

## A Quick Recap and Then Some Predictions.

What has happened? In the last year the stock market has lost over \$7 trillion in value, the world jobless total is predicted to rise to 25 million, and in November, the National Bureau of Economic Research called December 2007 as the official start of the recession.

What has been done? It's called quantitative easing and that refers to ways of boosting economic growth after traditional monetary tools, such as interest rate targets, have been exhausted. Its goal is to limit deflationary pressures and avoid a much worse scenario, depression. Essentially, it is done by infusing a huge amount of liquidity (printing money) and dramatically easing borrowing rates. The Bank of Japan followed a similar strategy from 2001-2006 after the economy was hit by the dot-com bubble.

## Will the Government's Monetary Policy Work?

In my opinion yes and there are already signs of life in terms of its effectiveness. They are not earth shattering but they are reversing some of the evils that have put us in this position. Here are a few predictions on what we're likely to see:

**Housing:** Despite the monetary easing only borrowers with strong credit and sufficient equity to invest (20% or higher) have been able to take advantage. Additionally, the inventories remain high and consumers collectively still believe investing in real estate is a risk – that there is still more of a decline to come. Our prediction of late '09 as the beginning of a turnaround still makes sense.

**Inflation:** In early 2008 we were a bit concerned that the Fed might have gone a little too far in manipulating rates and while we didn't see immediate concern for rising rates and inflationary pressures we believed it may be an issue in '09. At this point we are backing off that stance and see no evidence of inflation for the foreseeable future.

**Oil Prices:** Commodity prices have done a complete about face and that includes oil. In the last few months the price of oil has dropped \$100 to \$40 a barrel and gas at the pump has receded to \$1.60 a gallon. While this is very nice I believe that the real price per barrel should be around \$70 and as far as gas is concerned it will probably rest somewhere around \$2 - \$2.50 per gallon (including a possible gov't excise tax).

**The Stock Market:** No matter which way you fall on the pessimist/optimist scale the truth is we are much closer to the bottom than we are to the top. The key in this market is to realize that there are tremendous opportunities in oversold sectors and take advantage of those situations that have the highest potential recapture rates.

**Equities vs. Fixed Income:** StraightLine bases its management on the understanding that over 90% of a portfolio's performance is based on its allocation between stocks and bonds. These next few months are crucial in establishing a strategy for not only recapturing some if not all of the value lost in the recent decline. Staying on the sidelines may feel a bit better, but in truth, having an equity allocation that meets your risk tolerance will make a big difference over the next few years.

**12/22/08**  
**Category**  
**Style**  
**Performance**

Large Cap Core  
- 33.81%  
Mid Cap Core  
- 41.77%  
Small Cap Core  
- 39.93%

**12/22/08**  
**Index**  
**Performance**

**S&P 500**  
-39.28%

**DJ Industrials**  
-33.96%

**Lehman US**  
**Agg. Bond**  
5.04%

**MSCI EAFE**  
-44.59%

*These stats – provided by Morningstar – are a sample of the benchmarks by which investors should gauge the relative performance of their money managers.*