



The Ben
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April, 2008

Well, one of my least favorite days of the year – April 15 – is approaching. So if I sound a little grumpy, it's because of our looming tax deadline, poor equity performance over the first quarter, market volatility, high oil prices and further revelations of egregious behavior by some big banks and mortgage originators. The S&P 500 stock price index fell 9.9% over the first quarter, with all 10 sectors down. Employment also fell over the quarter, with payroll employment down 232,000 and the unemployment rate up slightly to 5.1%. Does this data signal the onset of a recession? Possibly, but if so, I continue to expect it will be mild. The Federal Reserve has been very aggressive with interest rate cuts and really big balance sheet operations to take risk off bank and primary dealer balance sheets.

I continue to think the year will turn out better for the economy and financial markets than the scary headlines suggest. I have heard a large number of what I consider to be silly comments and forecasts. No, I do not think we are returning to the Great Depression. No, I do not think this is the worst economic crisis since then. And no, I do not think that the last nine years constitute the "lost decade".

Yes, the S&P 500 stock price index has only recovered to Q1 1999 levels. However, behind the still obviously lagging stock performance, we have seen the Price/Operating Earnings ratio for the S&P 500 cut nearly in half due to S&P earnings nearly doubling over the last nine years. That, to me, represents an enormous reduction in market risk. A lot of hard work by U.S. companies and their workers produced this rise in earnings, and it has been done with generally careful attention to staying competitive and controlling costs. I consider that to be a big plus for economic and financial market prospects. Certainly, we have serious problems on some big bank balance sheets because of very poor business decisions. However, even if mortgage security related write-downs were to rise to a trillion dollars (unlikely in my opinion), the two trillion dollar improvement in the aggregate non-financial company balance sheet over the last nine years provides a huge offset.

And then there is the real world. Real GDP is up 26% over the last nine years. Employment has increased by 10 million. Labor productivity, the engine behind real wage gains and staying competitive in the global economy, has increased 26%. Real after-tax income per capita has increased by 17%. Even home prices, down lately, are still up 44% from nine years ago. And real U.S. household net worth is up 20%. Lost decade, my foot. I remain guardedly optimistic on U.S. financial market performance and will continue to monitor the economy closely for further signs of recession. As always, please call me with any questions or concerns.

Sincerely,

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