

Tower Private Advisors

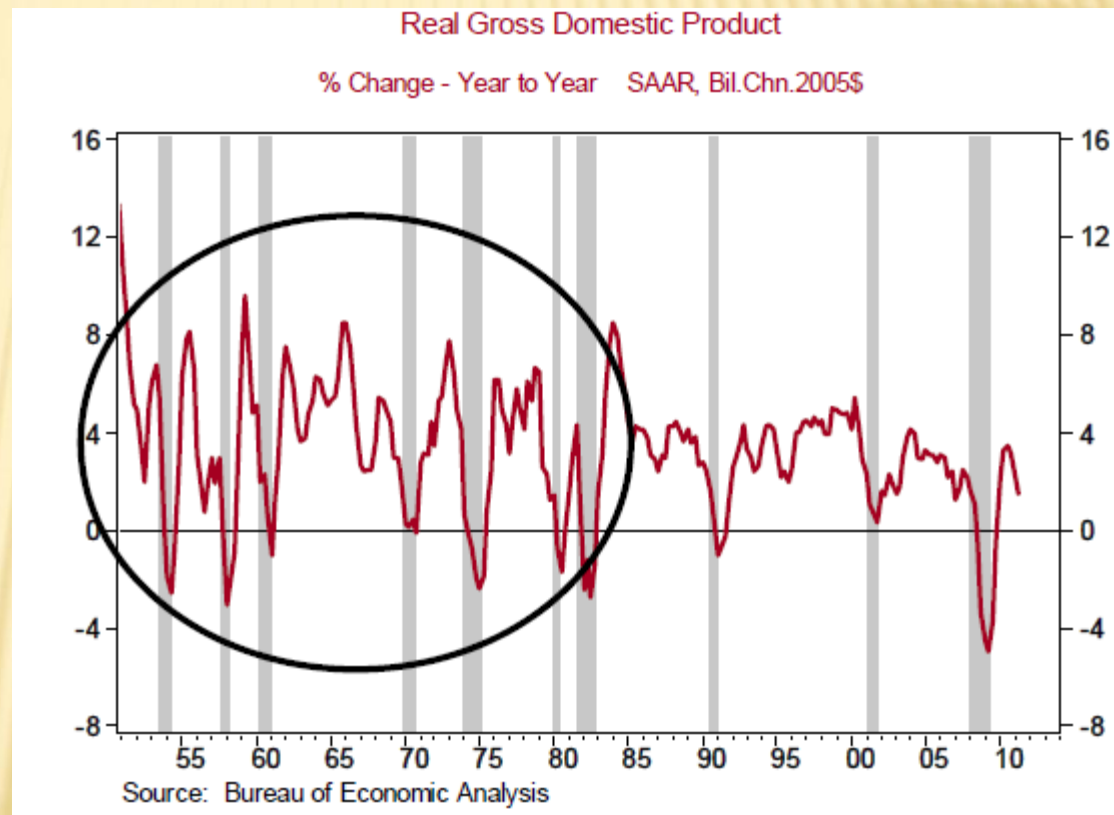
# **FALL 2011 ECONOMIC & MARKET OUTLOOK SEMINAR**

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- ✘ Summarized by Graig Stettner, CFA, CMT, Chief Investment Officer, Tower Private Advisors
  - + Editorial comments in [ ]
- ✘ Charts used with permission of Strategas

# U.S. IS IN YEAR 3 OF 4-YEAR BUSINESS CYCLE

- ✘ Future economic activity likely to resemble 30 years prior to 1980.
- ✘ Slower trend growth
- ✘ Increased volatility



# TWO ERAS

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- ✘ 30 years before 1980 – *Financial Repression*
  - + Heightened volatility
  - + Low real interest rates
- ✘ 30 years after 1980 – *Great Moderation*
  - + Low economic volatility
  - + Longer periods of growth; i.e. less frequent recessionary periods

# PROFIT MARGINS

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- ✘ Currently at all-time highs
- ✘ Mean-reverting series [GPS]
- ✘ Labor's share of income may be at inflection point, pressuring future margins
  - + Lower profit margins  $\Rightarrow$  lower earnings  $\Rightarrow$  *higher* P/E ratios  $\Rightarrow$  stocks under pressure [GPS]

# CORPORATIONS HAVE TO DEPLOY CASH

✘ Cash ≠ Capital

✘ Potential Outlets

1. Hiring

2. Capex

} These would help the economy

3. Mergers & Acquisitions

4. Dividends

5. Special Dividends

} These would help the markets

# THE MESS KNOWN AS EUROPE...

✘ The most prudent steps are most unlikely

1. Bondholders suffer (100%)
2. ECB, others, buy more time (90%)
3. Pan-European FDIC-like entity (60%)
4. Leverage the fiscal bailout (50%)
5. Euro govt budget tsar (50%)
6. Streamlined bailout process (40%)
7. Euro-bond (10%)
8. ECB debt monetization (10%)
9. Euro break-up (5%)

Strategas' probabilities in ( )

Most desirable

# RATIO OF DEBT/GDP IN U.S. MUST GO SIDEWAYS

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- ✗ The current trajectory is unsustainable
- ✗ Two ways to fix the ratio
  - + Fix the numerator (debt), we get deflation
  - + Fix the denominator (GDP), we get inflation
- ✗ Policy makers would much rather face the latter [GPS]

$$\frac{\text{Debt}}{\text{GDP}}$$