

## IT'S THE ECONOMY, STUPID

As I write this quarterly report it is the morning of April 9, 2003. The T.V. is on in the background and it shows a picture of American soldiers and tanks in the central square of Baghdad. The citizens of Iraq are wielding sledge hammers to the base of a statue of Saddam in the central square reminiscent of the hammers smashing down the Berlin Wall. I am not suggesting that the liberation of Iraq is as significant as the fall of Communism in central Europe. I am stating with relief that thus far the fall of Iraq came at only a small cost in terms of loss of our young men and women, and just as comforting the apparent loss of few Iraqi citizens.

As I write the price of gold and oil have fallen significantly from their recent highs. Oil is \$28.22 dollars a barrel versus nearly 40 dollars a few weeks ago and gold is \$325 an ounce (according to CNBC data) against a recent price of over \$390. The specter of war is being removed from the forefront of our conscious, and our focus can again be toward the future. Last summer after two full years of a strong bear market our President made it clear that the new focus of the war on terrorism was Saddam Hussein and his weapons of mass destruction. This forced the country away from its immediate concerns, i.e. the economy and the continuing corporate scandals, and placed our attention on the uncertainty of a war in the Middle East, the dangers, the costs - both known and unknown - and its overall effects on this country.

If you have spoken with me recently we might have discussed the relief rally that should probably follow the successful completion of the war. Whether that rally has played itself out will be seen over the next few weeks. Now it is time to focus on the truly important issue facing us, the **ECONOMY**. As I have already said, the overhang of the war has had a significant negative effect on the economy. Since the talk of war began there has been a freeze on corporate spending (the uncertainty of war caused many companies to postpone projects). Since the start of the war (and unfortunately the SARS epidemic) air traffic has slowed to a crawl and both UAL and AMR are struggling with the specter of bankruptcy. Some people believe that the President's tax cut proposal is what the economy needs, and there is now widespread belief that the FED will cut interest rates at least one more time.

By the time you read this we will be fully into the "earnings season," a period of time where companies report on their earnings for the first quarter. We expect that the quarterly earnings will be poor; hopefully this has already been priced into the market. If not we need to be prepared to adjust accounts as the market pulls back and settles into its new trading range awaiting better economic news. As far as the President's tax package is concerned, the only areas that I support are the reduction or elimination of the double taxation on dividends and the new savings accounts; the Lifetime Savings Account, the Retirement Savings account and the Employer Savings account. (We will discuss these and other

important items at our Seminar on April 29 at the Smithtown Sheraton). With the budget deficit rising as you read this report I am not comfortable with tax cuts to the rich and a return of the trickle down economics of the Regan era.

Assuming that the FED does lower interests rate again, we will be pressed with the conundrum of a short-term appreciation in bond prices followed by the lowest yields on fixed income investments in over 50 years. If you have not refinanced your house, do not worry, there appears to be some more time, however if you are relying on interest from your maturing bonds to cover your expenses we have to search to squeeze the proverbial water from a stone.

The next few months will continue to be difficult however lower fuel prices, possible lower interest rates, and maybe a quality economic stimulus package could help the economy get the jump start that it needs to start a real recovery and end this bear market. However, be leery of Washington and its focus. If the government does not turn its attention to our domestic issues and hammer out a workable solution or if, our attention is again pulled overseas to North Korea or some other distraction, we then must ask the question: Are our representatives in government focused on our problems or are they trying to distract us from domestic issues? If so maybe we need to remind them that it is the "Economy Stupid". Let us not forget that 2004 is an election year. If they do not do the job maybe they will be replaced with people who will.

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