Wealth through ingenuity.

On My Radar

August 31, 2012
By Steve Blumenthal

As I dive through a broad range of independent research each week, I include in this piece those that I found important. Following are several ***bullet points***, in no particular order:

- **"Nightmare On Wall Street: This secular bear has only just begun." By Ed Easterling July 1, 2012.**
  "There is compelling evidence that the current secular bear market is still early in its course. This bear will have another decade or longer to run, unless there is a dramatic change in the inflation rate over the next few years that decreases P/E substantially. The preceding secular bull ended with the market valuation **(P/E) at levels twice as high as all previous secular bulls** *(emphasis mine)*. That meant that this secular bear had twice as much ground to cover. The last twelve and a half years have deflated the bubble, but the market still remains at levels consistent with secular bear starts."

  Here is the link: http://www.crestmontresearch.com/docs/Stock-Nightmare.pdf

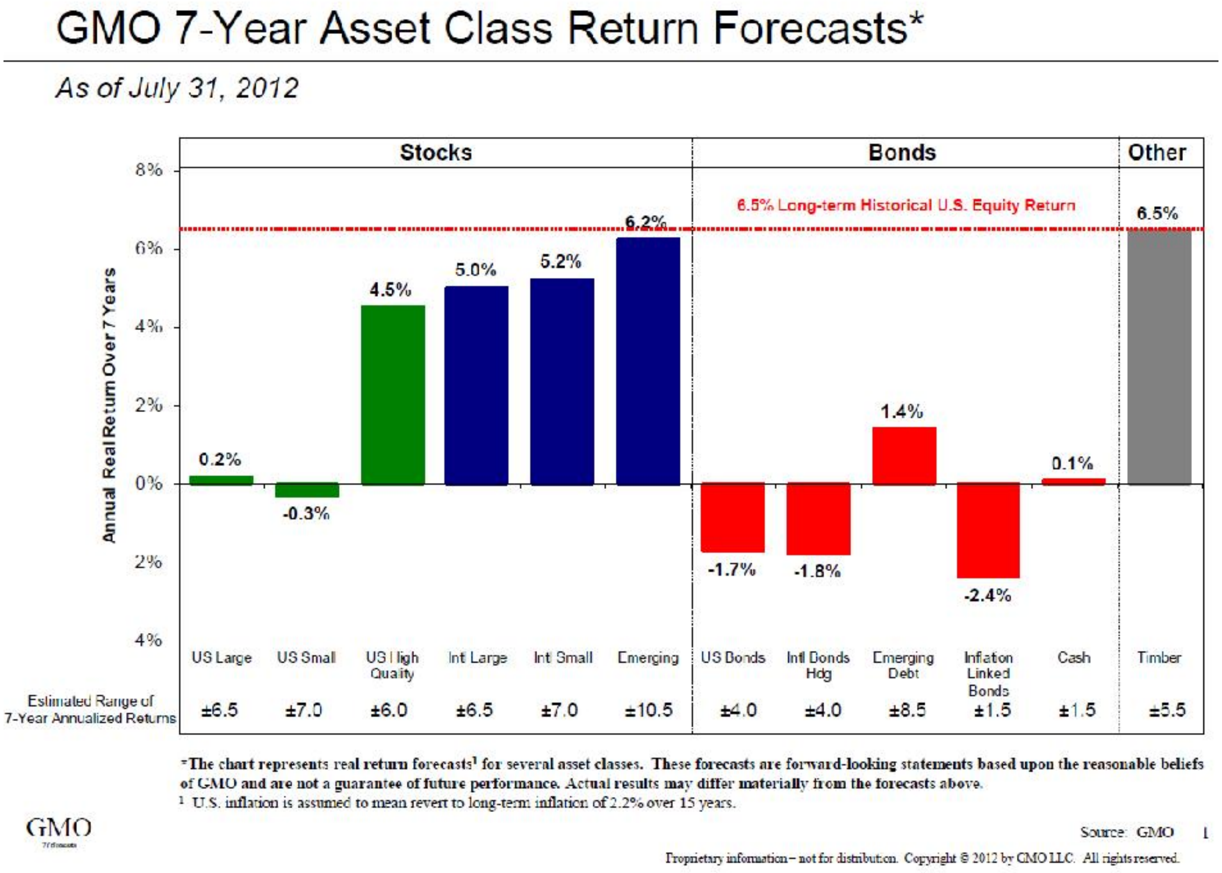
  This may be a useful education piece for your clients whether you are in agreement or not in agreement with Ed's secular view.

  I could most certainly be wrong about my continued secular bear market call. So could Mauldin, El-Erian, Gross, Grantham, NDR, Dalio and a large number of other bright fund managers we follow; however, we may also prove to be correct.

  My point here is that portfolios can be designed to profit whether we are correct or incorrect in our secular view.

- **Return expectations moving forward.** I always like to know what Jeremy Grantham and his team at GMO have to say. Here is their latest on future returns.

  Expected 7-Year Asset Class Return Forecasts (July 2012 data) – www.gmo.com
  Note the low expected forward returns for US Large Cap and US Small Cap stocks. Note too that all of the equity categories are below the 6.5% Long-term Historical US Equity Return. Also note the negative forward return outlook for Bonds. *YIKES!*



- **"The Macroeconomic Effects of Tax Changes" by Christina D. Romer and David H. Romer**
  The paper examines the impact of tax increases and reduction on U.S. economic growth for the period 1945 to 2007. I share the links below not to stir up a political debate but to answer a question I know I have had for some time: is there solid research supporting higher taxes vs. lower taxes? I believe the answer is yes and what hit me here is that this is a non-partisan piece "written by President Obama's first Chair of his Council of Economic Advisers (CEA) and indicates the President's proposed tax increases would kill the economic recovery and throw nearly 1 million Americans out of work." - Forbes

  To read a summary of the research as reported in Forbes in April 2012 click here:
  http://www.forbes.com/sites/charleskadlec/2012/04/23/christina-romer-knows-tax-hikes-will-kill-the-recovery/

  To read the full report click here:
  http://emlab.berkeley.edu/~dromer/papers/RomerandRomerAERJune2010.pdf

The global debt hangover remains. We'll work our way through the mess. It will take some time and will be bumpy. In this, opportunity will be found.

Wishing you an outstanding holiday weekend,

Steve

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