Armchair Economics

Perspectives from an everyman for the everyman

Out On A Limb

January 2010

I have been struggling with what to say, what to write about the New Year. There are four drafts sitting on my desktop. With the vast amount of Wall Street, Washington, media, blogging and independent soothsaying in the world today staying relevant and prescient is a tremendous challenge. It feels even more challenging after having penned last month's "The Socioeconomic Cycle", a macro perspective that would seem to have "said it all". But each year is a different year. And it takes many years together to make up a trend. **Below is some of what I expect to see in 2010….**

All companies will continue to seek productivity growth to replace jobs and reduce costs.

Domestic companies will not see measurable sales growth as consumers embrace increased savings.

EM sales growth will inspire global companies to invest in assets and people within those markets.

M&A will grow as cash strong companies make strategic acquisitions while the "recovered" economy makes valuations easier to grasp.

Strong sales channel companies in EM will make product and service line acquisitions.

Most growth companies in the U.S. will be serving government stimulus and spending markets.

Financial services regulation will increase but not greatly due to Wall Street's tremendous influence over government policy and the economy.

Full service banks (lending and securities) will grow their market share and dominance of their customer's fee income.

Independent securities firms will continue to grow as the entrepreneurial minded flee bureaucracy and government oversight at the financial giants.

Citibank will continue to break apart reinforcing the mistake of striking down Glass Steagall.

Auto and home sales will rise and fall with the tide of government stimulus.

Commercial bank loan growth will be held back by not just a lack of qualified borrowers but also consistent portfolio challenges in commercial and residential real estate, general commercial loans, leveraged loans, consumer loans and hidden toxic waste "assets".

Many displaced experienced financial professionals will continue to find the search for new employment challenging outside of independent securities and consulting firms.

Workout and turnaround consulting will continue to find revenue growth although competition from one-man shops and smaller firms will increase.

Armchair Economic Perspective
Out On A Limb
January 2010

Institutional investors will stay confused over their alternative investment strategy as private equity returns will remain poor, hedge fund returns will look good, but risk will continue to appear high.

Higher interest rates will come sooner than expected inspired by growing sovereign default risk or by inflation growth in Emerging Markets.

The Fed will not be able to stop Quantitative Easing.

Stock market returns will be challenged as the stimulus inspired market rebound and productivity inspired corporate profit growth level out.

Acceptable PE ratios will trend down inspired by slowing profit growth and higher cost of capital.

Private equity investors will continue to deal with challenged portfolio companies while seeking new investments in a perceived bottoming out valuation market.

More executive leadership team members "caught swimming naked" will be replaced.

Hedge funds will come under more regulation but technology and information flow will continue to provide them a competitive advantage in global investment markets.

More insider trading will be discovered at hedge funds and proprietary trading departments.

Unemployment will remain high as manufacturing and service industry productivity continue to grow while discretionary consumer spending remains muted.

Apple will astonish once again, Microsoft will lose more relevance and Google will stumble.

Conflict and U.S. military involvement in the Middle East will grow.

Oil prices will rise and fall or fall and rise as they do every year.

Gas prices will rise on anticipation and then fall on realization.

Sovereign default risk will become the top global economic concern as tax receipts continue to contract while government costs continue to rise and unemployment stays high.

High unemployment will become the most important domestic challenge, or will it be our ballooning deficit, higher interest rates, deflation, inflation, tepid growth, state bankruptcies, or all of the above?

Government meddling will continue to be the economy's greatest challenge to recovery.

U.S. taxes and user fees will rise everywhere as will the cost of health care.

Armchair Economic Perspective
Out On A Limb
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There will be far fewer $250,000+ wage earners to support government and the social safety net.

2010 elections will not turn the tide away from growing government meddling into the economy and "the properly managed society".

The prospect of another Black Swan event will grow as economic activity is propped up by government, rather than be organically inspired.

The greatest investment opportunities of several lifetimes will surface soon.

And here are some 2010 epiphanies….

The free market is an aspiration during expansions but of no interest in a contraction.

Both rainwater and greed will always find the path of least resistance.

It's hard to be a lemur living in a herd of lemmings.

Managing the economy may be about as easy as managing the weather.

There's a proper balance for everything yet everything seldom seems in balance.

Change presents great opportunity so long as you know where to find it.

Our personal history is of little relevance to man's history so we might be careful assuming what we know is what we really need to know.

It's always best to put big problems at the top of the to do list. Elephants in the room can cause a lot of damage. Or as my dad once taught me, it's always easiest to eat crow while it's still warm.

The socioeconomic cycle seems to go from insecurity to desire to accomplishment to over confidence to complacency to disaster and then back to insecurity.

Every forest fire produces fertile ground for the next forest.

As I hope you can expect from the Armchair, introspection that might inspire.

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