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Third quarter real GDP growth was revised down by 0.7 percentage points or \$23.7 billion. Instead of growing by 3.5% as was the first estimate, we are now told that growth came in at 2.8%. With all of the stimulus going on, this is a sobering result. Remember, monetary and fiscal stimulus combined is about 10 times larger than during the average post WWII recession. And it's more than four times larger than during the 2001 recession.

### **This Economic and Stock Market Bounce is Just an Interlude**

You should never forget that this bounce is but a straw fire. It's an interlude separating the third - and hopefully final - act of a major secular down turn. I believe the beginning of this era was in 2000, when the first bubble burst. Starting with Alan Greenspan as Fed President, our policy makers entered a vicious circle, a crisis spiral. And with each rotation, risks are rising exponentially. I dubbed this sequence of events as The Inflation Trap. Because the real cause of this crisis spiral is inflationary fiscal and monetary policies.

This is the reason for my very cautious stance, for the high cash position I'm advocating. The risks are still so high that prudence dictates this approach.

As private investors, we have the luxury of not having to be fully invested all the time. We are not urged to think short term, which leads to shortsighted acting. Not every possible gain is worth going after. The risk-reward relationship has to be attractive. *That's the big difference between investing and gambling.*

### **Dubai Reminds the World that the Credit Crisis Has Not Been Solved**

Bad news from Dubai sent a shock wave through the world financial markets last week when the U.S. was celebrating Thanksgiving.

Dubai World, the government's investment company, announced it needed to delay repayment or restructure its debts. Dubai World played a major role in the emirates' real estate bubble, which was even more excessive than what was experienced in the U.S. The company is said to be burdened by \$59 billion in liabilities.

I don't think that this news will have major ramifications. Yes, it may serve as the trigger for an overdue stock market correction. But it will not mark the end of the medium-term uptrend off of the March 2009 lows.

Nevertheless Dubai World's problems are interesting. They clearly demonstrate the obvious: The credit crisis has not been solved. Not in Dubai, nor in the rest of the world, including the U.S.

Hundreds of billions of dollars, perhaps trillions, in bad debts are still out there. For the time being, money printing and changes in accounting rules have created a temporary reprieve and a false sense of security. I'm still convinced that this cruel reality will start

haunting the financial markets, but not yet. I expect the next crisis act to begin sometime in 2010.

### **Expect a small correction followed by an uptrend to the end of the year**

The Conference Board's Index of Leading Economic Indicators (LEI) for October was released last Thursday. It rose for the seventh consecutive month. On a year over year basis it was up 4.2%. Since its March low of -4.0% it has been rising relentlessly, exactly as it did during former economic turnarounds.

This indicator has a convincing forecasting history ... it has issued warnings before each post WWII recession. As long as it keeps rising, we can be confident that no major downturn is lying immediately in front of us. And the LEI fully supports my medium-term bounce scenario.

Jobless claims have been falling nicely during the past weeks. Since October 24 they declined every week, from 532,000 to 466,000 on November 21. This is a clear downtrend that cannot be ignored, job losses have finally abated.

But what about new jobs? That's a different story. The recent Conference Board's Consumer Confidence Survey for November showed a dire picture. During the past 26 years it has never been more difficult to find a job than it is now. There is little hope that this will change soon. More than 9 million Americans are unwillingly working part-time, and the work week is at a record low of 33 hours. Hence there is a lot of leeway for employers to increase production without having to add new workers to their payrolls. According to David Rosenberg from Gluskin Sheff and Associates, a return to the pre-recession workweek level would be the equivalent of adding two million workers. So it looks as if we have a long way to go before labor market conditions can return to some sort of normalcy.

I have talked a lot about Fed Chairman Bernanke and his convictions. He fiercely believes in the monetary printing press. He's willing to inflate his way out of every economic malaise, and he is confident about the righteousness of this approach.

Well, I'm not, which really doesn't matter. All that matters is what the Fed is doing. And it definitely keeps looking as if Bernanke is getting his way. He and his fellow inflationist's in and outside the Fed are constantly telling the public that easy money is here to stay, for as long as the Fed deems necessary.

What all this is telling me is clear: The crisis spiral is being fueled relentlessly. The Fed has caught itself in its own inflation trap. We will see more of this crisis, much more. The risks are getting larger and larger.

Finally the U.S. - and many more countries - will be looking into the abyss of a government funding crisis. I expect the bond markets to tell us when the endgame will begin. We are not there yet.

More on all of this in my monthly email later this week.

I will close for now,

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