

# Economic & Financial Market Update

September 2011

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James W. Paulsen, Ph.D., Chief Investment Strategist



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## Armageddon Hypochondria??!

- Banks are Broke!
- Consumers Won't Spend!
- Government Out of Control!!
- Taxes Will Kill Us!!!
- We'll Never Get TARP Back?
- Socialized Health Care?
- New Killer Financial Regulations?
- Fed "Zero-Policy" Creating Next Bubble?
- High Unemployment Forever!?
- "Everyone Will Walk Away From Their Home!?"
- A Run on the U.S. Dollar?
- A Run on the Euro?
- What Does "GOLD" Know?
- What Does "Bond Market" Know?
- Is China in a Bubble?
- Is China Slowing Down?
- Will U.S. Lose AAA?
- Runaway Inflation?
- Runaway Deflation??
- Oil Spill Disaster!
- "BAD" Hurricane Season Coming?!
- Small Companies Can't Get Credit!
- Greece to End World!!



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## Federal Deficits... More Cyclical Than Structural!?



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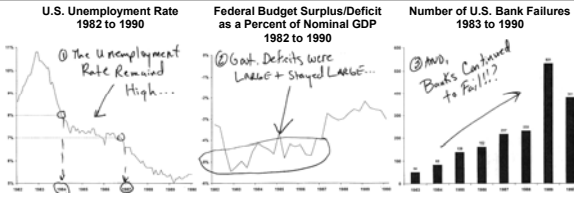
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### Worries Remain... But Econ Growth Will Continue!? 1980's Reagan Recovery!?



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### Worries Remain... But Econ Growth Will Continue!? 1990's Recovery!?

The U.S. economy remains almost comatose. The slump already ranks as the longest period sustained weakness since the Depression. The economy is staggering under many “structural” burdens, as opposed to familiar “cyclical” problems. The structural faults represent once-in-a-lifetime dislocations that will take years to work out. Among them: the job drought, the debt hangover, the banking collapse, the real estate depression, the health-care cost explosion, and the runaway federal deficit.

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Source: Time Magazine, September 1992

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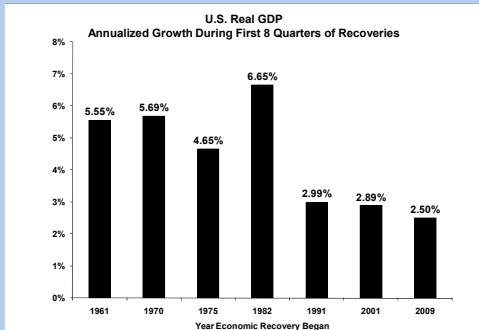
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### Current Recovery Doing OK!?



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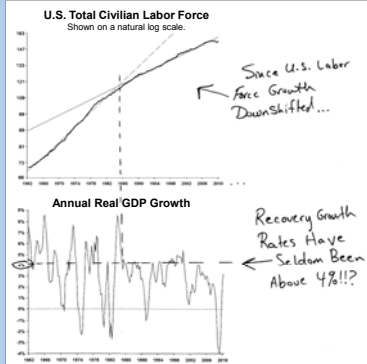
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### "New-Normal" Labor Force Growth!??!



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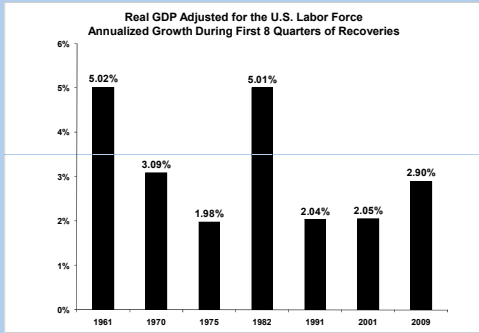
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### Adjusted for Labor Force... FOURTH BEST Recovery Since 1960!!!



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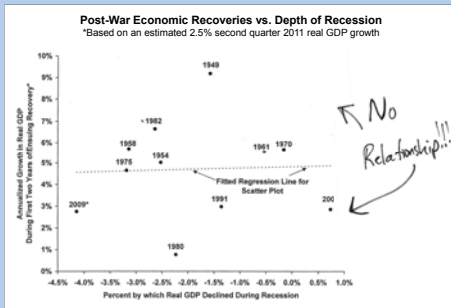
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### Do Strong Recoveries Follow Deep Recessions???



