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Of Elephants, oil, and waterways

This hasn't been explained quite this way; why investors should keep banging their heads against the wall.

Yes, you read that correctly. Investors have been banging their collective heads against the proverbial wall for nearly 12 years now, moving from crisis to crisis. Tech wreck, 9/11, Enron, Arthur Andersen, WorldCom, Lehman, AIG, Fannie Mae/Freddie Mac, Madoff, Euro debt crisis, US budget battle…next potential crisis: Israel vs. Iran. Without much creativity, I'm willing to bet good money that we can come up with plenty more…I'm sure you'll agree with me on that too.

The financial services industry needs to do a better job of explaining why investors should actually remain invested. This is the industry's most immediate crisis. This is what I call the **elephant** in the room. With all of the pundits speaking so eloquently about the best trades for the day ahead or the way to play the earnings report from a company after the bell, what really needs to be addressed is missing: Should I stay or should I go? You and I both know that this is what is on your mind, so let me be the first to explain why my answer is a resounding STAY.

1. Short term: Earnings have been phenomenal. Corporate health is the best it has ever been; cash rich balance sheets and strong productivity gains driven by operating leverage. Corporate America is at record profits, yet valuations are historically low. No doubt, Euro and domestic policy actions are keeping a lid on upside potential. But the Micro-economic picture is as good as I've ever seen…22 years in the business folks!
2. Strong retail sales, strong automobile sales, good if not improving Federal Reserve branch surveys, Favorable Beige Book report (most districts showed modest improvement in September/ Federal Reserve), first time unemployment claims (Dept. of Labor), strong

manufacturing figures (Commerce Dept.), and even single family home sales perked up a bit. Well, this is what an economic recovery looks like. They start slow, are not believable, and are uneven in statistical reporting. The Macro-economic picture has pivoted away from recession toward recovery.

Here are a few additional things to consider:

1. New building permits to build homes are up sharply for October (The Conference Board).
2. LEI (Leading Economic Index) came in positive for the last 6 months in a row and appear to be accelerating (The Conference Board).
3. Boeing recently won the world's biggest aircraft order ever; to be followed up the following week with an even bigger order.
4. Michael Jackson, CEO of AutoZone, the nation's largest automobile dealership, increased sales by over 6%; luxury auto sales up by more than 20% year over year.
5. Deere and Co. just reported Q4 profits up 46% on strong sales.
6. A number of significant Mergers & Acquisitions announcements have been made, notably Kinder Morgan Partners buying El Paso and Gilead Sciences buying Pharmasset.
7. Dividends and buybacks are on the rise.

OK, these are the short term reasons to stay invested. There are strategies that many clients of ClientFirst Strategy, Inc. are employing to help potentially reduce the volatility, take back control, and improve returns while we're in this morass. There are also other asset classes aside form stocks that may be an important addition to many an investors' portfolio; no one here is suggesting that you be all in risk assets. Just for long term horizon, stocks may play a part in one's diversification and potential wealth building.

Behavioral finance tells us that investors typically do not look past the current crisis that is before them. To stay the course, they have to be "re-sold" on the idea. My great hope is that this article helps to at least shrink the **elephant** in the room a little bit.

The Euro crisis and the political in-fighting here will be resolved…no guarantee…but can you think of another crisis that wasn't eventually resolved and followed by a rising stock market and economic growth? No…didn't think so. What about a potential hard landing in China? Read on…I think we're about to beat them at their own game.

History as prologue

It is critical to have a historical perspective when studying economics, especially when one's goal is to benefit from it. To put forth 2 long term reasons to invest for the future one must look at the past; particularly at 2 events, from 1973 and 1914.

After WWII, not only did the US have the only manufacturing base on Earth (Germany and Japan were completely bombed out and had to start over), **our economy was also predicated on very cheap fuel**. This cheap fuel equanimity lasted until 1973, when a barrel of oil spiked form approximately $3.00 to over $40.00; this due to the start of the Israeli Yom Kippur War and the ensuing Arab Oil Embargo. This oil spike coincides with another spike; the US budget deficit. Put the charts up together and you'll see as plain as day the beginnings of how these nearly identical charts were the beginning of our deficit issue today. **(Explanation: If your cost of living rises, you can either cut back spending and lower your standard of living or you can use leverage to maintain it, hence, the budget deficit began its ascent**) Hey, everyone is entitled to one's own point of reference of when this deficit issue took root and this is mine. Another result of expensive fuel is that our economy was forced to compete with developing economies on wages, an untenable position for employment growth domestically. **Fast forward to today, and we have our advantage, shale oil and natural gas**. While shale plays have been an investment theme for some time, the implication for the manufacturing base of our economy present enormous opportunities for cyclical industries and indeed for our consumers as well. In turn, the competitive advantage for domestic manufacturers due to cheap energy present potentially enormous investment opportunities for investors and may me a strong impetus for manufacturers to move operations back to the US for **cheap and stable** energy (the unemployment rate in North Dakota is 3.5%, lowest in the nation, as an example of the benefits of shale discoveries/Bureau of Labor Statistics).

Back to the past again; the year is 1914…the **Panama Canal** opened, thereby changing trade routes forever and allowing the US to fully take advantage of being **blessed with two oceans**. A report from the real estate services firm, Jones Lang LaSalle, "Perspectives on Global Supply Chains", describes in detail how the Canal's current and ongoing expansion is a global game changer. The giant cargo ships that go back and forth between California and China are too big to fit into the Canal in its current size. Goods have to be either off-loaded in CA, transported via train and/or truck to the rest of the country, or they have to be off-loaded onto smaller ships at the Canal, which will then be directed to ports on the East coast. According to this report, the 5+ Billion Dollar project is coming in under budget and on time; completion is the 2014, the 100 year anniversary of its original opening. The supply chain/logistical impact on the US economy can be overstated, but that would be a difficult thing to do**. This will speed up delivery to end markets and help push down inflation as shipping costs decline. In other words, we all benefit from this.**

In a time of unprecedented crises, it is difficult to see past the moment in front of us. Preservation of one's wellbeing, which includes one's wealth, often becomes the first and only concern. Unless, of course, there are very serious and real positive benefits ahead of us. And there it is; **these two issues, shale energy and the widening of the Panama Canal, are actually real. They are right in front of us. They are not "if's", but "when's". Let's be mindful of the dramatic benefits that these issues will bring to investors and consumers.**

Thanks for reading this. Please forward this to anyone you know who may find it interesting. Please reply me if you'd like to comment. MGoldberg@clientfirststrategy.com

Interested in becoming a client? Call me. Let's talk about it.

(Disclosure: This is solely MY opinion. Of course, you are welcome to share your opinions with me too. If you act on any of this without speaking to me first and you lose money, don't blame me. I may be wrong. I reserve the right to change my mind about any of this whenever I want and without warning.)

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