



**AAI Los Angeles Chapter  
Presentation June 18, 2011**

**The New Economic Paradigm and  
How to Make Money In It**

**Prepared by  
James Goldberg  
President of Goldberg Investment Advisors  
310-471-7226 [jm.goldberg@adelphia.net](mailto:jm.goldberg@adelphia.net)**

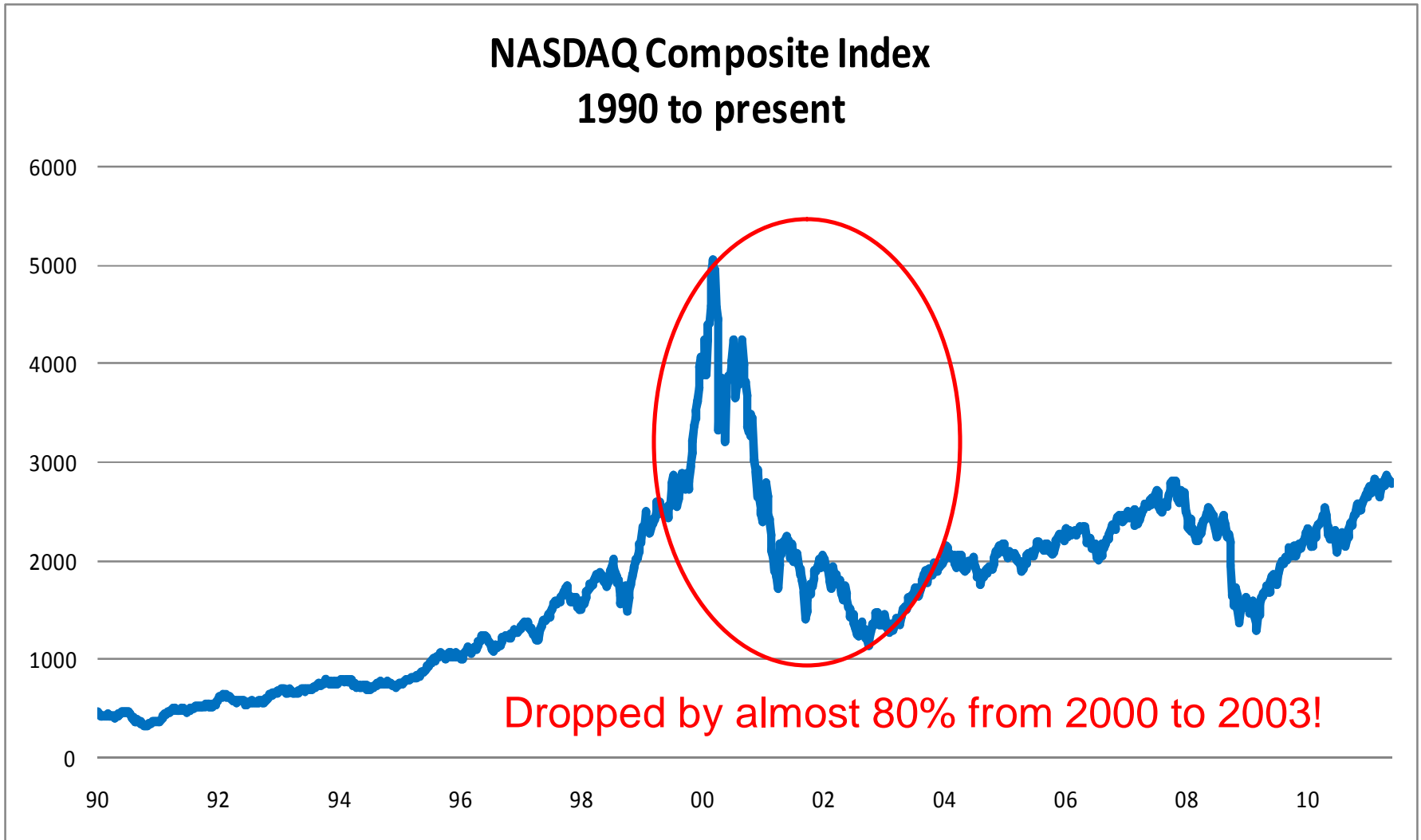
**Source: Bloomberg**

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# The Problem



