Sather Financial Group Inc.

Comprehensive Wealth Managers

First Quarter 2010 Commentary--What A Difference A Year Makes

One year ago we were sliding hard and fast. All we heard was doom and despair. Today, we have seen a rebound of 50% plus from the March 9, 2009 lows. ***For the first quarter of 2010 the Dow Jones Industrial Average rose 4%.***

Are we out of the woods? The simple answer is “no”, but we are in a better place economically speaking than we were.

The good news is that the U.S. economy is unlikely to slip back into recession. But the ***unemployment rate will probably remain in the 8% to 9% range—possibly into the end of 2011.***

The economy can expect to see a continuation of the recovery phase that began last year, followed by a moderate expansion through the rest of this year and next with a painfully slow decline in the unemployment rate.

Among the drags and headwinds slowing the recovery are the struggling housing sector, depressed small businesses and hesitant consumers. Add to that a central bank hoping to extricate itself from its zero interest-rate policy without causing trauma; red ink in state and local budgets, forcing layoffs and cutbacks; and massive federal debt and deficits extending as far as the eye can see.

In the past, steep downturns have led to steep upturns. If true, The Great Recession of 2007-09 should therefore usher in the Great Recovery of 2010, followed by a strong expansion through 2011. Many of the normal dynamics of bust and boom are going according to script. But given all the difficulties, ***expect this not-so-great recovery to continue, followed by a not-so-strong expansion***.

The economy’s annual growth averaged 4% in the second half of 2009 -- not a bad start, but lower than similar periods following recessions of comparable depth and duration. ***Our prognosis from here calls for economic growth to continue to run at an annual rate of 3% to 4% through the first half of 2010. That should be followed by a slowdown to about 3% through the rest of the year.***

The unemployment rate, at 9.7% in January and February, is down from a peak of 10.1% in October. But it should remain as high as 8.5% even by the end of next year, nearly three percentage points higher than it should be when the economy has achieved "full employment."

Corporate profits will continue to rebound as the economy expands. Unfortunately, high unemployment creates a 'fright factor' that inhibits spending by those who are employed. Consumers have begun to pry open their wallets a bit. Based on recent strength in retail sales, real consumer spending should rise at an annual rate of 3% or better, up from 2.2% in the second half of '09.

One of our most consistent questions lately is ***“what will the Obama health care plan do to the economy?”*** For starters, ***we do NOT see a great stock market crash simply due to this***. Sectors will benefit and others will lag. We are truly disappointed that this was ram rodded down our nation’s throat in such a partisan manner.

We welcome reform in general—however, this was not reform. ***In order to have reform, you must 1) identify who is covered 2) under what scenarios they will be covered 3) who will pay what and 4) who will administer the plan***.

At this point, ***all we have identified is that 32 million new people will be covered—although many will pay nothing into the system***. This is sure to cause long term deficits to increase as it is nothing more than an entitlement expansion.

We are already seeing some repercussions. AT&T has taken a $1 billion charge, Verizon a $300 million charge and Caterpillar a $400 million charge due to the increase in expenses for “forced healthcare”.

Additionally, it does not take a rocket scientist to figure out that if AT&T is charging off $1 billion in additional expenses associated with this new health care plan, they will hire fewer people in the future and the benefits they do receive will be lean.

From an investment perspective, we know that a variety of new taxes will be thrust on our clients to pay for this monstrous plan. Unfortunately, we do not have enough details yet to make definitive decisions about client portfolios. As you can imagine, this will be at the top of our “to do” list.

Finally, our annual client appreciation party will be Thursday April 22nd starting at 5PM at Fossati’s (302 S. Main in Victoria). We look forward to seeing everyone there as we certainly have much better times to celebrate than last April.

Sincerely,

Dave Sather, President
Certified Financial Planner

Warren Udd
Certified Financial Planner