



What's New?

Feddern Financial Consulting Group Newsletter

October 9, 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 300,000+ 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! -10/9/2009***

When Nothing is Something

By Daniel Hannan

You may remember Daniel Hannan for his rather direct and brazenly eloquent critique of Gordon "The Devalued Prime Minister of a Devalued Government" Brown last spring. If not, it is quite easy to get acquainted with Mr. Hannan's singular voice via his veracity-charged YouTube channel .

We have personally become a Hannan-fan for quite some time.

One of his premises is “Is there anything - anything at all - that might convince world leaders that they shouldn’t respond to the credit crunch by spending more? It may seem common sense that you can’t borrow your way out of debt: we all apply that principle to our household budgets. But, since the financial crisis began, states increased their spending despite the plain evidence that stimulus packages have done nothing to ward off the recession.

On most measures, it hasn’t worked: the downturn has happened anyway, but we are now drifting into it with an additional debt burden. The trouble is that, politically, stimulus packages take on their own momentum. Leaders cannot go back to their voters and sheepishly admit that the money has been wasted. They have to pretend that they are almost there, that another billion dollars will do the trick. And so, like rogue traders, they end up doubling and doubling in an attempt to move the market.

What’s the alternative to spending more? How about this: not spending more. Now isn’t that clever? The phrase “doing nothing is not an option” is one of the most pernicious in the political lexicon, and is almost never true. We are always comforted by the fact that the Commonwealth of Kentucky AND the State of Indiana are “safe” when the respective legislators are NOT in session!

By way of illustration, ponder the way in which New Zealand dealt with an earlier banking crisis two decades ago. New Zealand was the first major country to withdraw all subsidies from its agricultural sector - a reform that was hugely controversial at the time, but that almost no one now wants to reverse. When the grants were terminated, land values fell, and many Kiwi farmers found themselves in negative equity. The bankers approached the government to demand a bail-out. The government declined to involve itself. The bankers tried again, insisting that, if the state didn’t step in, there would be a financial collapse. Ministers politely told them that this was their problem.

Result? The bankers realized that it was their problem. Well aware that the last thing they needed was a series of repossessions and auctions, they allowed farmers to reschedule their mortgage payments. The crisis was averted and, sooner than expected, land prices recovered. It’s what economists call “spontaneous order”. We wonder if the current US administration would have, could have bought into this pure example of capitalism!

The point is that, had the New Zealand government given in to pressure, it would almost certainly have triggered the collapse that it hoped to avert.

Sadly, it’s a brave politician who argues, in a crisis, against state activity.

The natural advantage will always lie with the “Something Must Be Done” crowd. But there are few crises so severe that they cannot be exacerbated by government intervention.”

We end this missive with the words of that most conservative of Conservatives, the third Marques of Salisbury, spoken about the Bulgarian Crisis of the 1880s, but capable of much wider application:

"If anything happens, it will be for the worse, and it is therefore in our interest that as little should happen as possible."

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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.

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