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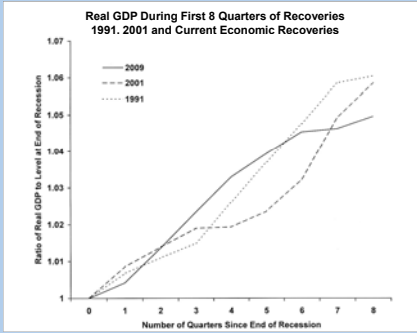
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### A "Normal" Recovery... Spending Side?!??



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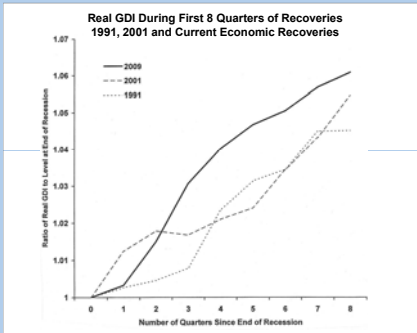
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### A "Normal" Recovery... Income Side?!??



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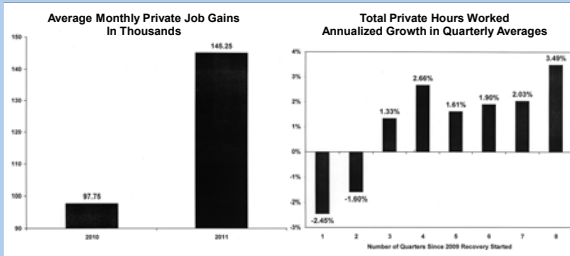
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### Job Market... Still Making Progress?!?



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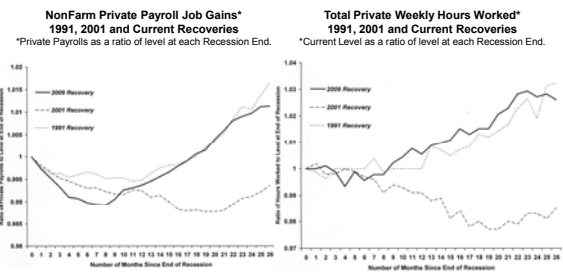
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# Job Market???



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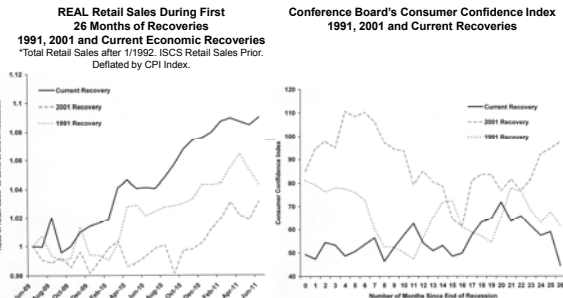
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# Retail Sales and Confidence?!?



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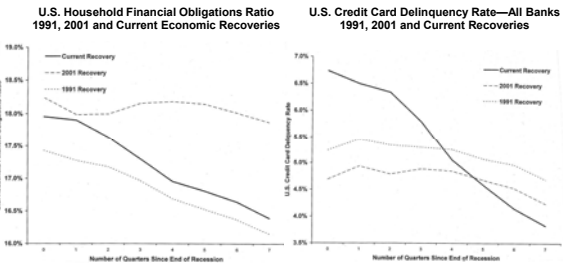
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# Household Finances???



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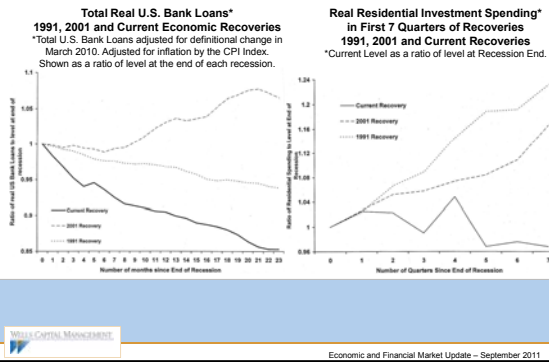
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## What's BAD? Borrowing and Housing!?!




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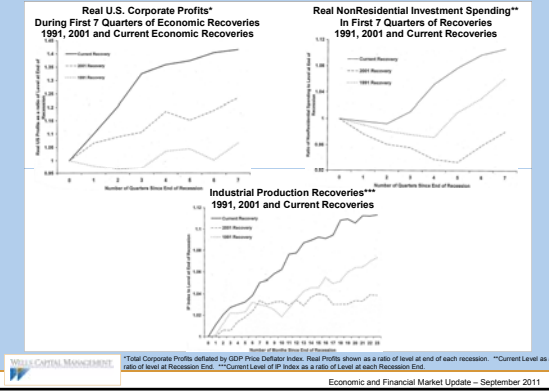
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## What's GOOD? Profits, Investment, and Manufacturing!?!