### NASDAQ Composite Index 1990 to present





# Interest Rates Fell by 200 to 400 Basis Points

December 31, 1999 to March 6, 2003

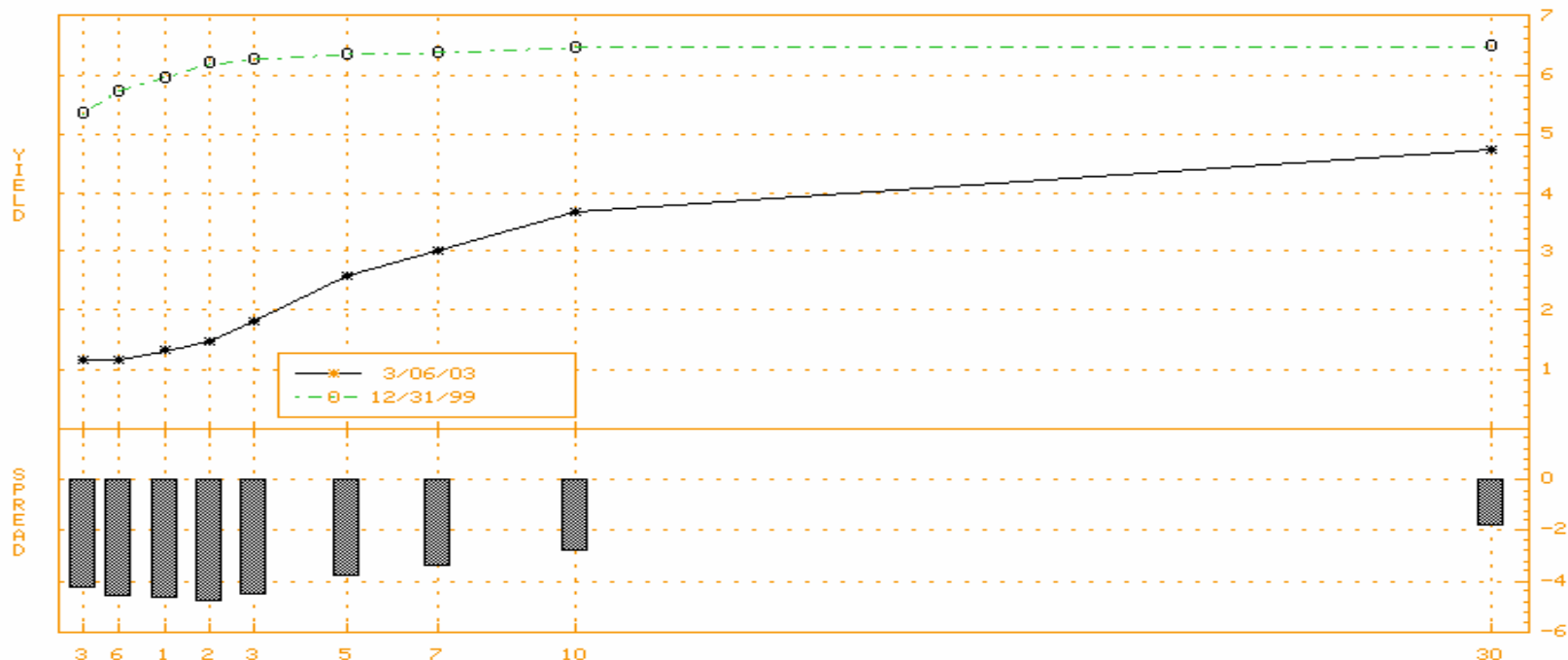
<HELP> for explanation. Index **C15**  
 1YR POINT IS INTERPOLATED TILL 06/04/2008

## HISTORICAL YIELD CURVE

PAGE 1 OF 2

DATE RANGE 12/31/99 3/ 6/03

MTY RANGE 3M 30Y



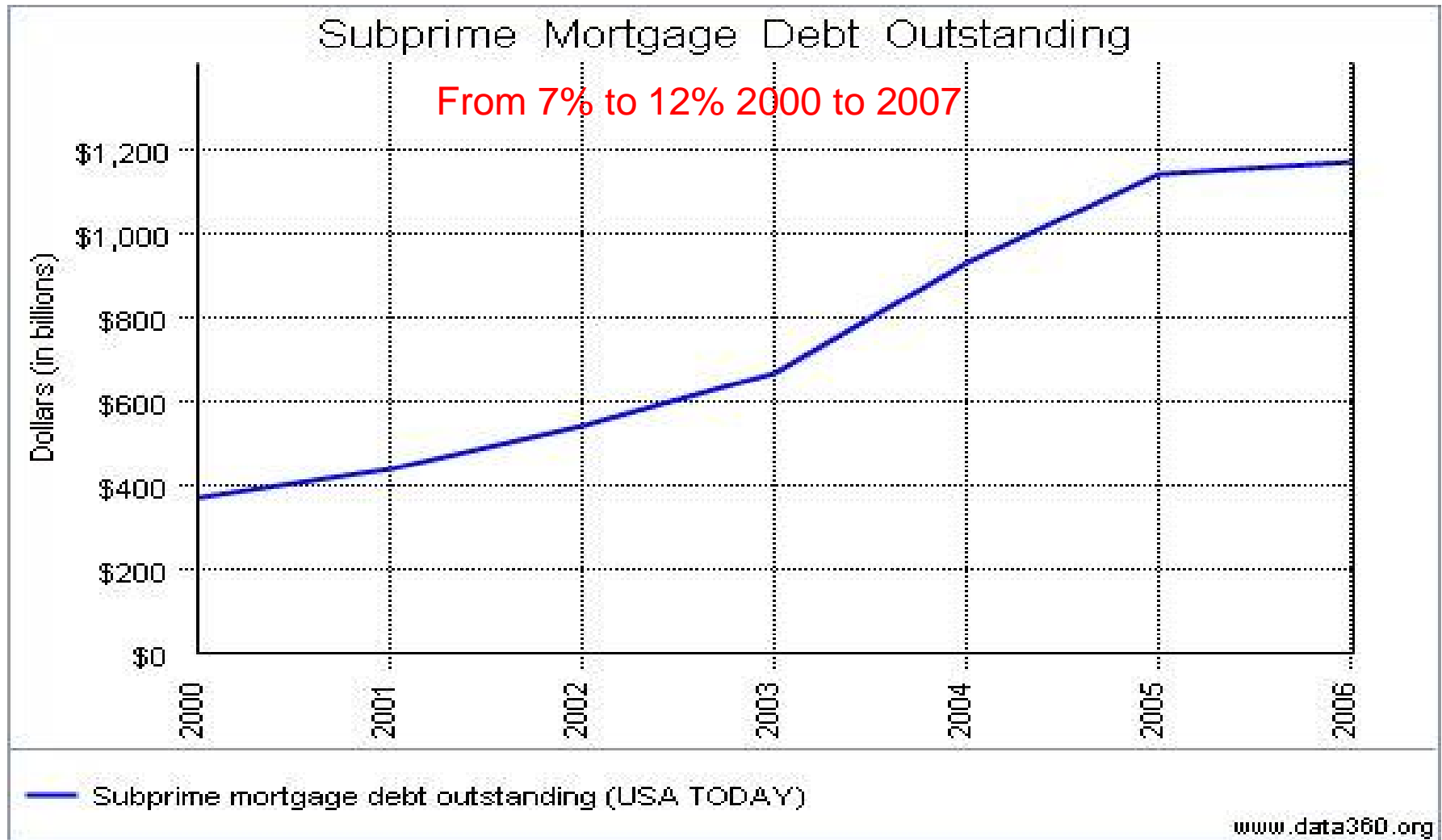
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.  
 SN 867301 PDT GMT-7:00 6260-340-0 31-May-2011 15:26:13



