



The Economic Outlook For Investors and Decision Makers

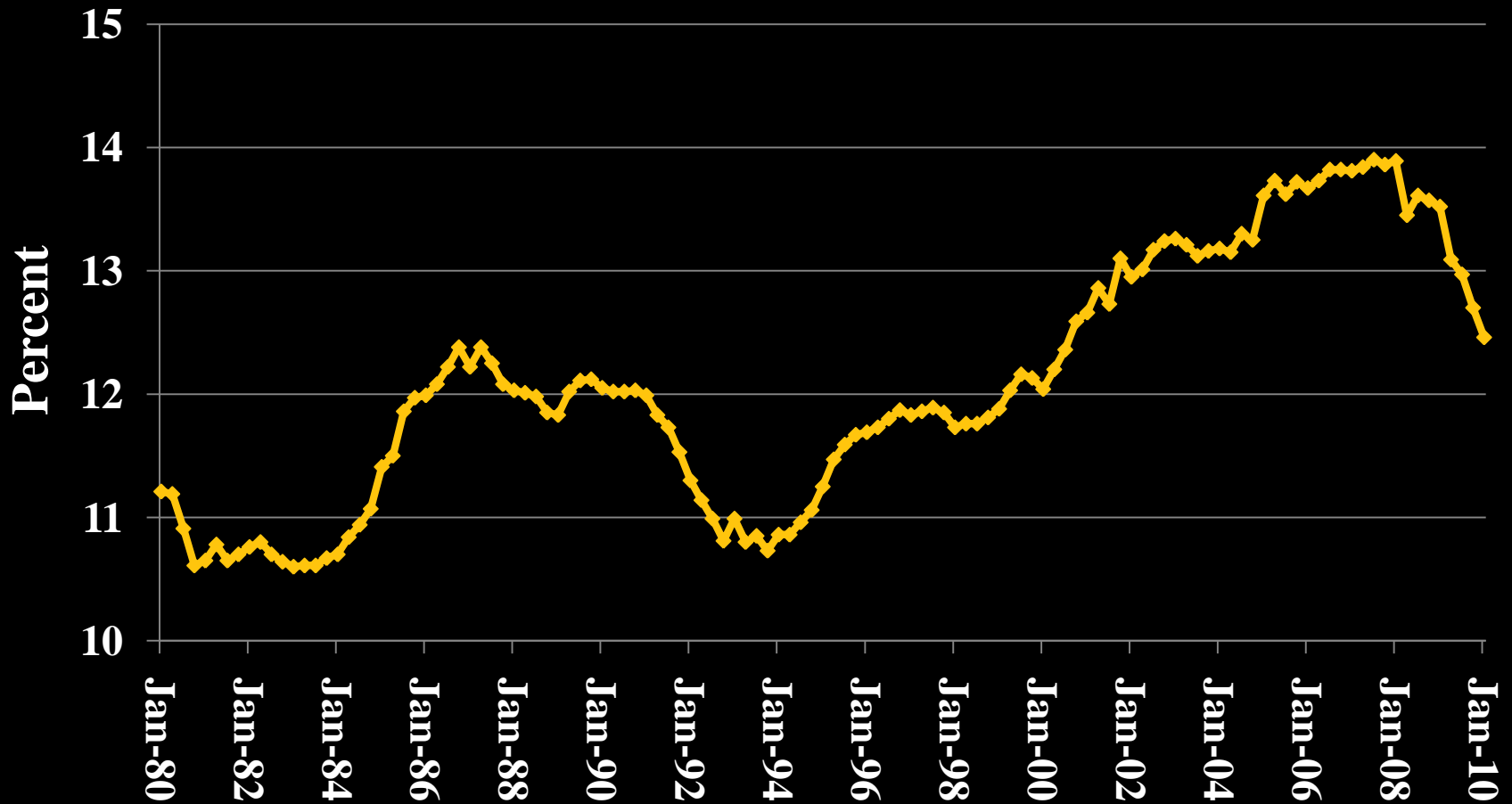
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The Best News of All Corporate Profits



Source: Department of Commerce

More Good News ! Household Debt Service is Declining



Source: Federal Reserve Board

More Good News!

