**Robshaw & Julian Associates, Inc.**

*Trusted Investment Advice Since 1979*

# Investment Matters

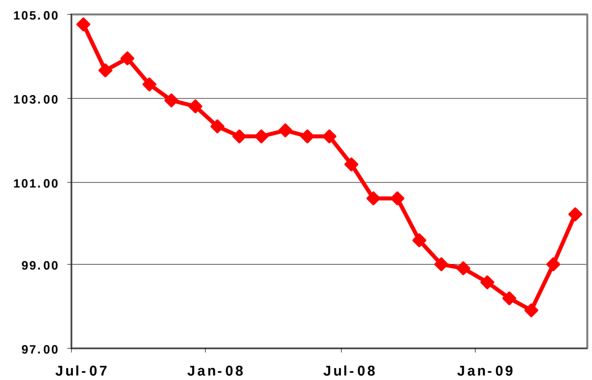
**For the quarter ended June 30, 2009**

# Leading Indicators Turn Up

The Index of Leading Economic Indicators (LEI) published by The Conference Board, a private economic forecaster, has a good record of predicting the ups and downs of the U.S. economy. In December, 2007, at the start of the current recession, the LEI had already been drifting lower for five months. By February, 2008, with plenty of time for policy makers and investors to prepare for the coming economic weakness, the index was in a confirmed downtrend.

The LEI is composed of 10 indicators, all of which have proven value in predicting the direction of the economy. By using multiple indicators, the LEI minimizes the false signals which any single indicator can send. One example is the performance of the stock market. A falling stock market often portends a weaker economy, but as every investor knows, the stock market often makes substantial head fakes. As economist Paul Samuelson once said, dismissively, "The stock market has predicted nine of the last five recessions".

The timing of the signals also varies among indicators. Money supply growth and the spread




THE LEI HAS TURNED UP SHARPLY SINCE MARCH

between long and short term interest rates often signal economic changes a year or more in advance. The stock market trend and the trend of new unemployment claims, both of which are now headed in a positive direction, typically lead the economy by about six months. Trend changes in the length of the average workweek and new capital goods orders usually occur later, but still in advance of the turn in the economy.

*"The LEI is composed of 10 indicators, all of which have proven value in predicting the direction of the economy."*

Since hitting a low in March, the LEI has risen 2.3%, enough to take it back to where it was last Fall and almost enough (up 2.6% is the hurdle recently suggested by a leading economist) to confirm an uptrend. The June reading (scheduled for release on July 20th) will be watched closely. A small rise in the LEI and three successive months of improving data could provide a strong signal that the recession will soon end. A negative reading however could suggest that the weakness may continue longer than is now expected.

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## Sage Advice

After 20 years with Merrill Lynch, first as a quantitative analyst, and for the last ten years as Chief Investment Strategist, Richard Bernstein departed the firm on April 15th. Over his career Rich gained wide respect in the investment community for his hard work, honesty and keen investment insights. Here, in his own words are what he views as the 10 most important investment guidelines he learned in his tenure at Merrill:

1. Income is as important as capital gains. Because most investors ignore income opportunities, income may be <u>more</u> important than capital gains.

2. Most stock market indicators have never actually been tested. Most do not work.

3. Most investors' time horizons are much too short. Statistics indicate that day trading is largely based on luck.

4. Bull markets are made of risk aversion and undervalued assets. They are not made of cheering and a rush to buy.

5. Diversification does not depend on the number of asset classes in a portfolio. Rather, it depends on the correlations between assets in a portfolio.

6. Balance sheets are generally more important than are income or cash flow statements.

*Continued on page 2.*

### *Guidelines: continued*

7. Investors should strongly focus on GAAP accounting, and should pay little attention to "pro forma" or unaudited financial statements.

8. Investors should be providers of scarce capital. Return on capital is typically highest where capital is scarce.

9. Investors should research financial history as much as possible.

10. Leverage gives the illusion of wealth. Savings is wealth.

*Despite the fact that year over year inflation is negative for the first time since the Eisenhower administration, market based estimates of future inflation have been rising for the last six months.*

## Jack Kemp: Bleeding Heart Conservative

Everyone liked Jack Kemp. Not only was he a successful over-achiever on the football field but he was a self-taught proponent of entrepreneurial capitalism who dedicated his political career to helping the little guy get rich. Here are some of his words on the subject:

June, 1990, in response to proposals for more redistribution of wealth to cure poverty.

America...is divided into two economies. One economy, our mainstream economy, is democratic and capitalist, market oriented and entrepreneurial. This mainstream economy rewards work, investment, saving and productivity.

It was this economy, triggered by President Regan's supply-side tax cuts in 1981 that generated 21.5 million new jobs, more than four million new businesses, relatively low inflation and higher standards of living for most people. This economy has created more jobs in the past decade than all of Europe, Canada and Japan combined.

There is another economy, a second economy, that is similar in respects to East European or third world socialist economies. It predominates in the pockets of poverty throughout urban and rural America. This economy has ... a virtual absence of economic incentives and rewards. It denies Black, Hispanic and other minority men and women entry into the mainstream.

The irony is that the second economy was born of a desire to help the poor, alleviate suffering and provide a basic safety net. The results were a counterproductive economy. Instead of independence, the second economy led to dependence. In an effort to minimize pain, it maximized welfare bureaucracy and social costs.

April, 2008.

In my opinion, people of all colors and income levels do not hate the rich. They want to get rich.

By giving people access to capital and allowing them to take ownership of assets, entrepreneurship will be encouraged and the cycle of poverty can begin to be broken. All persons should have the opportunity to go as high as their merit and determination can carry them. My favorite quote is from Abraham Lincoln, who said, "I don't believe in a law to prevent a man from getting rich; it would do more harm than good. So while we do not propose any war upon capital, we do wish to allow the humblest man an equal chance to get rich with everyone else."

Everyone says they are for equal opportunity; Jack Kemp made it his life's work.

*Big stock market rallies can happen even during the worst economic times. In June 1932, after having dropped a record 85% over the previous three years, the stock market went up 135% in the next 13 months.*

## The Bottom Line: 6/30/2009

| Market Indicator | Current Value | One Year Change |
|---|---|---|
| **Large company stocks** *(S&P 500 Index)* | 919 | -28.2 |
| **Small company stocks** *(S&P Small Cap Index)* | 268 | -26.5% |
| **Short term interest rates** *(3 Month T-Bill Yield)* | 0.2% | From 1.7% |
| **Long term interest rates** *(10 Year T-Bond Yield)* | 3.5% | From 4.0% |
| **Inflation** *(Consumer Price Index)* | 212.9 | -1.0% |
| **Energy** *(West Texas Intermediate Crude Oil)* | 69.89/bbl. | -50% |
| **The economy** *(Inflation adjusted GDP)* | 14.1trillion | -2.5% |

QUOTABLE

*"Inflation is the one form of taxation that can be imposed without legislation."*

Milton Friedman

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