# Other Factors

- Stimulate housing as usual, the tried and true formula for getting out of recessions
  - But went to the well once too often
- Weak and ineffective regulation of FNMA and Freddie Mac
- A flawed philosophy of the power of markets
  - Ayn Rand believer
    - Greenspan
      - Disliked regulation
      - Favored free market mortgage competition
- Rating agencies that went from being paid on a subscription basis to being paid by the issuers
  - Until the very end, rated some of the worst toxic waste AAA/Aaa and kept the game going
- Greedy Wall Street managers
  - Stan O’Neal
  - Ron Arnall
- Little or no protection for poorly informed consumers

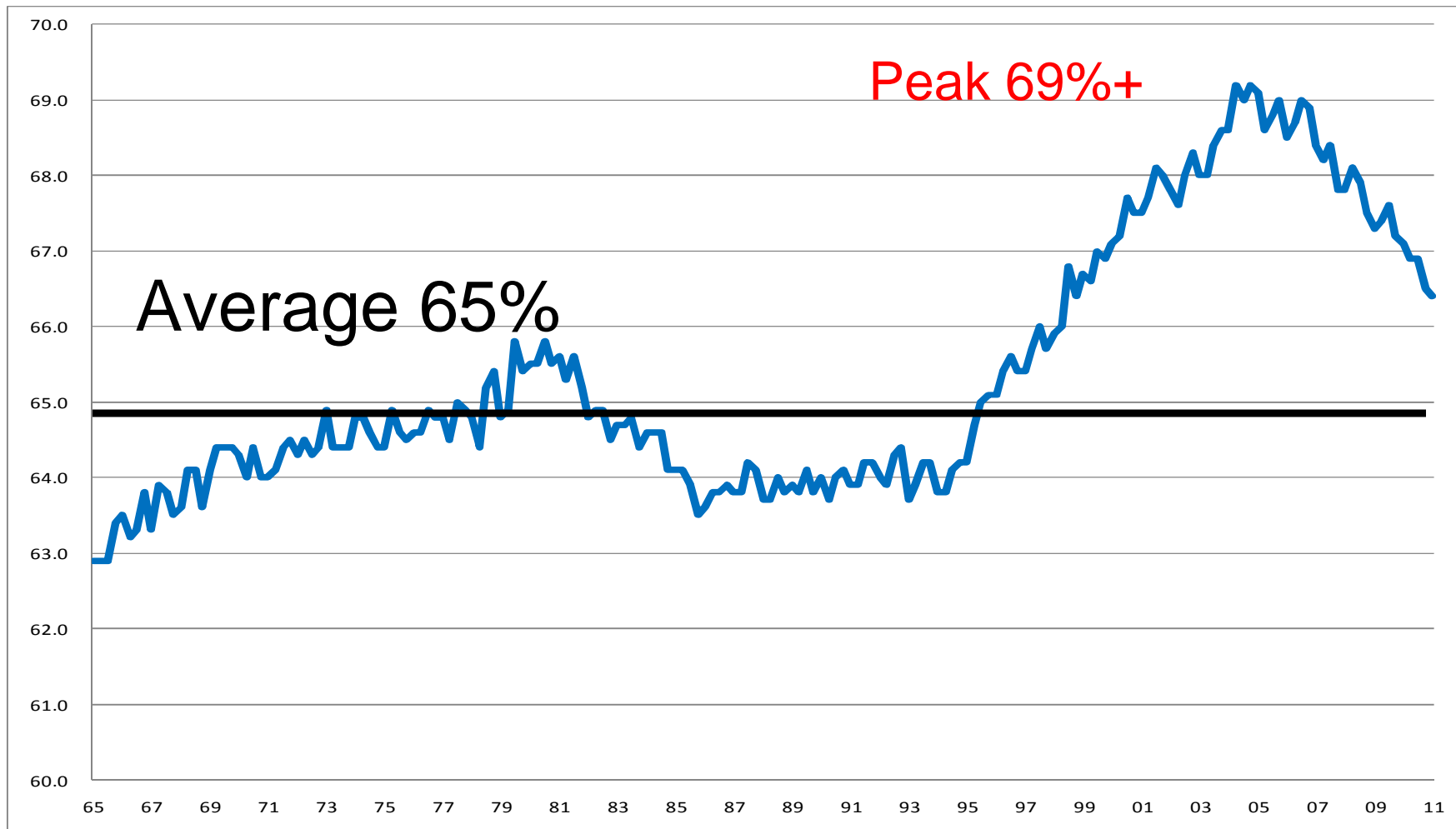
## Set the Stage for Subprime II





# Homeownership

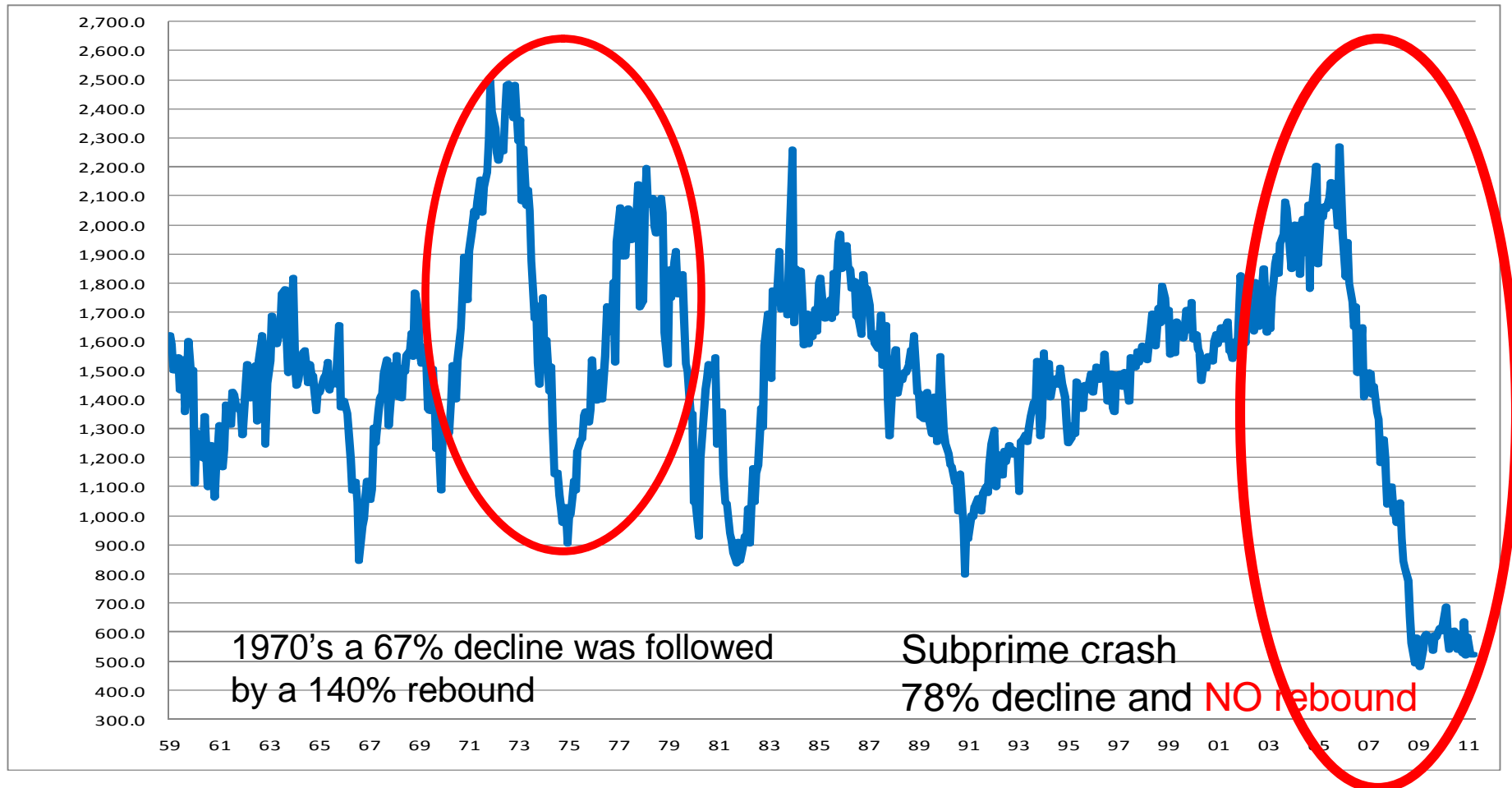
(Owner Occupied Housing Units  
dividend by Occupied Housing Units)