Corporate Hiring Plans: Next 6 Months

Q2-10

Q1-10

Q4-09

Q3-09

More Jobs

39%

29%

19%

13%

Less Jobs

17%

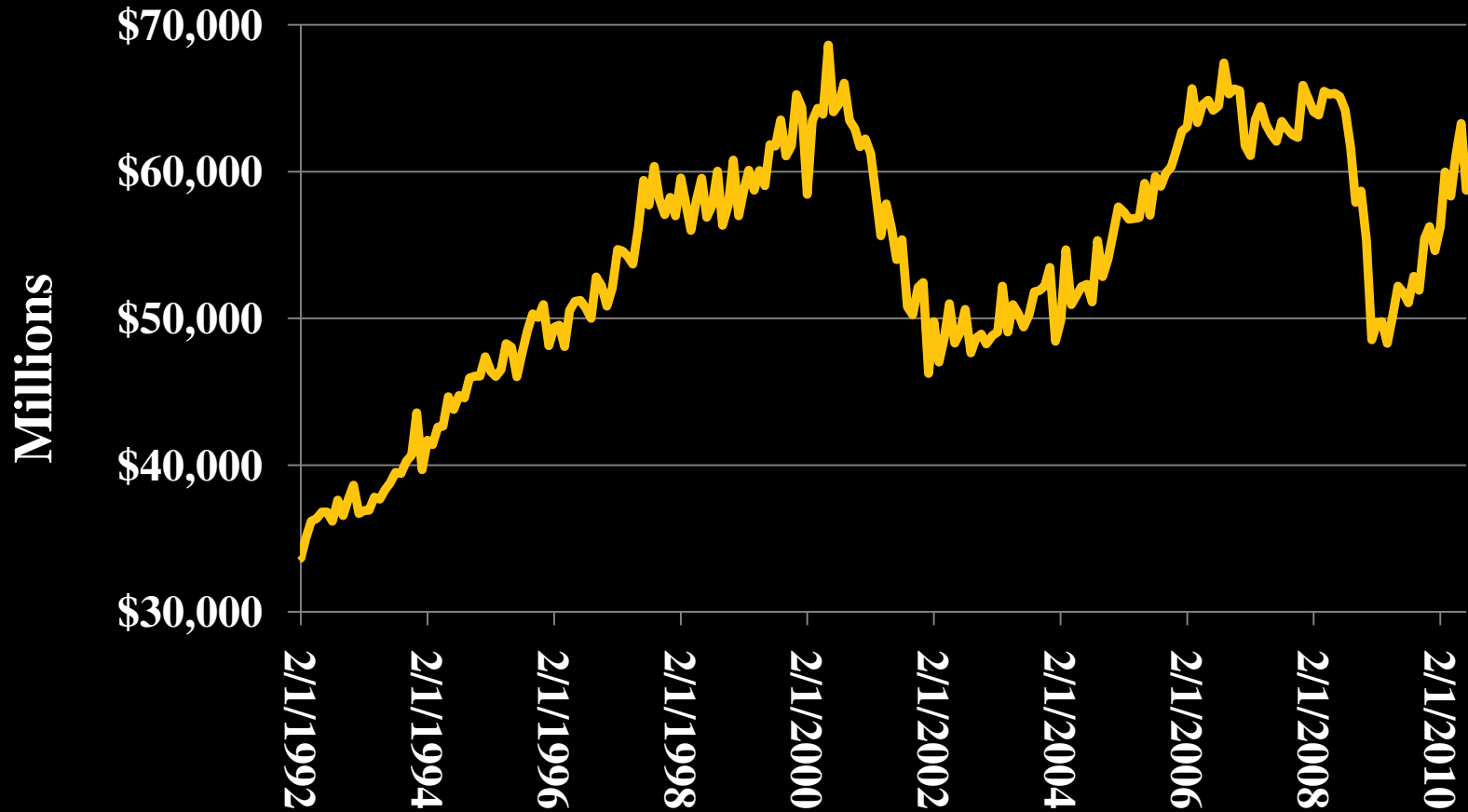
21%

31%

40%

More Good News!

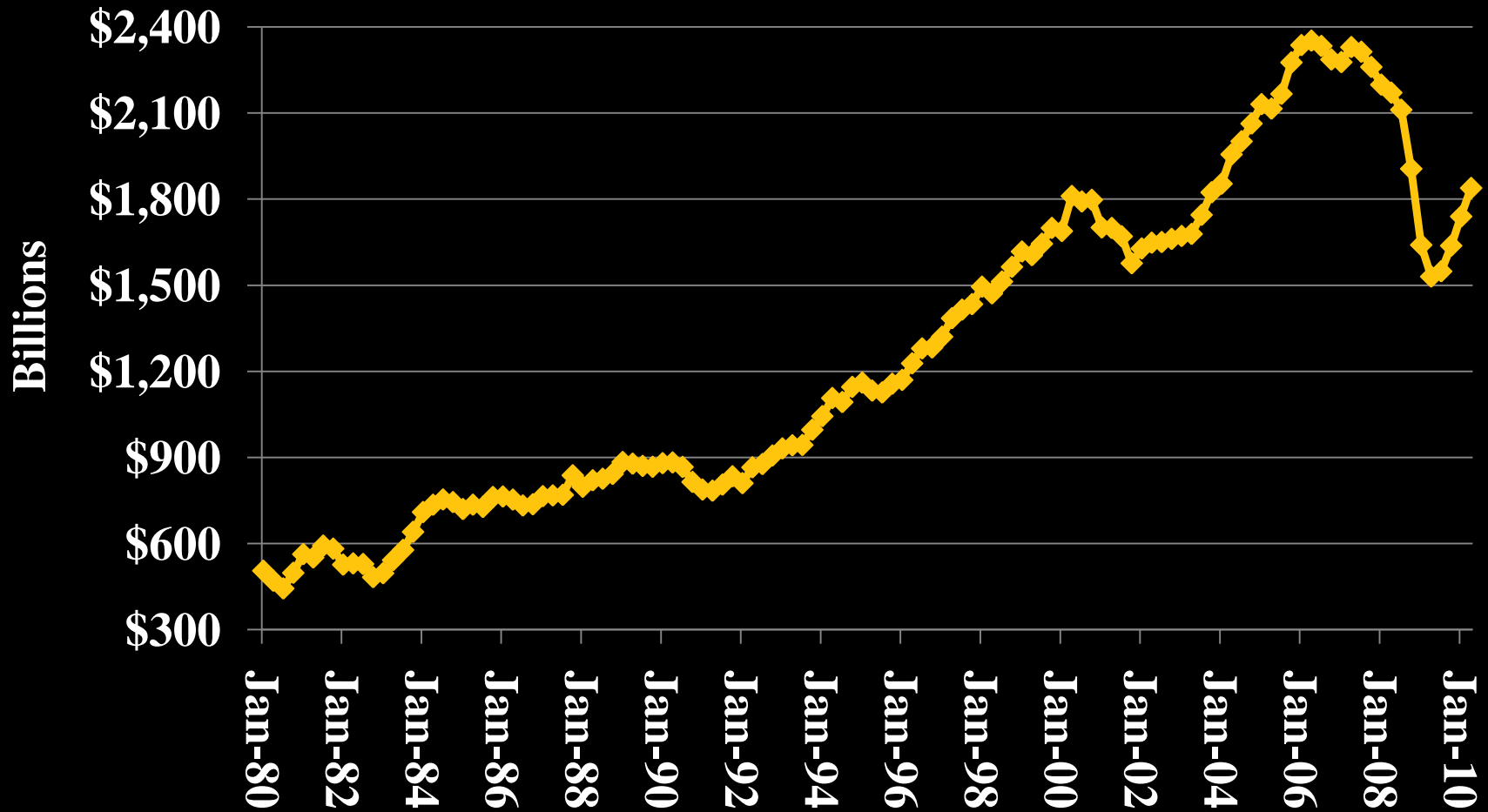
Manufacturers' New Orders:



Source: Department of Commerce

More Good News!

