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What Do We Do Now?

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In my first newsletter I described the financial "perfect storm" that led to our current economic situation. My last newsletter was titled "The Fire Sale of a Lifetime" which still exists. These newsletters are available at www.ccbfinancialservices.com, or call us at (503) 668-2530 to receive one by mail.

Well, we are now officially in a recession and have been for a year. Estimates are that this will be a tough one; lasting well into 2009 and maybe 2010. The good news is that recessions generally last only a couple years so we may be through the worst of it.

In 2008 we lost over 2.5 million jobs, the unemployment rate is now 7.2%, the DOW is down 32%, the S&P is -37% and Foreign Developed Markets (MSCI, EAFE) are off 43%. On the positive side, Lehman Brothers Aggregate Bond Index is up 5.24%.

The government is being very creative and is doing all it can to stimulate our economy. Many people are drawing parallels to our current economy by comparing it to *The Great Depression*. I hate to say that "this time is different" but it is.

In *The Great Depression* the world governments didn't work together. They imposed tariffs on imported goods to protect domestic producers which decimated world trade. The US raised taxes which along with other government policies only served to deepen the depression. Ben Bernanke, the chairman of the Federal Reserve is a scholar on *The Great Depression* and is unlikely to repeat the government miss-steps of that era; but what can the government really do?

First we need to instill confidence in the global economy, especially our financial institutions: we are well on our way to accomplishing this goal. With the governments of the world explicitly backing their financial institutions we are seeing a return of confidence in the banking sector. We must have reliable banks in order for our economy to recover; failure isn't an option. Unfortunately, now the US Auto Industry and others are jumping on the bailout bandwagon and asking for money from the government. As unfortunate as it may be, we don't <u>have to</u> have domestic auto manufacturers, but we do <u>have to</u> have banks.

The US is remarkable in its ability to overcome adversity and bankruptcies are a key tool used in the restructuring of our markets to adjust to lower levels of demand. That is what we are going through right now. It is painful, but that is the way our economy balances supply and demand. We cannot afford to keep inefficient businesses going forever. There is some government tinkering that is desirable but we must let the law of supply and demand dominate.

This recession will be over when the supply of houses meets the demands of borrowers that are capable of honoring their obligations. This whole problem started with unrealistic expectations of easy wealth and government interventions designed to accommodate that. FNMA (Fannie Mae) was created by the government to make homes more affordable to the middle and low income people; it just went too far.

At some point people have to actually pay for their purchases not just "flip" their houses in a "Ponzi" scheme. At one time it became more affordable to buy than to rent and since real estate always went up, why would anyone rent? The governments' interest rates are low and are targeting a 4 1/2 %, 30 year mortgage rate. If that happens then people will be able to refinance, lower their payments, and pay down their bills.

Hopefully this will bring back the consumer spending that makes up 70% of our economy, but not the over leveraged debt driven levels that helped get us into trouble in the first place. Indeed, one of the reasons that our markets are in a recession is due to increased savings and reduced spending which is necessary in order to get back to a "sustainable" level of savings and spending. Americans may have an opportunity to learn from our mistakes, refinance at affordable rates, rein in excessive spending and save the rest. I have confidence in the American businessman, entrepreneurs, and hard working employees to adjust to the new world economy and find a way to thrive in the new reality.

So my advice to you is to stay invested in a way that matches your risk tolerance to the potential rewards available. If you don't know that these are, call me at (503) 668-2530 and we will find the appropriate trade off between risk and reward for your particular situation.

Rest assured that if you are invested in the stock market, you have the best money managers in the world working for you. This is only a temporary set back and your managers are finding exceptional values and are reallocating your investments to take advantage of this. We will overcome this adversity and be better because of it.

Your Friend, Bob

Heidi's Happenings:

In an economy of significantly declining interest rates there are still some good, higher rate, safe investments to be had. I am speaking mostly of Multi Year Guaranteed Fixed Annuities (MYGA). These annuities are tax deferred retirement investments with similarities to an IRA account.

Annuities are not FDIC insured but rather are insured through the specific insurance company in which the annuity is sponsored. They are guaranteed to yield the original interest rate for the term selected and involve a minimum interest rate guarantee after the maturity date. There are significant surrender charges if you withdraw the funds before maturity but most annuities have access to either interest paid or 10% of the account value that are not subject to surrender charges. You may also choose to annuitize your account and receive monthly or yearly funds for a specified amount of time or for your lifetime. Many annuities also include riders which allow access to the funds in the account should you become disabled or enter a nursing home for an extended period of time.

Safety of these investments are very important to us and we only offer annuities through companies that are A rated or better and ones that have proven stability over the years. These companies are required to keep excess funds available to pay off any claims acquired and many have been in business over 100 years.

Currently available (rates may change at any time) are annuities with a 4.90% guaranteed interest rate for five or six year terms (for investments of $10,000 or more) and 5.00% (for investments of $100,000 or more). There are of course many terms and different types of annuities that I can go over with you should you request information. Heidi's Phone 503-668-2575

Lynn's Outlook:

A big welcome to all our new clients and a very big "thank you" to those of you who have been with us for awhile and who have referred clients to us. It is our biggest compliment to have you refer friends and family. We sincerely appreciate the confidence you have shown in us through these turbulent times.

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