# CRASH II

## Housing Starts

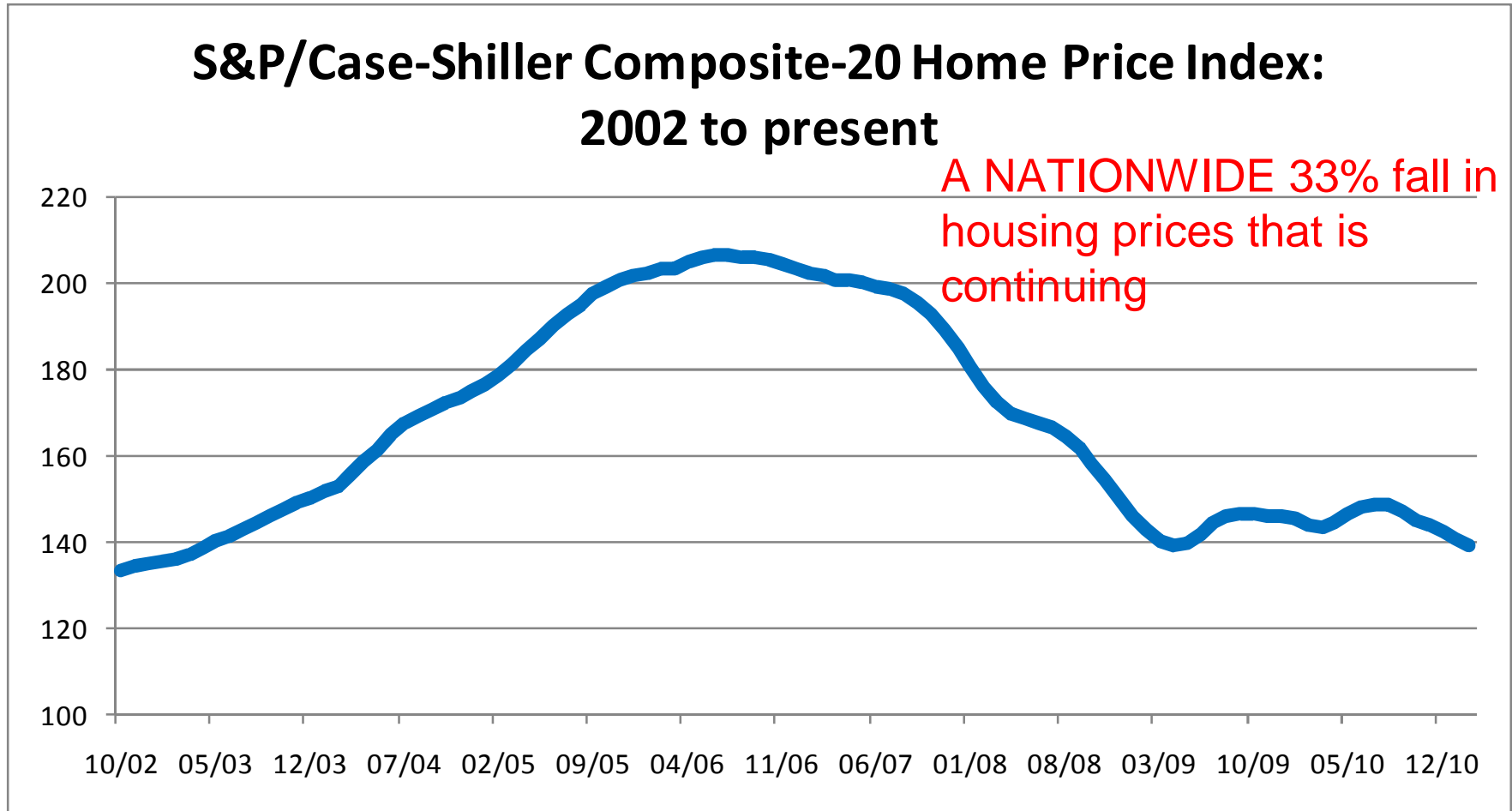






# CRASH II

## Home Prices



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# The Rescue





# T.A.R.P.

(Troubled Asset Relief Program)

Most of this has been repaid

	TARP Funds Allocated (\$ million)
AIG	70,000
Citigroup	50,000
General Motors	50,000
Bank of America	45,000
JPMorgan Chase & Co.	25,000
Wells Fargo & Company	25,000
Ally Financial	17,000
Chrysler	14,000
Morgan Stanley	10,000
The Goldman Sachs Group, Inc.	10,000
The PNC Financial Services Group Inc.	7,579
U.S. Bancorp	6,599
GMAC LLC	5,000
SunTrust Banks, Inc.	4,850
Capital One Financial Corporation	3,555
Regions Financial Corp.	3,500
Fifth Third Bancorp	3,408
American Express Company	3,389
BB&T Corp.	3,134
Bank of New York Mellon Corporation	3,000
KeyCorp	2,500
	<b>362,514</b>



# American Recovery and Reinvestment Act

The Recovery Act intends to achieve its goals by:

Providing **\$288 billion in tax cuts** and benefits for millions of working families and businesses

Increasing federal funds for **education and health** care as well as entitlement programs (such as extending unemployment benefits) by **\$224 billion**

