Sather Financial Group, Inc.
Registered Investment Advisor

First Quarter 2004 Review--Politics, Outsourcing & Capitalism

The first quarter of 2004 ended quietly with the ***major stock indices essentially at breakeven***. Interest rates on the ten year US Treasury bond fell about 10% with the yield down to 3.9%. While we had a few bumps in the road it was a boring three months—thankfully we have the presidential election with politician's wit and wisdom to keep us entertained.

Politicians cannot go five minutes these days without discussing/obsessing over the concept of "outsourcing" jobs. Outsourcing arises when businesses establish, or move, operations out of the U.S. for productivity gains. Certain politicians argue that this should be stopped and essentially force jobs to stay in the U.S. While this may make for good political rhetoric during an election year, it is idiocy in motion. ***Competition is the cornerstone of our nation and capitalism***. Furthermore, ***when governments become involved in how companies make money the end result is mediocre at best and disastrous more times than not***.

Additionally, studies have shown that ***multinational companies engaging in outsourcing are more stable, provide more job opportunities and provide increased income for their workers***. Limiting outsourcing will do nothing but increase prices, decrease domestic competitive abilities and give foreign competitors a tremendous advantage. On top of that, ***our nation actually imports more jobs than it exports***. America has been, and continues to be, the winner in the global "outsourcing versus insourcing" debate.

The employment picture continues to be a political lightening rod. Republicans desperately want to show a vibrant economy adding jobs and Democrats jump at the chance to tell everyone how bad things are since everyone is unemployed. The truth is somewhere in between. A recent survey concluded that ***75% of US companies plan on increasing hiring in the next year*** while only 7% said they anticipate cutting back their number of employees. Additionally, ***new claims for unemployment have hit their lowest level since Bush was elected***. While these are obviously good things, new job creation had remained weak until the March report. The March report showed 308,000 new jobs were created (versus an anticipated 123,000). ***This is the fastest pace of new hiring in four years***.

In addition to strong gains in new jobs, corporate profitability is much improved. In March it was reported that ***corporate profitability increased 29% in the fourth quarter--the fastest pace in nearly 20 years***. Profits are increasing at this pace mainly due to automation and increased usage of computers. Given profitability of this level we should expect ***Gross Domestic Product to continue to average in the 4% range***.

True analysis of inflation continues to be a difficult task. On the one hand core inflation numbers continue to be quite low. However, core inflation excludes energy and food prices, which have jumped substantially.

With oil above $35 a barrel we have seen gasoline prices increase 14%. And while both political parties are busy pointing their finger at each other, the fact of the matter is that oil is a commodity product whose price is dictated by global supply and demand. Furthermore, since the Chinese have decided they want more oil (increased demand) and OPEC has decided to cut back production (decreased supply) the natural outcome is increased prices. ***We do not look for any meaningful decrease in oil prices anytime soon***.

Increased oil prices mean that consumers have to spend more of their funds on energy and fuel needs. This translates into consumers having less disposable funds to spend elsewhere. Since consumer spending equates to about 2/3rds of our gross domestic product any cut in what we have to spend can have far reaching implications.

The Federal Reserve has tipped its hand that they see increasing signs of inflation on the horizon. While this is no surprise, the Fed is caught in the middle of waiting for our economy to get its footing back under it (increase jobs) while at the same time trying to slow down global demand for commodities. Try as the Fed may, they will have a difficult time with this balancing act. ***We still expect the Fed to raise rates in the second half of 2004***.

One thing is for sure—no matter what your political affiliation is, we definitely live in an age of increased competition and global economics.

Finally, April 29, 2004 will mark the Sather Financial Group's fifth anniversary. To celebrate the occasion we think it is only appropriate to have a little party for all of those folks who have made this anniversary possible. As such, **we would like you to join us for drinks and finger foods on April 29th at Fosatti's (302 S. Main) from 5 p.m. to 8 p.m**. We look forward to seeing you there to thank you for all of your support over the past five, very eventful, years.

Sincerely yours,

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

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