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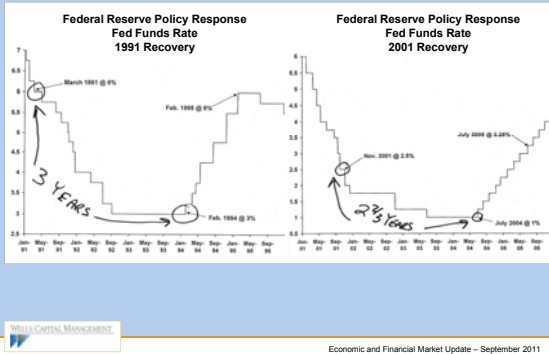
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## Federal Reserve Following Playbook of Last Two Recoveries!?!




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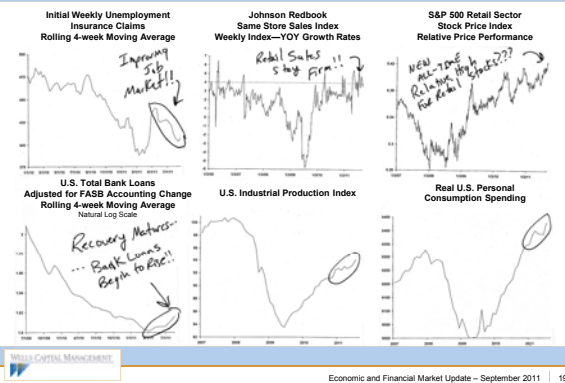
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## Momentum Headed Into Panic!??




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## Economy Self Medicated!!?

- Mortgage Yields Down 1%
- Crude Oil Off 25%
- U.S. Dollar Down 12%
- M2 Money Supply Surging Since June
- Japan Is Bouncing

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## A Soft Patch RENOVATION!!!

- 60% Improvement in Job Growth!
- Credit Creation Emerging!
- Emerging World Soft Landing!
- Surging Commodity Prices Arrested!
- Surging Energy Prices Stopped!
- “Dollar Dump” Paused!
- Improved Money Supply Growth!
- Lowered Bond Yields!
- Extinguished Bullishness!
- Revalued Stock Market!
- Japanese Bounce!

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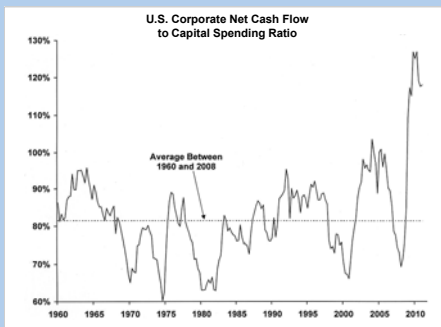
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### Corporate Dry Powder!!!?



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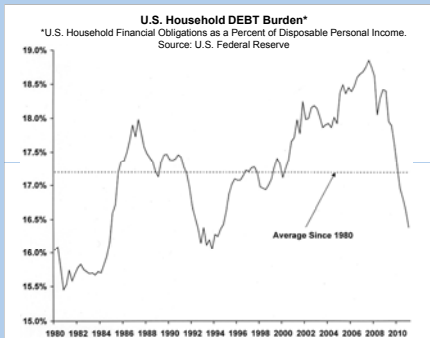
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### Restoring Household Capabilities!!!?



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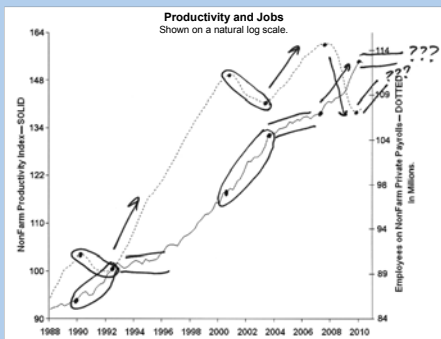
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### Could Declining Productivity be a Catalyst for Jobs???



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### Like the Last Two Recoveries... Confidence Slow To Improve!???




