



Why We Are Bullish

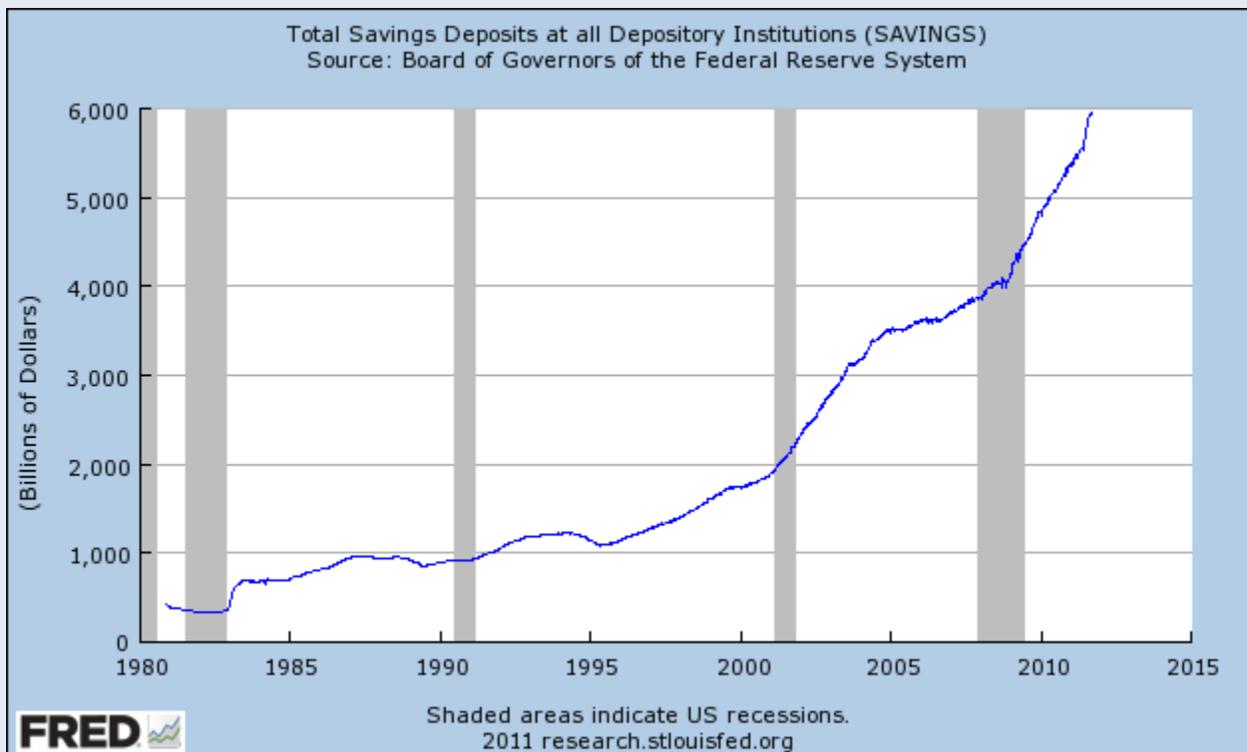
-J. Kevin Meaders, J.D, CFP®, ChFC, CLU

October, 2011 - Lucky me! I'm the one ultimately responsible for investing millions of hard-earned retirement dollars—money that can never be replaced if lost. Sure, every mutual fund and money manager does that to some extent, but for me there is one major and very significant difference: I know these retirees personally. I know them, their families, their worries, their hopes and dreams, and their greatest fears. So for me and my team, it's more than just a job or a career—it's personal.