Gross Private Domestic Investment



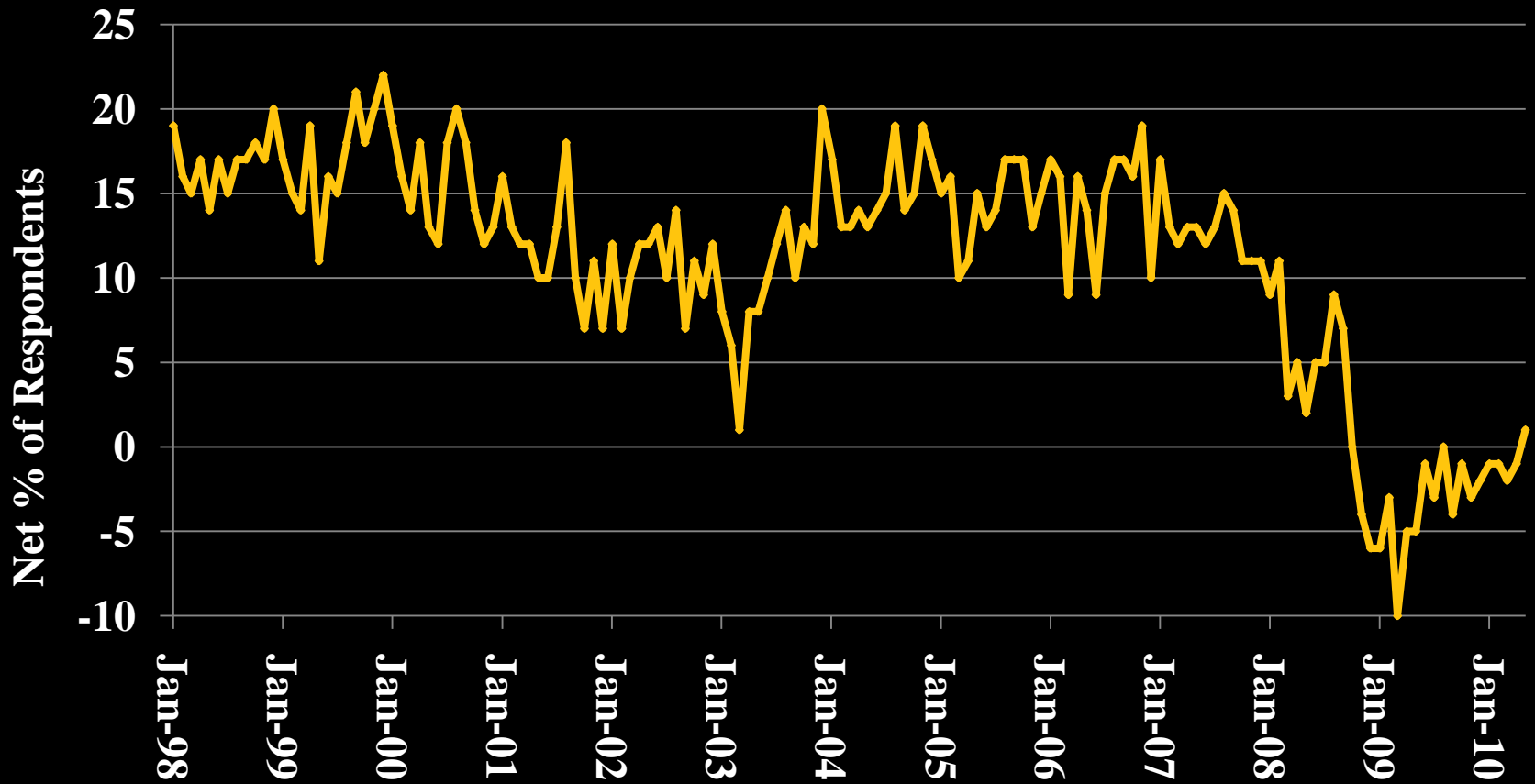
Source: Department of Commerce

Problem 1

Small Businesses Are
Reluctant to Hire

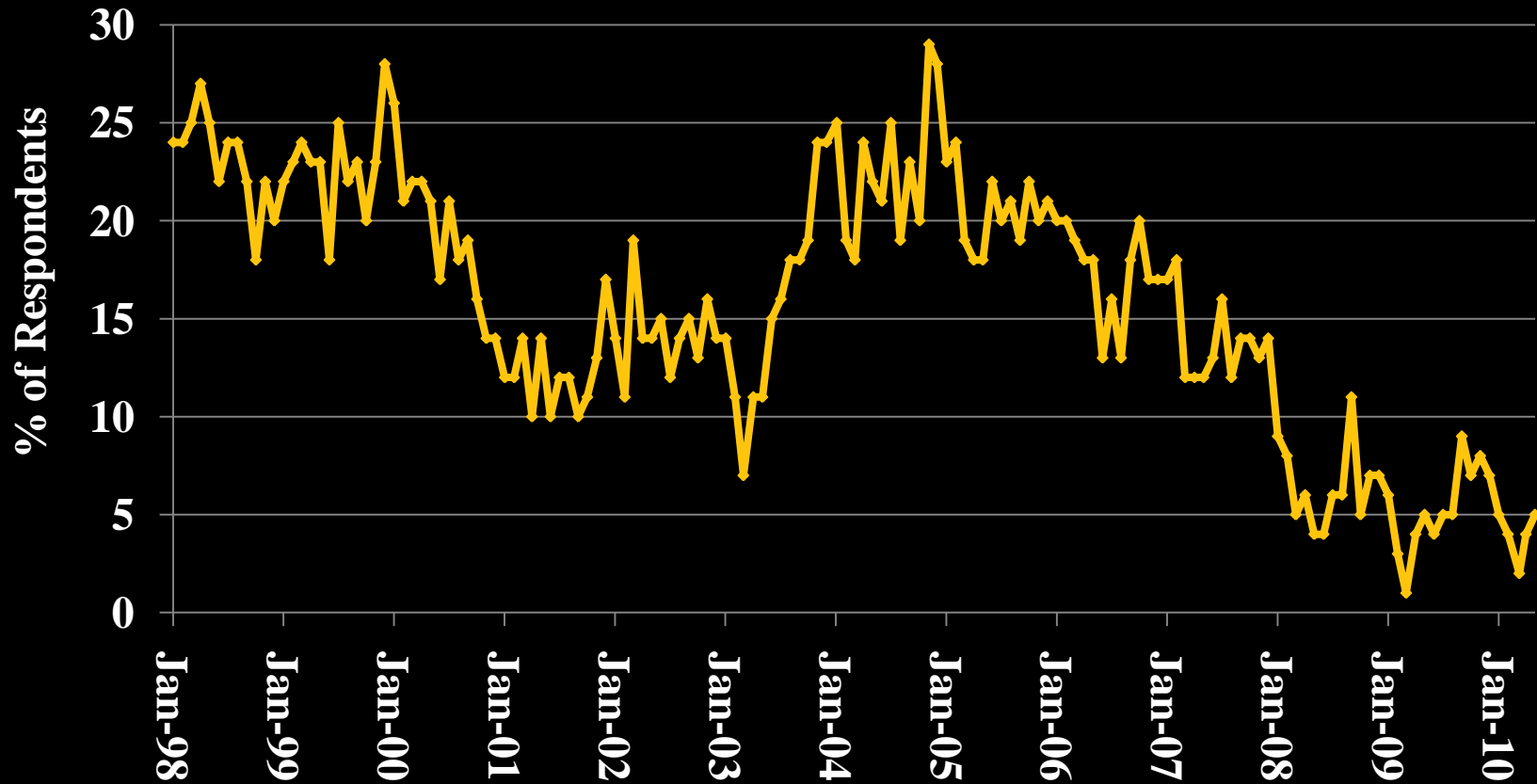
Small Business Outlook

“Planning To Hire People In The Next Six Months”