Making **\$275 billion** available for federal **contracts, grants and loans**

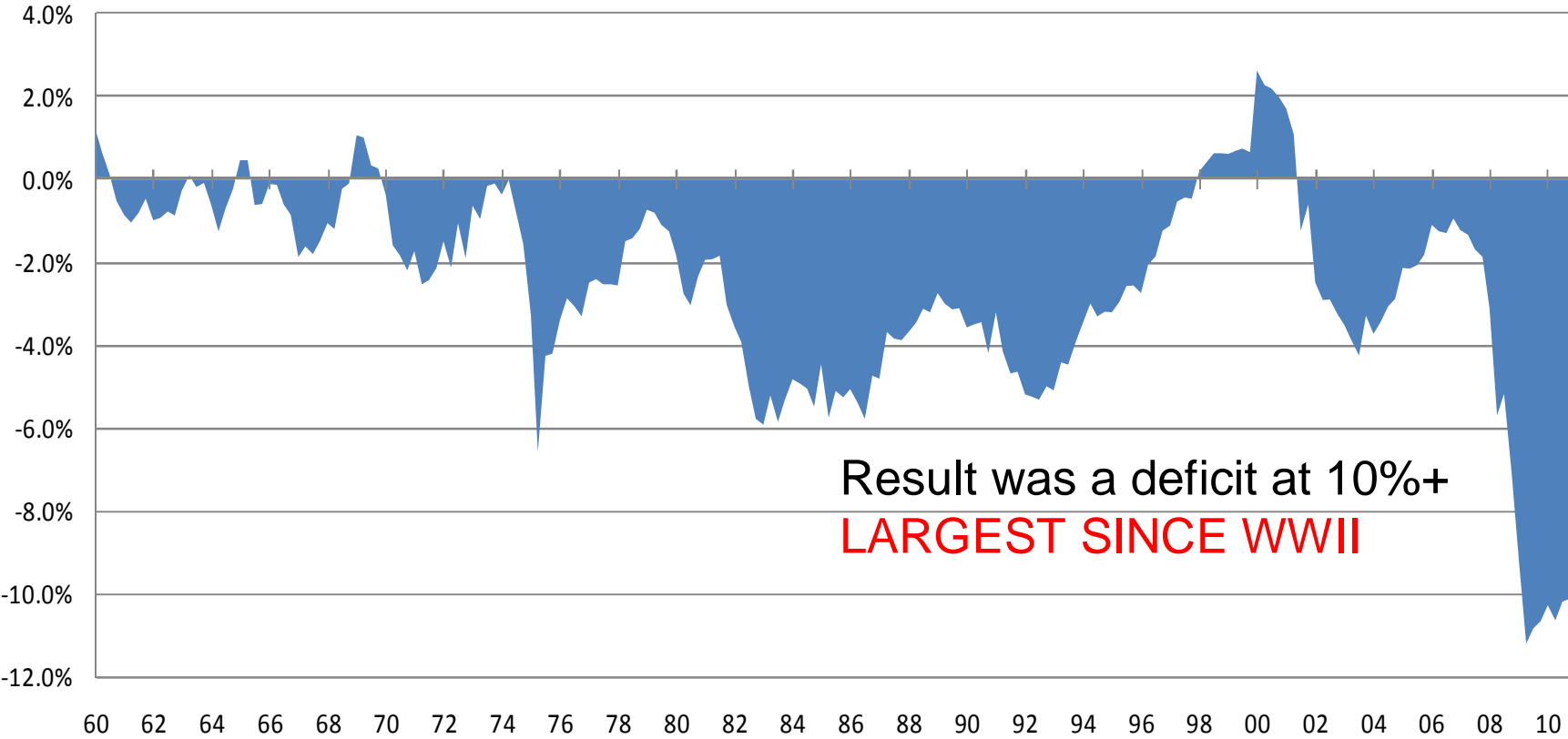


## Other Programs

- Nationalized FNMA and Freddie Mac
- December 2010
  - Extended Bush era tax cuts
  - Additional FICA tax cuts
  - Extended unemployment benefits
- Continued the war in Afghanistan