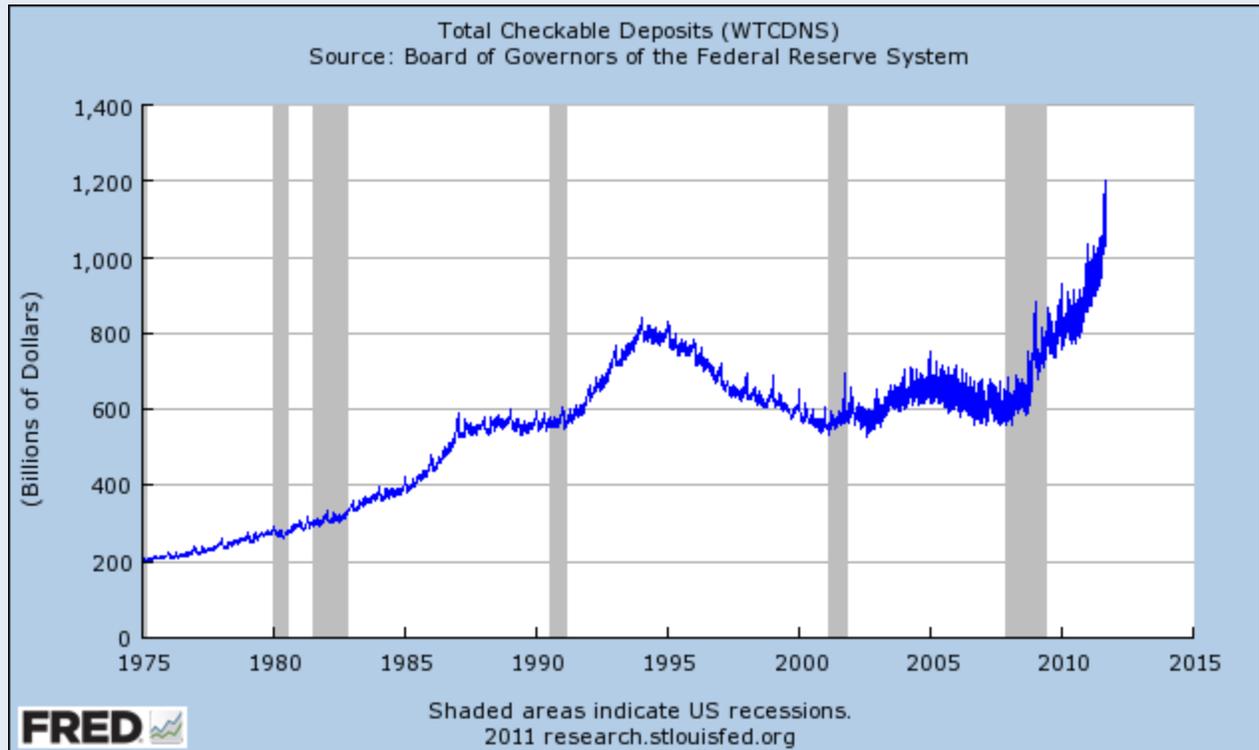
Most people trying to manage their own retirement money these days are understandably very nervous. They know the market is different than it was for their parents. Indeed, things have changed completely. No longer does the “buy and hold quality stocks” make any sense—especially to retirees who are living off the dividends and occasional stock sale to meet expenses.

My greatest ongoing challenge is to encourage our clients to exit stocks at a high when greed drives a market boom, and stay the course when fear drives stock prices down.

Today, the fear is palpable. The chart below is the amount of money currently held in savings accounts across the U.S. Note that the chart is delineated in *billions*.



And here is a chart of the amount of money currently parked in checking accounts.



Between savings accounts and checking accounts in this country—not even including money market funds or CD’s—there is a staggering all time high amount of \$7.2 trillion in *cash*.

\$7.2 trillion sitting in cash! Just sitting there—doing nothing, completely liquid.

Now I ask you:

- (1) *How much is that money earning?*
- (2) *How long will that money sit there?*
- (3) *Where else does that money have to go?*

Most of that \$7.2 trillion is in a waiting pattern—investors are “waiting” to invest that money back into stocks and real estate. And really, other than commodities, there’s nowhere else for that money to go. It’s just a matter of time.

My final question is this: *What will happen to stock prices when (say) \$3 trillion of all this cash is redeployed out of its waiting pattern back into the market?*

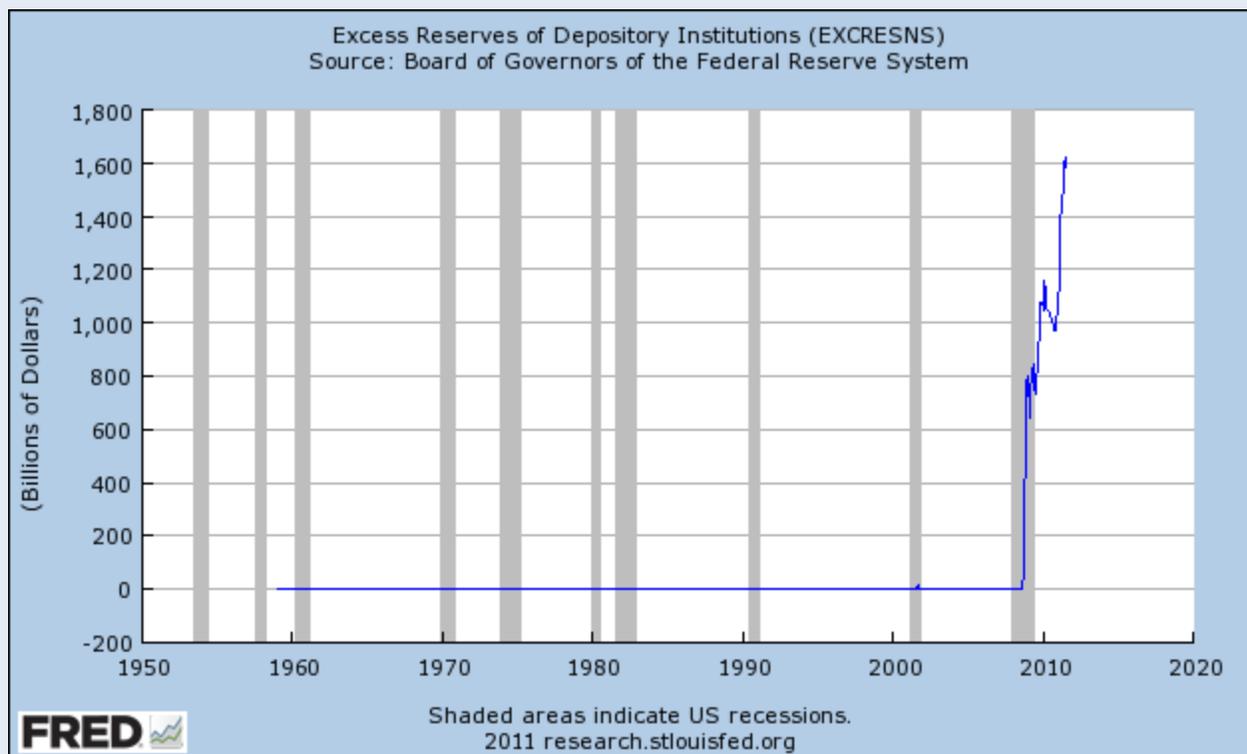
You guessed it: A stock market rally.