Small Business Outlook

“Now Is A Good Time To Expand”



The “Hoover Maneuver”



- What were his policy mistakes?
 - Raising taxes
 - Tightening credit

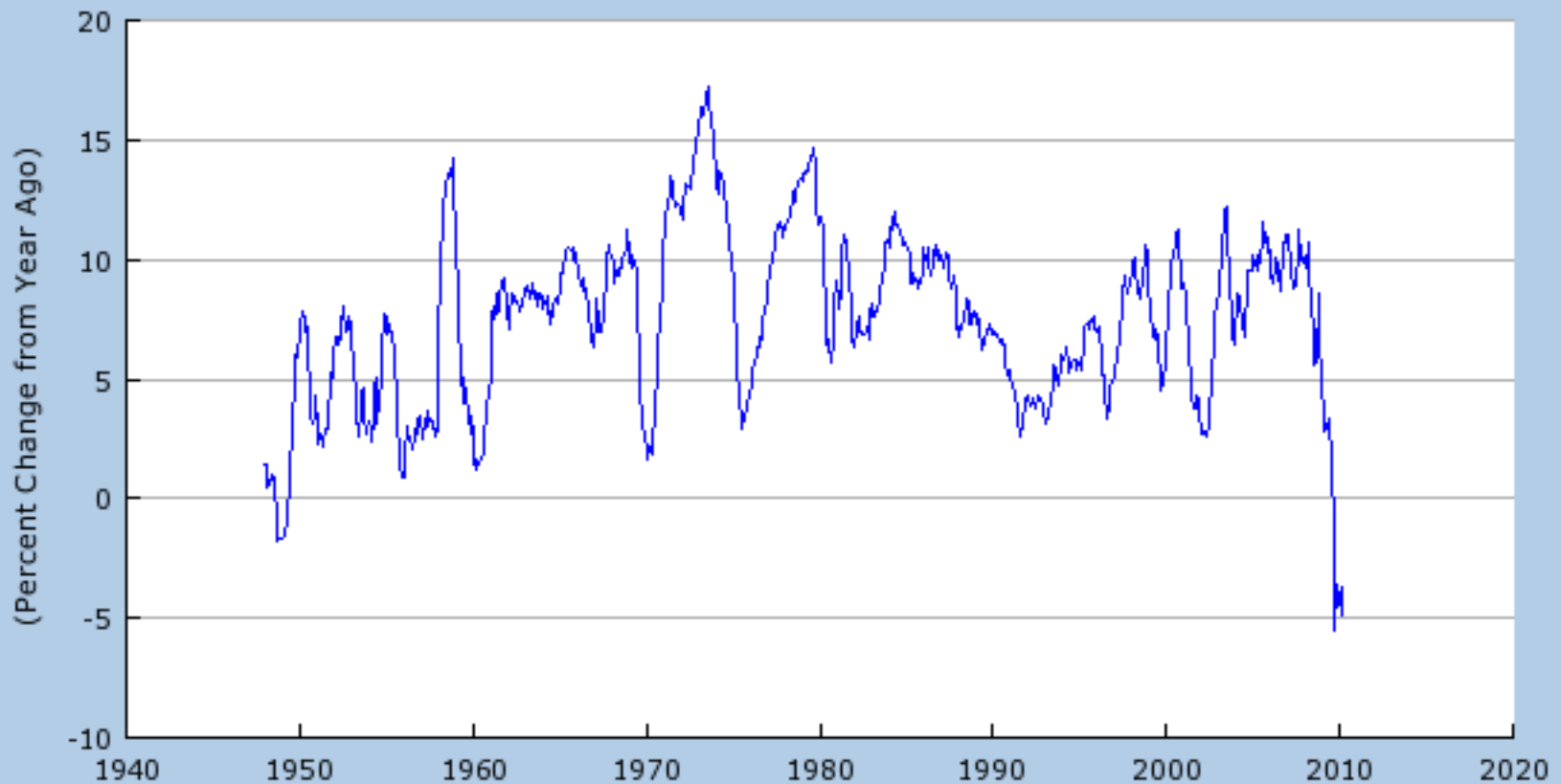
Problem 2

The Banking Crisis Has Not
Been Solved....

