

MONEYWATCH

ADVISORS

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Newsletter to Clients

The recession is over. During the Great Depression unemployment reached close to 25% and pretty much remained above 15% until the early 1940s, nearly ten years. The next period of high unemployment began in the early 1970s. In the early 1980s we suffered unbearable inflation fighting two wars (Viet Nam & Poverty) this resulted in the worst recession since the Great Depression. The number of unemployed workers rocketed up to close to ten percent.

The growth of debt in the 1980s and 1990s had to end sometime. Unfortunately our egos won't allow us to accept blame for the huge debts taken on by so many people. Politicians seeking the approval of their public quickly steered the blame to banks and Wall Street so that we could say, "The banks and Wall Street were the culprits." Oh, now we can feel better about ourselves. As the ceiling caved, an overdue business slowdown was ushered in. Inept politicians and career bureaucrats failed at managing the falling financial markets and the result was near collapse of the financial system. Americans so want to believe that it is government which should save us from ourselves.

Capitalism is not bad when left alone. But without constraints, the free market will create excess which is necessarily followed by contraction. The recession we have experienced was almost as bad the last big one in the 1980s. Unemployment has yet to exceed the 1980s. Recovery has been swift in terms of corporate profits, notwithstanding rising prices and increased government regulation. Nonetheless, unemployment always lags but things will improve. Because of the excesses, we have far less need for construction, mortgage origination, real estate sales, insurance, appraisals, title search, etc. The percentage of workers in the area of real estate and the periphery was huge and now is simply superfluous. Sorry, if you gave up your job teaching to be a realtor. I remember a lot of salesmen who quit IBM in the mid 1960s to become stockbrokers only to see their numbers cut by 50% by 1975. Yes, one half of all stockbrokers lost their jobs between 1970 and 1975. I don't remember tears for them!

Independent thinking is the key to success in investing. Independent thinkers know that they will make mistakes. Nonetheless, they go forward without fear. Egos are not fractured by mistakes. Mistakes are normal. In that respect, I recall a fellow Moneywatcher from back in the 1980s that had to quit our company and the investment business because he was afraid to make an incorrect recommendation to a client. He wanted to be paid by clients but refused to tell them what to do, with the exception of investing in money market funds! The way I view it, we are paid to make 'better' but fewer mistakes than our clients would make on their own.

Common stocks are 'cheap' today because of currency devaluation, as are gold and foreign currencies. As one expert sees it, and he heads a \$98-billion hedge fund, the stock market has a good way to go during this low inflation, slow economic recovery period.

BlackRock Floating Rate Income Trust (BGT) announced another, albeit modest, increase in the monthly distribution to \$0.775 per share monthly. We believe short term interest rates will soon begin to rise pushing up the cash flow of BGT portfolio of bank loans, which income must be distributed to shareholders, so that it will benefit even more.

Thanks for your continuing confidence.