



ASSET MANAGEMENT

2009 OUTLOOK

OVERVIEW: The economic news during 2009 will be bleak. Increasing unemployment, budget deficits and regulation. Real estate prices (commercial this time) declining, increasing state and local taxes, a bigger war in Afghanistan and negative growth in corporate profits. The really bad news is that most countries share the same economic issues.

At some point though the previous paragraph should become old news and housing prices will bottom. Also the \$1 billion dollar daily stimulus provided by the decline in oil prices should spark sales at inexpensive retailers and restaurants.

We are a year into the economic slowdown and perhaps have another year to go before we begin to stabilize.

THE NEW WORLD: Countries with older populations are not going to show much, if any, economic growth as long as population growth is negative. This includes the two countries with bigger output than any other; U.S. & Japan. Increasingly growth should be driven by the new economic powerhouses of China and India. Even they should grow slower, but internal driven growth of 4%-6% looks a lot better than the zero of the U.S.

STOCKS: Stock selection should be even more important. Management teams which have the desire and drive to increase sales should see corporate profits grow at a faster pace than the overall market. On a positive note the stock markets seem to be factored in much of the bad news. Bear markets last an average of 18 months. We are 15 months into this correction. Stocks move in anticipation of future events.

BONDS: Government bonds had a banner year in 2008 (+26%) due to declining interest rates. With rates now at 0% there is nowhere to go but up. With the exception of junk bonds the market should underperform.

OVERALL: The great depression was caused by gross government mismanagement. With that history lesson in mind the Bush administration has reacted aggressively to fix the banks and stimulate growth. The unknown is what moves Mr. Obama will make. Lower taxes and a stimulus plan will help. Year end 2009 could begin to provide hope for a stronger 2010. That data would be beneficial to the global stock markets.

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