It's Just Been Anesthetized

The Biggest Credit Contraction Since the Depression

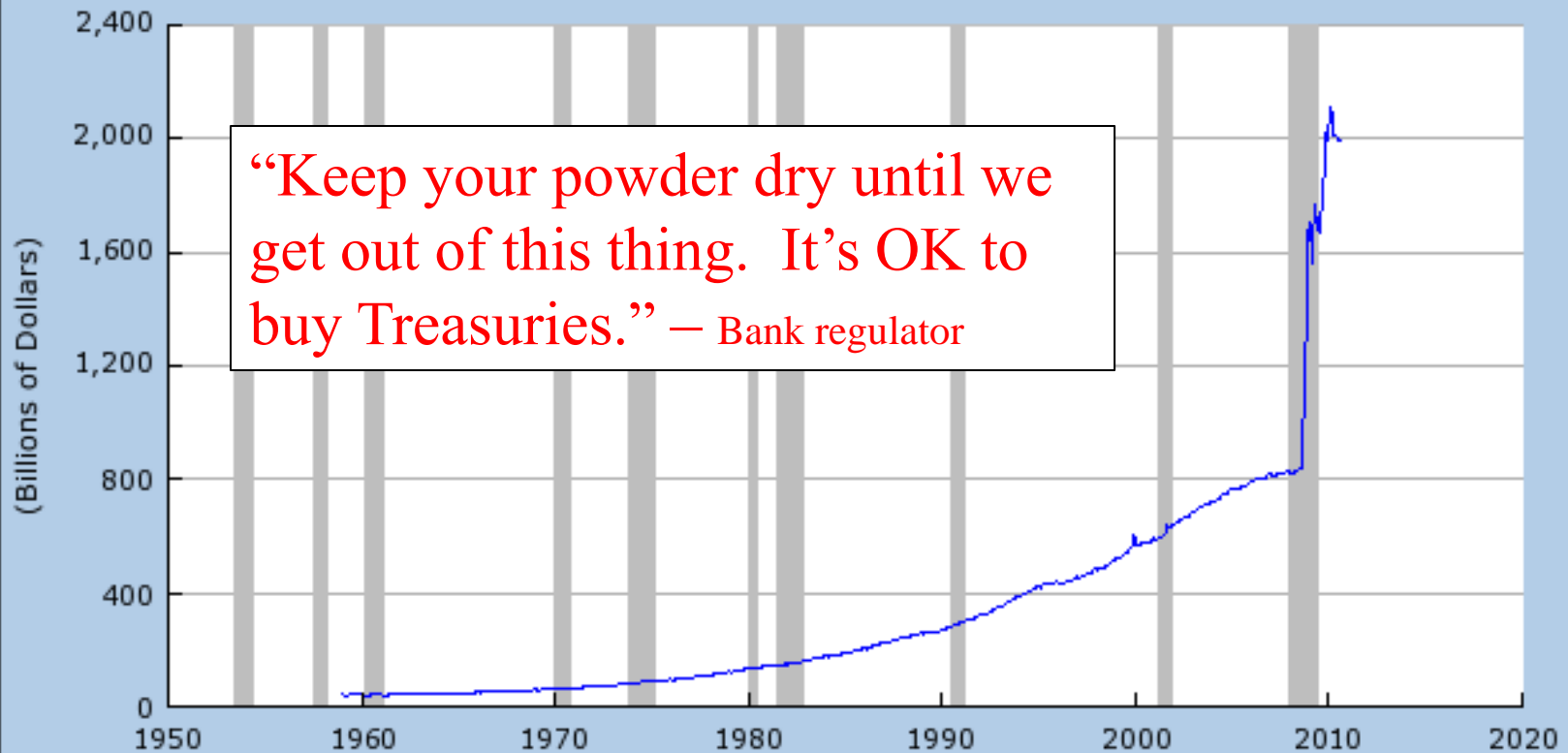
Total Loans and Investments at All Commercial Banks (LOANINV)
Source: Board of Governors of the Federal Reserve System



This is What a “Liquidity Trap” Looks Like

Board of Governors Monetary Base, Adjusted for Changes in Reserve Requirements (BOGAMBNS)

Source: Board of Governors of the Federal Reserve System



“Keep your powder dry until we get out of this thing. It’s OK to buy Treasuries.” — Bank regulator

Shaded areas indicate US recessions.
2010 research.stlouisfed.org

Either a Bubble in Treasuries or a Portent

10-Year 3-1/2% Treasury Inflation-Indexed Note, Due 1/15/2011 (WTP10J11)

Source: Haver Analytics



Shaded areas indicate US recessions.

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Latest Phrase in CRE

“Double Bubble”

A bifurcated market

Trophy Properties

- Major US cities
- Occupied with credit tenants
- Multiple full price offers
- Disappointed PE bidders
- 60-70% financing
- No recourse debt, low rates
- Apartment sold at 4.2% cap

All Other Properties

- Not in NY, SF, Boston, DC
- Significant vacancy
- Heavily discounted offers
- Virtually no transactions
- No financing available
- No price discovery
- Huge overhang of troubled properties held by FDIC

Problem 3

States and counties,
cities and school districts
have to “rightsized”
their budgets

The Good Scenario

- Small businesses and investors get the ‘go signal’ from Congress
- A positive surprise on new job creation for two consecutive months
- Stock prices jump substantially
- Interest rates rise and bond prices fall
- Massive move out of cash into stocks
- Massive move out of bonds into stocks
- Wealth effect increases consumer confidence
- Increase in spending results in more hiring

The Bad Scenario

- Congress continues to demonize business
- State and municipal workers go on strike
- More ‘stimulus’ to states, cities and counties
- New tax credits continue to distort the markets
- Continued “uncertainty” from Washington
- Business/investors continue to hoard more cash
- 10-year treasury rate falls toward 2%
- Repeat of 2010 for 2011 and many years ahead

The Swing of the Pendulum



A History Lesson
Looking for Keys to the Future

Laissez Faire

The Roaring Twenties



“The chief business of the American people is business.”

