



What's New?

Feddern Financial Consulting Group Newsletter

October 29, 2009

KEYS TO THE BEGINNING OF A RECOVERY:

- 1. The Real Estate market must stabilize. If not reversing, at least not continuing to fall. *NEW HOUSING STARTS UP this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!***
- 2. Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! *IT'S ACTUALLY WORSE as a "%," Back to near 10% - BUT IT CONTINUES TO MOUNT @ OVER 500,000+ weekly.***
- 3. Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. *A FEW POSITIVE SIGNS but mainly in TECHNOLOGY.***
- 4. Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! *Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!***
- 5. The DOLLAR has to decline. *It's started for REAL!***
- 6. Auto sales must stabilize at some NEW level. *Maybe started!***
- 7. The consumer must get "back in the game of consumin'" *NO WAY!***

ANALYSIS OF THE ABOVE: No Real Hope YET! -10/29/2009

It's a Strong Dollar...It's a Weak Dollar (Which is Better)

After a surge during the early stages of the financial crisis, the U.S. dollar has resumed its secular trend downward. Many applaud this dollar weakening as a way to spur exports and economic growth. Martin Feldstein, the chairman of the Council of Economic Advisors under President Reagan, has written that a more "competitive" or weaker U.S. dollar is good for America.

We cannot overstate how strongly we disagree with this position. “Strong Dollar, Strong Country” is more than a mantra for us, since economic history indicates that no country has ever achieved greatness, nor maintained it, by debasing its currency.

Have you ever heard of a country in deep economic trouble because of a strong currency? In short, the value of a nation’s currency is a reflection of the perceived value of the country in the global marketplace.

While global markets will determine the value of the dollar, America’s financial policies as well as public statements by key officials will impact how markets will weigh the greenback in the future.

A weak dollar policy undermines U.S. competitiveness, job growth, standard of living, capital investment, share prices, and our ability to finance our public debt.

Feldstein rolls out a litany of reasons why he believes America benefits from a weaker dollar: in short, increasing exports as well as maintaining growth and employment.

Here is our case why a weaker dollar hurts America.

First, a weaker dollar translates into a cut in the real spending power of American consumers; in effect, a reduction in real income. This is one reason Switzerland has the top ranking for the highest density of millionaire households, with dollar millionaire households accounting for 6.1 percent of all households due to the strong Swiss franc. Meanwhile, measured in euros, American real per capita GDP is down more than 25% since 2000.

Second, a weaker dollar diminishes the role of the dollar as the world’s reserve currency. Why should investors and central banks around the world invest in U.S. assets when its value is steadily declining? The world’s fifth-largest pension fund will no longer buy U.S. Treasury bonds because yields are too low.

The move signals what could be a big shift by financial institutions away from U.S. government debt into higher-yielding assets. South Korea, whose National Pension Service has \$220 billion in assets, is just one of many countries that wants to broaden its range of overseas investments.

The Chinese are taking the opportunity of the weak dollar and the global financial crisis to push hard this past weekend at the ASEAN Summit for a diminished role for the dollar in Asian trade and reserves. Why give them the opportunity?

Third, during a time when the American consumer is cutting back, attracting international capital investment by private companies will be crucial in financing innovation and entrepreneurship and badly needed infrastructure which will, in turn, spur economic growth and employment. With interest rates at or near zero, we need every incentive possible to attract the capital necessary to finance our ballooning public debt.

A weak dollar also undermines American jobs and industry since American companies have an incentive to borrow in dollars and use the proceeds to invest in overseas plant and equipment.

A weakening dollar encourages capital outflows. Global investors have increasingly borrowed in dollars and used the proceeds to invest overseas in higher yielding faster growing stock markets that have stronger currencies. This is one reason emerging country stocks are up 85% since March. The more the U.S. dollar drops, the more international equities rise.

Fourth, the argument that a weaker dollar will lead to a sharp reduction in America's trade deficit is highly unlikely since 40 percent of the current deficit is due to oil imports, which are denominated in U.S. dollars.

An additional 20 percent is due to trade with China, which has its currency pegged to the dollar. A weaker dollar also hampers marketing efforts by American companies in strong currency countries because marketing expenses are prohibitive.

One example is \$600 three-star hotel rooms in many European countries. Even if a weaker dollar gives a bump to exports in the short term, like a drug, it wears off, and we have to start all over again from an even weaker position.

Business leaders know that discounting prices may spur near-term revenue and profits but at a real cost to long-term profitability, not to mention inflicting damage to the brand name. This is what we are doing to the brand of America by trying to increase exports by lowering their price in the global marketplace.

Better to stand firm on price and sell into global markets on the basis of what is great about American products—superior quality, innovation, and service.

Fifth, a weaker dollar is inflationary, since it increases the cost of imports. Just look back to the U.S. economy during the 1970s—ugly stagflation and markets going sideways year after year. I might also add that plenty of countries under IMF tutelage devalued their currencies with the hope of exporting their way out of financial trouble—name one such program that worked.

Last and perhaps most importantly, I view a weak dollar policy of to improve America's competitive position as merely the path of least resistance. Let's not roll up our sleeves and cut federal spending, greatly simplify our tax code to encourage productivity and achievement, or reduce corporate tax rates and excessive regulation. Let's just wink and let our nation's currency drift lower on automatic pilot.

The value of a nation's currency is a reflection of the market value of the country in the global marketplace. Maintaining and strengthening the value of the U.S. dollar is in the national interest: the best interests of American consumers, businesses, and investors.

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All of our past Newsletters are available on our Website at:

www.fedderngroup.com

We continue to receive more and more inquiries about our Down-side Risk Management disciplines along with our group of recommended money managers. We appreciate your "referrals." It's the main way we continue to build our business.

Call us anytime: 502.442-0363 Direct 800/258-1502 Toll Free 502/442-0365 Fax 502/552-2049 Cell

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