

Sather Financial Group, Inc.

Comprehensive Wealth Managers

Second Quarter 2009 Commentary

Let's assume for a second that you are the Rip VanWinkle of investing. On January 1st of this year you decided to take a nice long nap and woke up after the market closed on June 30th. Rip would take one look at the market and yawn when he realized that the market was pretty much where it started the year. How boring!

While the numbers don't lie (the markets are pretty much at breakeven for the year), the chaos, calamity and confusion that surrounded us on a daily basis caused many an investor to run for the hills. From the bottom on March 9th, the financial markets have now rebounded by 40%. Although we expected a rebound, even we were surprised by how quickly we made up the lost ground. **This was the best quarter for the broad financial markets since 1998.**

The second quarter also saw Bernie Madoff get a 150 year prison sentence. Although it is effectively a "life sentence" it is still not enough for us. Criminals like Madoff and Stanford are the reason that most people don't trust the investment community.

The economy as a whole gives us differing data bits each day. Currently, unemployment is 9.6% and **we are sticking with our original prediction that national unemployment will break the 10% mark.** In interpreting this figure it is important to remember that "unemployment" is a lagging economic indicator. As such, by the time unemployment bottoms out, the economy as a whole has probably taken a turn for the better. Although we think unemployment will get worse, we are not overly concerned.

The top 20 cities in the US saw their housing prices fall by more than 18% year over year. Although that sounds rather dire, the majority of loss is concentrated in just a few markets. Las Vegas and Phoenix both saw the average home price drop by more than 50% in the past year. Ouch! For those of us in Texas, the housing market, and economy in general, is in a much better place.

Despite high unemployment, weak real estate prices and sagging consumer confidence, the national economy will continue to grow—just slowly. However, slow growth is better than no growth.

The government's ***Cash For Clunkers Bill*** appears to be nothing more than a short term subsidy to the United Auto Workers and the car companies. Even though it will help to improve gas mileage a bit, we are guessing that most environmentalists will be left feeling rather hollow. For the vast majority of our clients, this bill will have no impact (other than the tax payer provided subsidy that we will pay for with greater income taxes). The bill is overly complicated and fails to provide any material benefit.

We have observed **resurgence in the price of oil back to \$70 per barrel.** No matter what anyone says, this will lead to higher energy prices, higher electricity prices and higher prices to buy anything that requires energy or fuel for production or transportation. In general, **this will lead to inflation.**

For quite some time now we have said that we fear a return of '70's style inflation. Unfortunately, we remain confident that this prediction is correct—we just don't know when this will manifest itself. It may be one year and it may be three to five years. Being as we don't know which, it is best to brace yourself for this hurdle now.

Oddly, natural gas (which dominates much of the south Texas economy) continues to trade for around \$3.80 per MCF. Historically, there is about a 10 to 1 ratio between the price of oil divided by the price of natural gas. That ratio currently stands at about 18—which indicates that either oil is overpriced or natural gas is underpriced. Our guess is that natural gas is underpriced.

As we slog through the long, very hot summer we suggest adopting the Rip VanWinkle mentality and get out of the heat, avoid the idiots on Wall Street and take a long nap for the remainder of the summer.

Finally, we hope you all have a safe 4th of July. **Thank you to those who have sacrificed to defend and ensure the freedoms we enjoy in our great nation.**

Sincerely,

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

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