Laissez Faire

The Roaring Twenties



The collection of any taxes which are not absolutely required, which do not beyond reasonable doubt contribute to the public welfare, is only a species of legalized larceny.”

“The property of the country belongs to the people of the country. Their title is absolute.

Laissez Faire

The Roaring Twenties



“The method of raising revenue ought not to impede the transaction of business; it ought to encourage it.

Progressivism

The Great Depression



“It’s time for the princes of property to share their resources.”

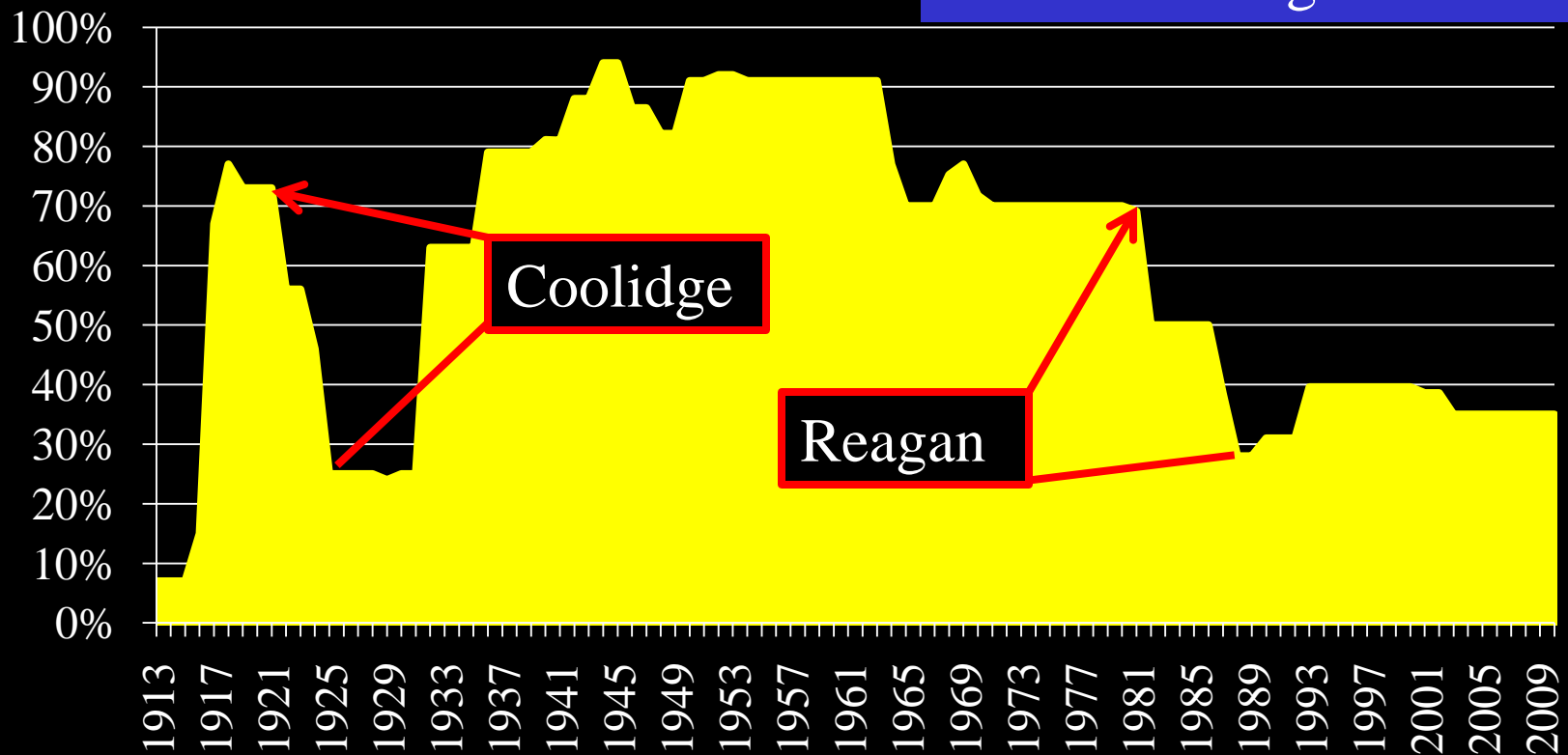
“We are beginning to wipe out the line that divides the practical from the ideal; and in doing so we are fashioning an instrument of unimagined power for the establishment of a morally better world.”

Quotes from Franklin Roosevelt before and after his election.

Top Marginal Tax Rates

Two Major Tax Cuts in 100 Years

97 Year Average is 59.5%.



Source: Tax Policy Center
Urban Institute and Brookings Institution



Big tax increase in 1932

- Congress passed a massive tax increase in an attempt to balance the budget in 1932.
- The Revenue Act of 1932 increased the top marginal tax rate from 25% to 63%.