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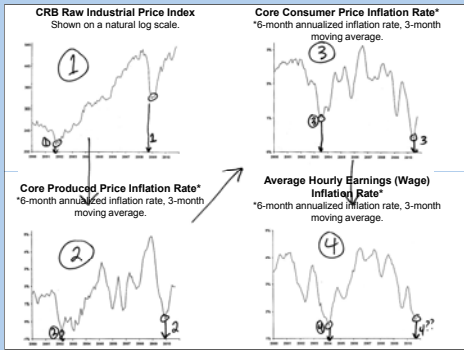
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### The U.S. Inflation Cycle!?!




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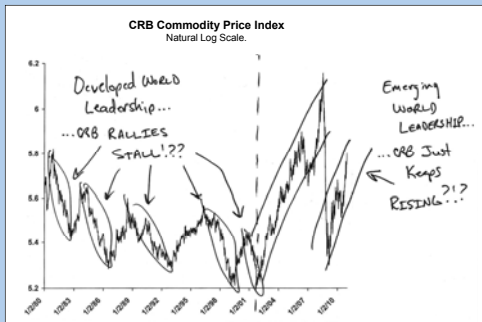
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### A New Commodity Price Cycle??!




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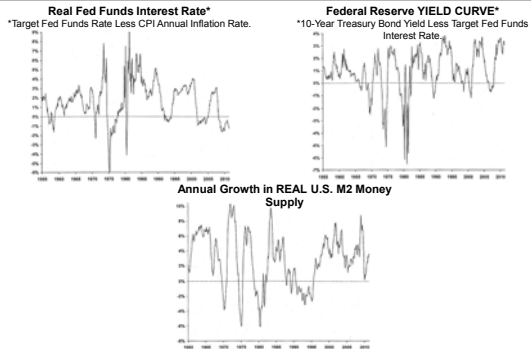
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## An Abnormally, "NORMAL" Fed?!?




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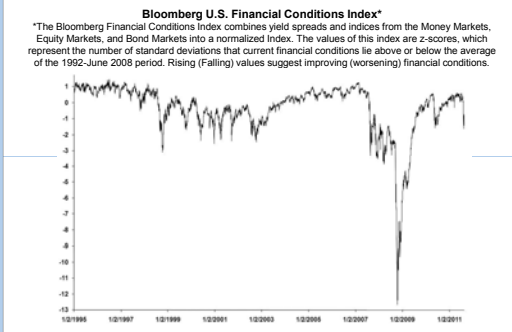
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## Crisis Probability?!?




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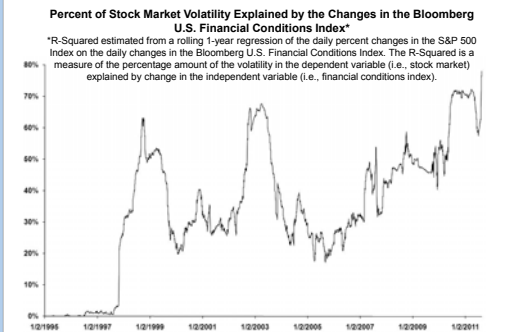
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## A "Crisis-Phobic" Culture?!?




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### Take Advantage of a Panic... ... "Safe-Havens" to "Cyclicals"!!?



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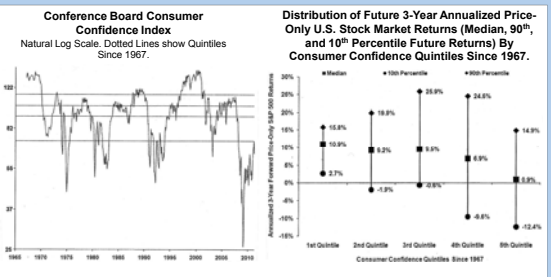
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### Low Confidence → Strong Future Returns!!!?



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### Confidence and Risk-Assets!?!



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## The "Perception" of High Risk Makes the Reality "Low Risk"!!?




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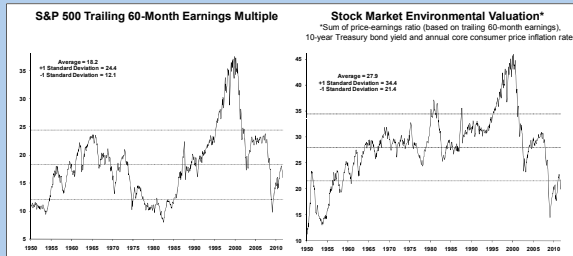
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## Stock Market Valuation—Mania to Mania!!?




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## Mania to Mania!!?

New-Era → Mania of OPTIMISM

New-Normal → Mania of PESSIMISM

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## Questions?

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