### Federal Deficit as a Percentage of GDP (1960 to present)



Result was a deficit at 10%+  
**LARGEST SINCE WWII**



# Federal Reserve Policy

<HELP> for explanation.  
1YR POINT IS INTERPOLATED TILL 06/04/2008

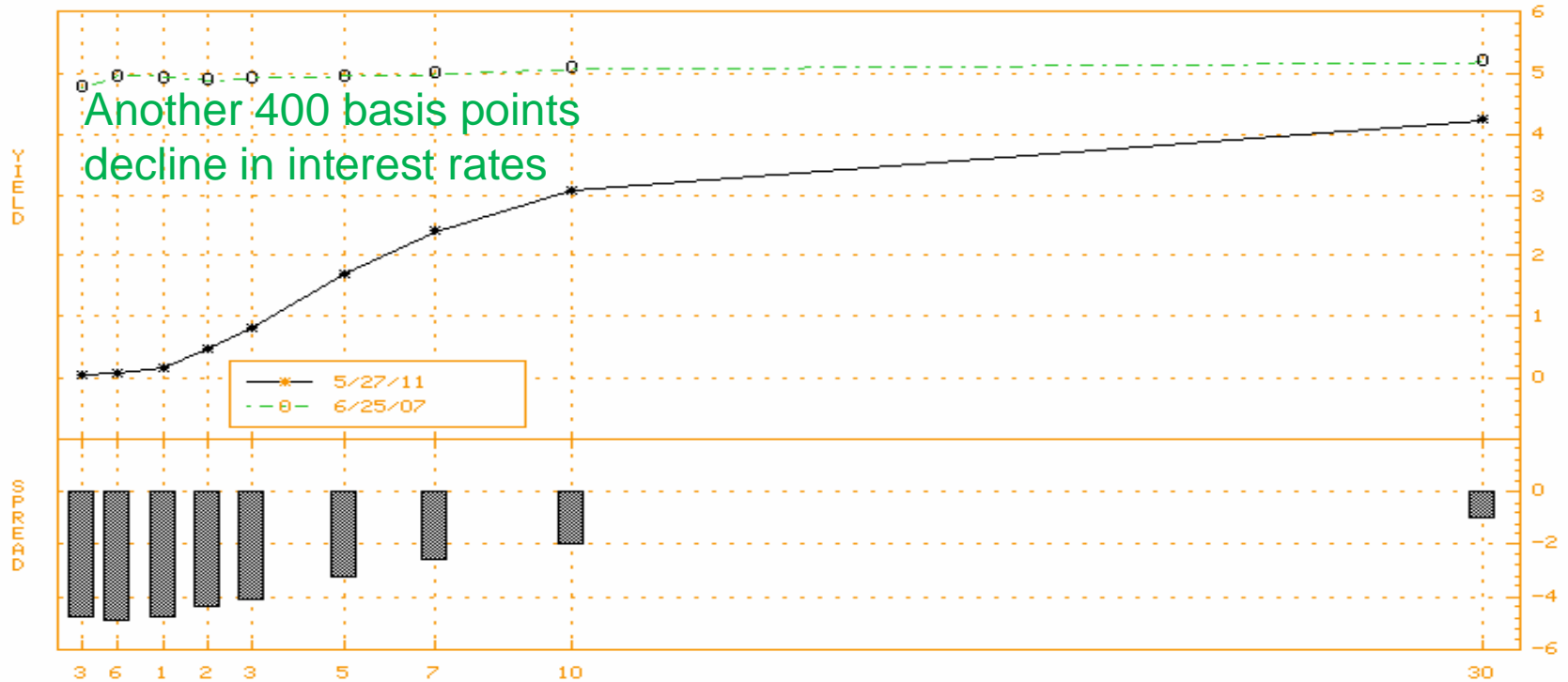
Govt C15

## HISTORICAL YIELD CURVE

PAGE 1 OF 2

DATE RANGE 6/25/07 5/27/11

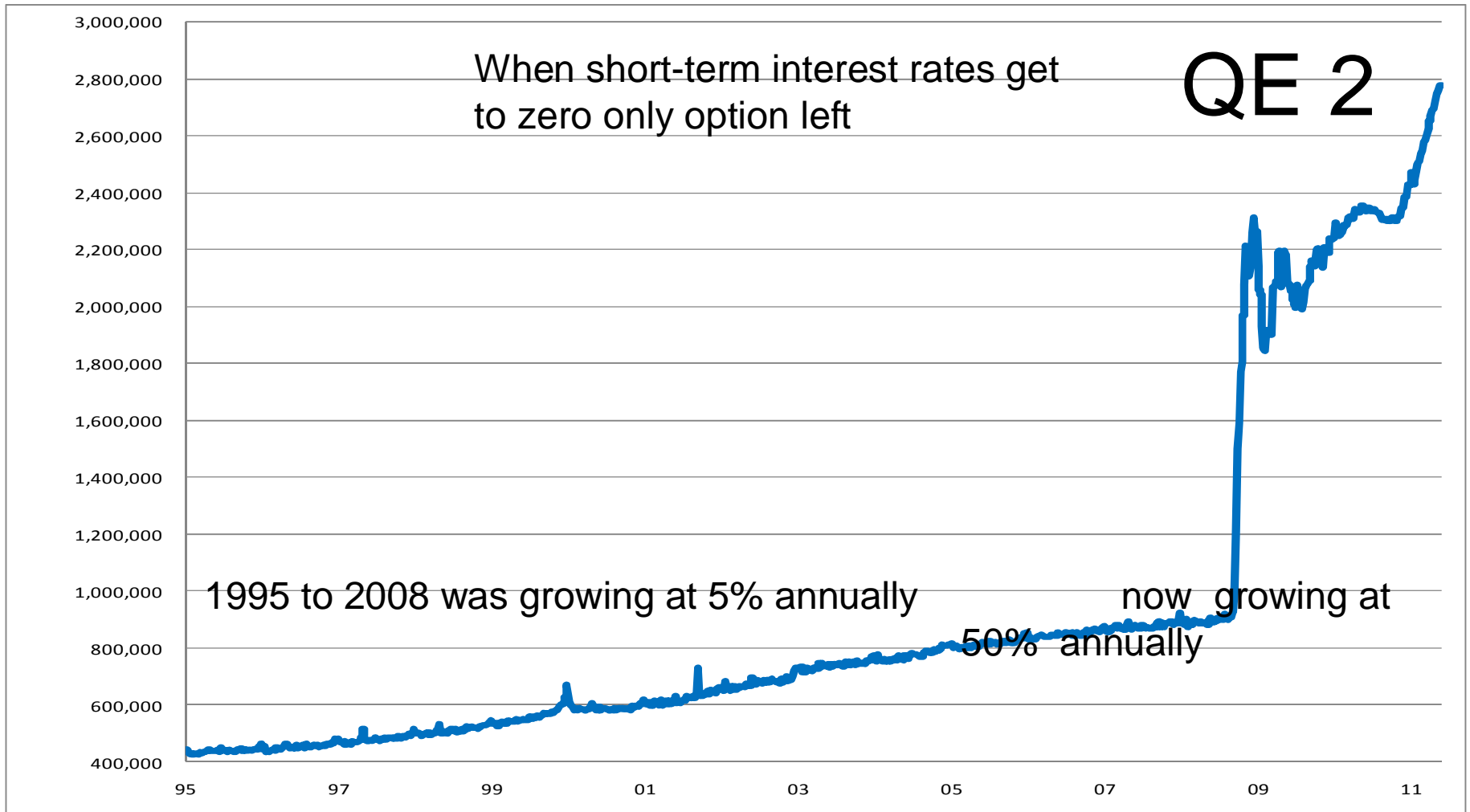
MTY RANGE 3M 30Y



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.  
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# Federal Reserve's Balance sheet (billions of dollars)