And there are other, more fundamental reasons to expect a rally. When we invest in stocks, we are investing for current earnings and future price appreciation. The S&P 500®, at its current price of 1180 and earnings per share of approximately \$98¹, equates to a price to earnings ratio

¹ Howard Silverblatt, S&P Senior Index Analyst, Standard and Poor’s, 9/27/2011.

of about 12. A rolling twenty-five year average of the S&P 500® price to earnings ratio has been closer to 20.² I believe we could see it go to 25, or more.

The recent media sensationalism postulating another 2008-style dip is a farce. The crisis in 2008 occurred because banks had no liquidity to absorb the stacking mortgage defaults. Look at the following chart of the amount of money the banks have on reserve with the Fed since then. Notice that in 2008 the reserves were miniscule as compared to today's \$1.6 trillion.



If we can say nothing else about our economy, we can say that our banks have liquidity—the complete opposite of their condition in 2008.

So if all of this is true, what are all those investors with \$7 plus trillion waiting on?

In their own words, they're "waiting for the market to settle down" or "waiting for the economy to recover". Logically, this is akin to "waiting for prices to go up" before shopping.

As Austrian economists, we can predict that the market will eventually boom because monetary creation through "quantitative easing" has been massive. And although monetary velocity and thus credit creation have been very sluggish, this is showing signs of changing—albeit slowly.

Do not think we are in favor of this monetary expansion because like all booms—it will eventually itself crash. The cycle occurs in every instance the same way: (a) boom is created by artificial low rates and/or money printing—monetary expansion ensues; (b) boom and money printing lead to inflation; (c) Fed raises rates to fight inflation—monetary contraction ensues; (d)

² Howard Silverblatt, S&P Senior Index Analyst, Standard and Poor's, 9/27/2011.

the boom turns to a bust, recession ensues; (e) Fed drops rates and prints more money; (f) Repeat.

As professor Ludwig von Mises observed and predicted more than 60 years ago:

“The wavelike movement effecting the economic system, the recurrence of periods of boom which are followed by periods of depression is the unavoidable outcome of the attempts, repeated again and again, to lower the gross market rate of interest by means of credit expansion.” - Human Action p. 570; p. 572

There is little doubt in the Austrian economist’s mind, then, that the cycle will continue. Thus, as Warren Buffett is fond of saying, we want to be greedy when others are fearful and fearful when others are greedy. Well, if \$7 trillion of idle cash says anything, it says “others are fearful.”

We must therefore be invested (as we are) before substantial amounts of this \$7 trillion re-enter the market. We can collect dividends in the meanwhile, and stand back with confidence and assurance that this pendulum will swing again.

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About J. Kevin Meaders

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Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through ING Financial Partners (member SIPC).

About Magellan Planning Group

www.magellanplanning.com

Magellan Planning Group was established in 2000 to provide a service uniquely tailored to the needs of our affluent Atlanta community. We concentrate on *personalized* retirement planning through tri-disciplinary coordination:

- Financial planning with our Certified Financial Planner™ to prepare a retirement plan that takes into account your needs and expectations. We are a fee only asset management firm with a \$500,000 minimum relationship.
- Estate planning with our in-house Attorney-at-Law to determine and prepare the documents needed to minimize family liability and maximize privacy. (www.magellanlegal.com)
- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. (www.magellntax.com)

Our relationship doesn't begin and end with the preparation of a plan and the appropriate documents. We establish close personal relationships with our clients and their families and maintain those relationships through regular 'check-ups', market commentaries and educational Lunch & Learns.

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