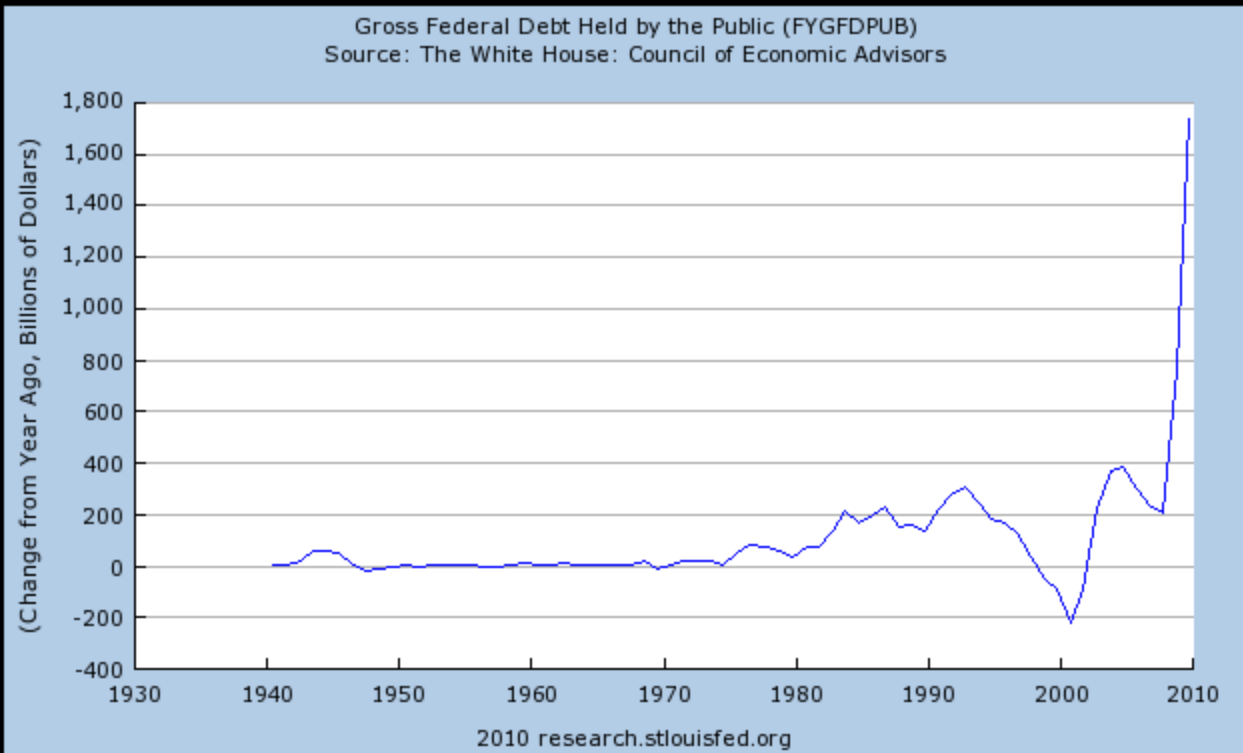
“Getting Back to Even”

September 1929 to September, 1954

- The S&P was 31.30 in September, 1929
- The S&P was 31.45 in September, 1954
- Twenty-five years after the crash, the market returned to the 1929 peak.

Gross Federal Debt Held By The Public

Title:
Series ID:
Source:
Release:
Seasonal Adjustment:
Frequency:
Units:
Date Range:
Last Updated:
Notes:



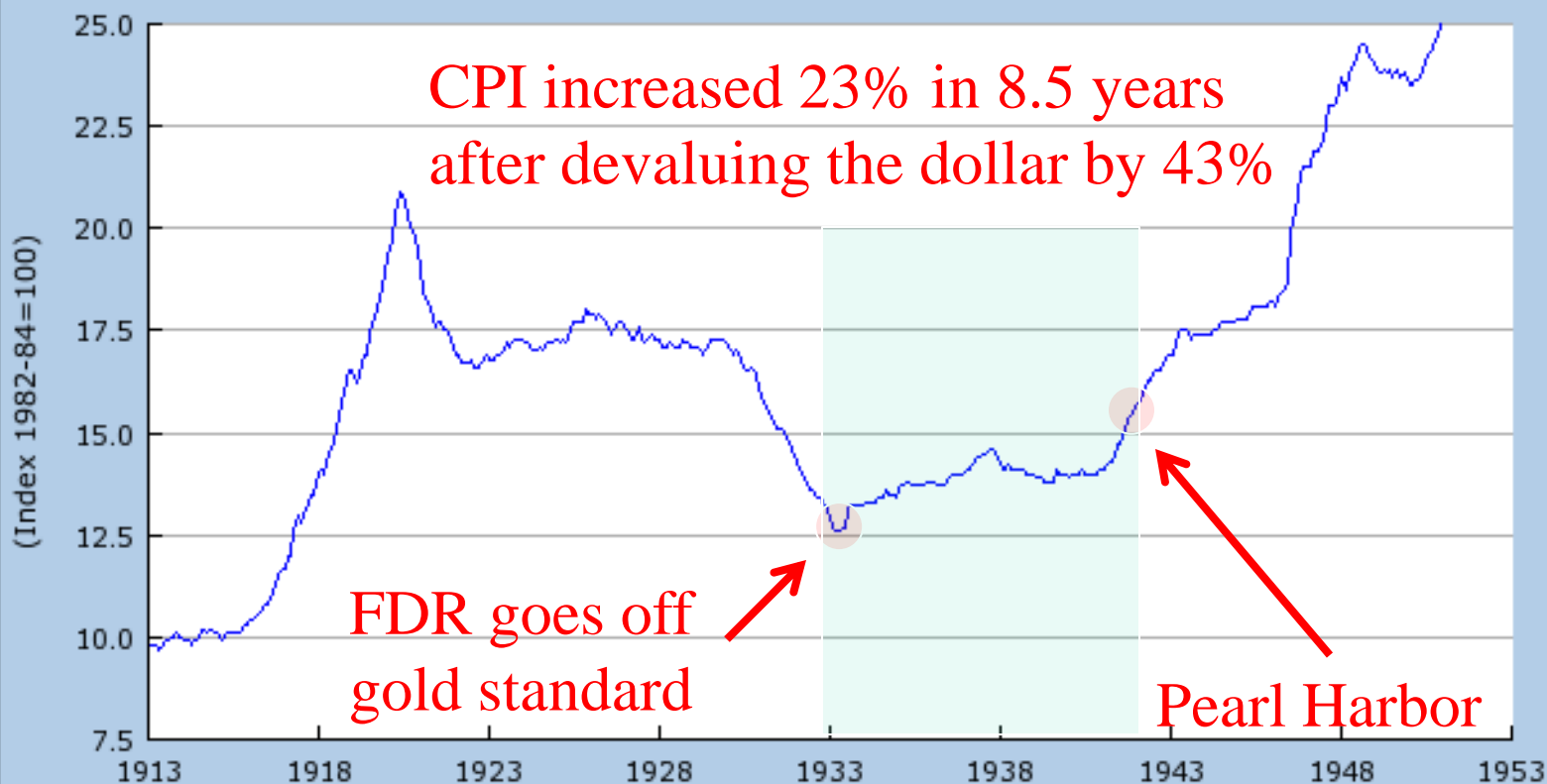
DATE	VALUE
1939-06-30	48.2
1940-06-30	50.7
1941-06-30	57.5
1942-06-30	79.2
1943-06-30	142.6
1944-06-30	204.1
1945-06-30	260.1
1946-06-30	271.0
1947-06-30	257.1
1948-06-30	252.0
1949-06-30	252.6
1950-06-30	256.9
1951-06-30	255.3
1952-06-30	259.1
1953-06-30	266.0
1954-06-30	270.8
1955-06-30	274.4
1956-06-30	272.7
1957-06-30	272.3
1958-06-30	279.7
1959-06-30	287.5
1960-06-30	290.5
1961-06-30	292.6
1962-06-30	302.9

