

Job One

If you are reading this, you are likely a client of ours. In other words, you have obtained enough wealth to merit a serious consideration of how best to invest your financial assets. If you have a successful career, the idea of losing your job is an abstraction. So when we hear about the 10%+ jobless rate and, while it sounds horrible, we don't quite understand how this data point is consequential in our daily life, much less what it would mean were we the one out of ten in America looking for work.

Unemployment impacts us all, and can have a long-term negative impact on your investment portfolio. Since consumer spending represents up to 75% of GDP, if folks aren't working, they're not spending. If they're not spending, companies – and more to the point, their stock prices -- aren't growing. Currently, there are six times as many people looking for work as there are jobs available. Once the jobless rate stops decelerating and actually begins to grow, economists predict that it will take over 70 months to return to pre-recession employment levels. The Federal Reserve expects the rate to drop to 8% by 2012, a number that in less dramatic eras would seem horrific. What this all means is that an economic recovery that is dependent on consumer spending is not exactly just around the corner.

So why are the financial markets seemingly shrugging off the dire employment picture? One explanation is that the market, being a forward-looking pricing mechanism, is discounting an economic recovery in 2010-2011. Perhaps those eternally optimistic and frequently paranoid investors are reading too much into every morsel of economic news and don't want to miss what has already been a high-octane rally. Any glimmer of improvement provides another reason to plow low-yielding cash back into the equities of companies that while leaner and meaner, are not exactly generating dramatic revenue growth.

We think another explanation lies in investors' willingness to look beyond the US consumer for an economic turnaround. In particular, the enormous potential of emerging markets may be "what's different this time." While we are dubious about the near term positive contributions from the "R" and "I" of the BRIC countries (Brazil, Russia, India, and China), the impacts of Brazil and China's growth on our own economic future should be significant. Brazil is one of the few countries in the world that has a budget surplus based largely on its fiscal discipline, commodity-rich economy, and 5% GDP growth rate. China has emerged from the global recession with a 7% GDP growth rate. Its successful shift to boosting consumption at home over the next decade could ensure a continuation of its rapid growth. Brazil and China's stock markets have reflected this potential, up over 80% and 60% respectively this year.

Perhaps emerging markets' growth means that exports will become a larger component of our GDP, but consumer spending is still what lubricates American's

economic engine. And while America remains mired in record national debt, massive health-care reform, two expensive wars, and near record unemployment, the continued boom in the emerging markets alone cannot pull us out of our economic slump. Without domestic job growth, the unemployed will lose valuable skills that make them less employable in the future. Research shows that students who graduate from universities during periods of high unemployment will have permanently lower incomes during their careers than those who graduate during better times.

Recent discussion in Washington of a jobs program (as opposed to a second stimulus) makes sense to us. The Economic Policy Institute, a progressive think tank, argues that spending \$40 billion a year for three years on public-service employment would create a million jobs. Moreover, since only 25% of the original \$787 Billion stimulus package has actually been spent, the next stage of spending (which will likely transition away from state outlays toward a more direct increase in infrastructure projects) should provide a badly needed boost to the unemployed.

While the 2009 market “melt-up” has been kind to your portfolios, it has not been a particularly kind year for a significant portion of the population. If the ranks of the unemployed don’t soon find work, we will all feel their pain. Improving the employment picture in our own country must be job one.

The ClearRock Capital Team

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