuries or do any of the other extraordinary measures it is planning to do in order to close off the unprecedented monetary spigot it has turned on.

Policy Changes Will Precede Economic Changes

Given the economic policies in place, there's not going to be good growth in the economy. The combination is not pretty. The Fed has been creating too much money in relation to the amount of goods and services in the economy. My view is that the Fed is going to continue monetizing the debt, and we are going to have inflation—along with very slow growth in the U.S. economy—for the next several years, which will result in a weaker U.S. dollar, rising nominal interest rates and mounting inflation pressures that will affect corporate profits.

While the picture—a replay of the 1970s stagnation—will not be pretty, the return to prosperity will happen once political change creates the opportunity for improved economic policies to promote growth. These policy changes may include a tightening of monetary policy, spending restraint, a rationalization of regulatory policy, the removal of the tax policy uncertainty and, ideally, the implementation of a flat rate tax.

With the potential economic changes, it's always important to consider a yearly review of your financial goals. Contact your financial advisor today to discuss how these movements in Washington could affect your financial plans.



Source: Wikipedia

Start Planning for Your Retirement Now

Carol Dogans, CFS, APR, CRPS,® AIF,® Director of Retirement Planning, 1st Global

Do you have a plan for your retirement?

Few financial goals elicit as strong a response as planning for your own retirement. Television and magazines constantly bombard you with images of happy retirees enjoying an active lifestyle, traveling on a whim and living without a care in the world. You may look forward to retirement as a time to savor the finer things in life, and as a reward for many years of hard work.

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many baby boomers
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of parents or children.

But advertising paints a rosy picture that is seldom in line with reality. Even in retirement, many baby boomers may have to take care of parents or children, and others will have to think about long-term care options. What's more, many people have dreams for retirement that don't necessarily include a life of luxury. Some have more modest goals, such as seeing a child or grandchild through college, or simply living in comfort. Retirement dreams can inspire you, but you need to set goals if your retirement is to live up to your aspirations. Here are some questions that can help you get started thinking about your retirement:

- What percentage of your current income level will you require in your retirement years?
- Who will be financially dependent on you in your retirement years? Your parents? Your children?
- At what age do you plan to retire? Or a better question, at what level of retirement savings accumulated do you plan to retire?
- How much do you currently contribute to your retirement plan?
- How effective is the asset allocation model you are using for your retirement assets?
- Where will retirement income come from if you or your spouse are alone (divorced or widowed)?
- What legacy do you want to pass on to your loved ones?



As life expectancies increase and the burden of retirement income shifts from employers to employees, planning for your retirement becomes an essential part of your wealth management program. You should approach your retirement planning from three fronts: your Social Security (or other government programs), any employee-sponsored retirement plans, and any personal savings. There are many options to choose from, and your financial advisor can help you better understand the benefits and limitations of each solution. The retirement landscape is also one that changes quickly, so your wealth management advisor is your best source of information to help you navigate through your retirement plan.



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