Inflation and Deflation

Devaluing the Currency and Inflation

Consumer Price Index for All Urban Consumers: All Items (CPIAUCNS)

Source: U.S. Department of Labor: Bureau of Labor Statistics

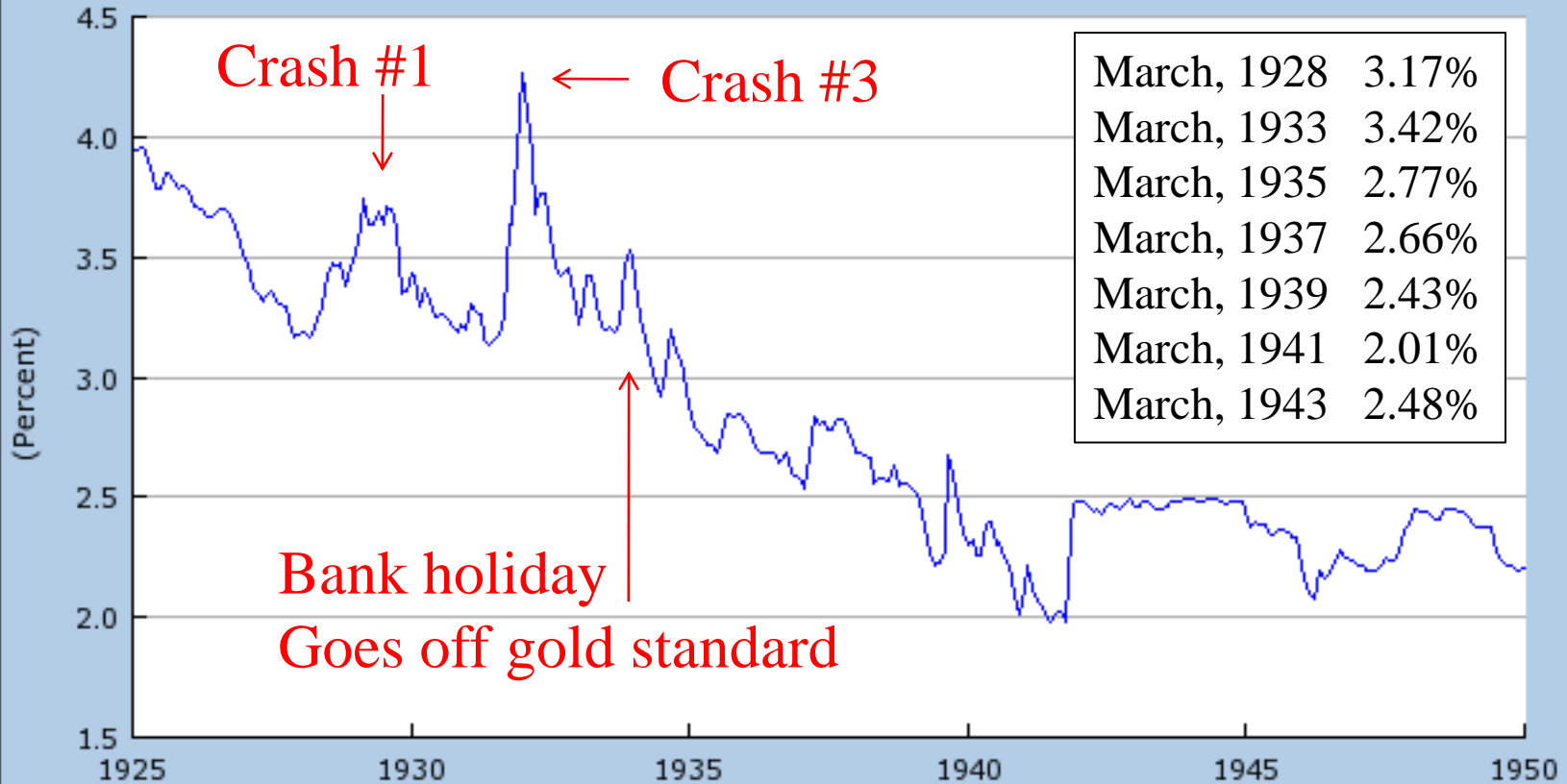


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Long-term Interest Rates

Long-Term U.S. Government Securities (DISCONTINUED SERIES) (LTGOVTBD)

Source: Board of Governors of the Federal Reserve System



What Can We Surmise ?

- If banks don't lend, then the government will lend directly.
- Deflation is THE serious concern, to be avoided at all cost.
- The amount of stimulus needed to get the economy out of depression is massive.
- Movements toward austerity led almost immediately back into recession.

What Can We Surmise ?

- The US government sextupled its debt in six years and interest rates fell and inflation was very subdued.
- Going off the gold standard and devaluing the currency did not result in “runaway” inflation and high interest rates.
- The temporary hiring programs such as WPA, PWA, and CCC didn't resolve the unemployment problems.

What Can We Surmise ?

- The US economy really didn't pick up until 1940, when the government started issuing cost-plus contracts for defense spending.
- The government debt expanded from \$48 billion to \$271 billion in six years to pay for the defense spending.

What Can We Surmise ?

- There can be fits and starts that look like the economy is turning the corner.
- The uncertainty of government regulation is a killer to business activity.
- The negative comments during political campaigns can damage public confidence.