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Sandbags and other distractions

By Lawrence E. Howes, MBA, CFP®

The past several months in the stock market has rewarded investors with some good numbers. From March 9th to the end of August, the S&P 500 was up 52.3%. Not bad market performance for an economy that was predicted by some to revert to bartering for soap and toilet paper. Alas, returning to the dark ages was not to be and those filling sandbags and preparing for riots in the streets are still waiting.

I don't want to suggest that we forget the financial and human carnage caused by the correction we have just seen. Quite the contrary, the shifts and changes in employment, corporate America, and in the cautious attitudes of most investors will likely be enduring, but also very positive. Many people in the US will not see jobs again like they had before this mess began. Even as the markets improve, don't count on seeing the employment numbers getting much better in the foreseeable future. Most companies in the S&P 500 are loaded with cash and, outside of those in the financial sector, they have very little debt. Basic industries and services are poised for growth.

What we have here is a recovery in confidence by business, because, among other reasons, most businesses got rid of the last few employees they didn't want and the people that remain are very productive and grateful to have a job. Productivity is soaring and any increase in sales generates immediate profits. Many consumers are still wondering if they are going to have a job and what shoe might fall next. It is understandable to see caution and reservation from people now; however, it is only a matter of time before consumers begin to spend again.

Historically, most Americans have been happy with their spending excesses and indulgences. Not so today. By far the biggest bubble that burst in the recession of 2007-2009, was not the stock market, or real estate prices, or even investor confidence. The huge pop was the US consumer stopping a 25-year spending binge and finally putting the credit cards away. Consumer spending and revolving debt are down to levels not seen in years. It is reasonable to assume that when spending does return, it will not be near the level of the excesses that we saw in 2002-2007.

Perhaps the spenders, that have been absent for awhile, will reappear this holiday season. No one knows when or how and it is impossible to predict. What ultimately opens people's purse strings will be the subject of many theories in the next few months. All I can say is, that in the past, spending has picked up quickly and without logic or an event, so don't dwell on what might or might not happen. We will all wait and see.

The rest of the recovery should be in good shape through 2010. There are few structural problems in this economy to prevent our portfolios from continuing that long road to recouping the money we lost. There are only diversions, and the media, in the way of everyone adapting to this new world. Evidence suggests that this economy has proven, once again, that it is resilient and adaptable.

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