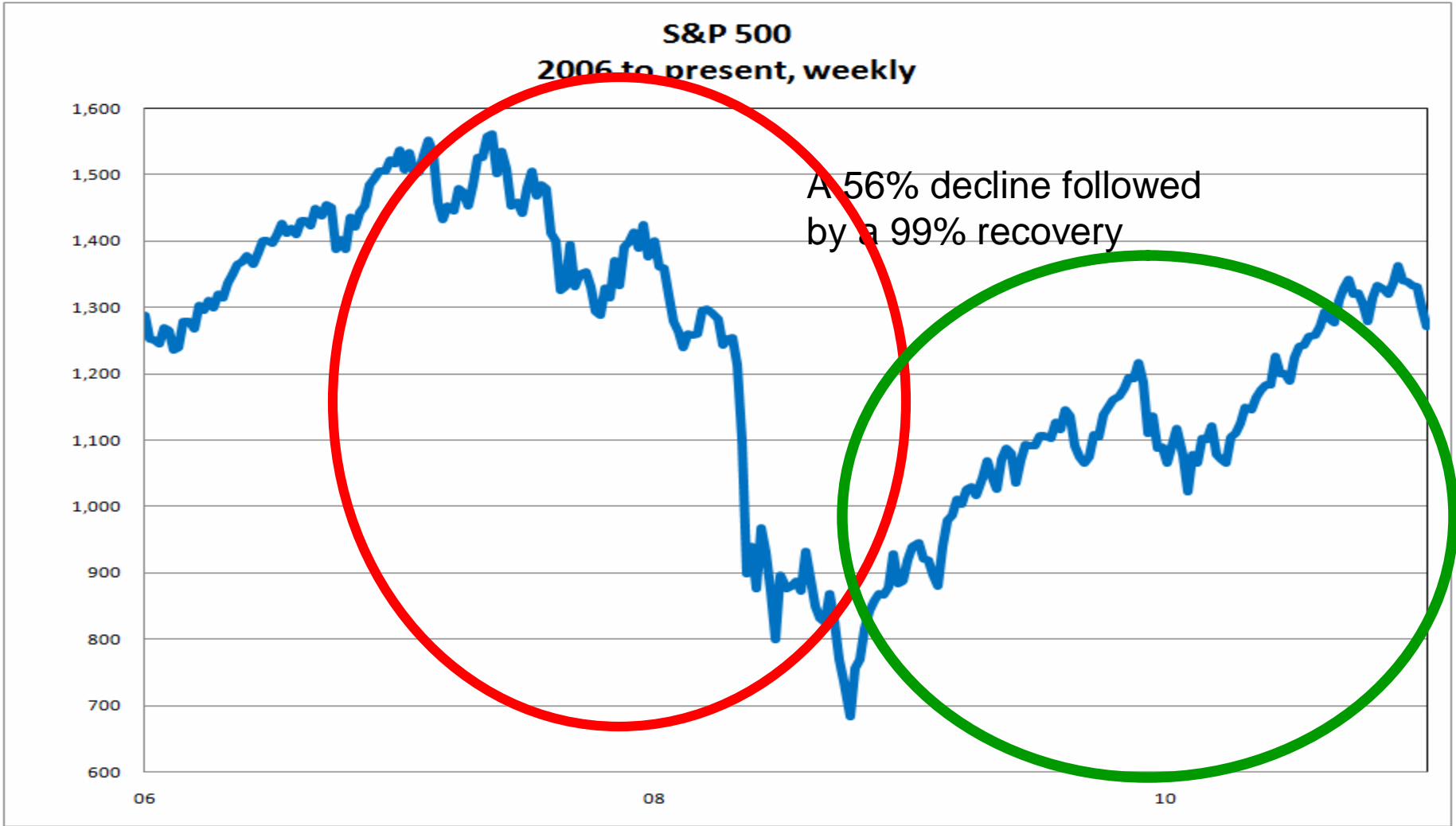




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# Success







# Performance of Various Sectors of S&P 500 Since March 6, 2009

9

EquityRPT

Hit page for all index returns, # Index<G0> to select

**Ranked Returns: Index Groups**

PAGE 1/ 2

Index: SPXL1

S&P 500 ECO SECT

Base Currency USD

All Group Performances

10 Groups	
Start Date	End Date
3/ 6/09 -	5/27/11
683.38 -	1331.10
Return:	94.78%

1) S&P 500 FINANCIALS INDEX	158.19
2) S&P 500 CONS DISCRET IDX	148.90
3) S&P 500 INDUSTRIALS IDX	140.55
4) S&P 500 MATERIALS INDEX	122.25
5) S&P 500 INFO TECH INDEX	103.00
6) S&P 500 ENERGY INDEX	82.51
7) S&P 500 CONS STAPLES IDX	61.79
8) S&P 500 HEALTH CARE IDX	60.99
9) S&P 500 TELECOM SERV IDX	48.06
10) S&P 500 UTILITIES INDEX	45.40



# Corporate Bonds Performance Since March 6, 2009

<HELP> for explanation.

Hit 1<GO> for Options, Hit <Page> for table.

Equity**COMP**

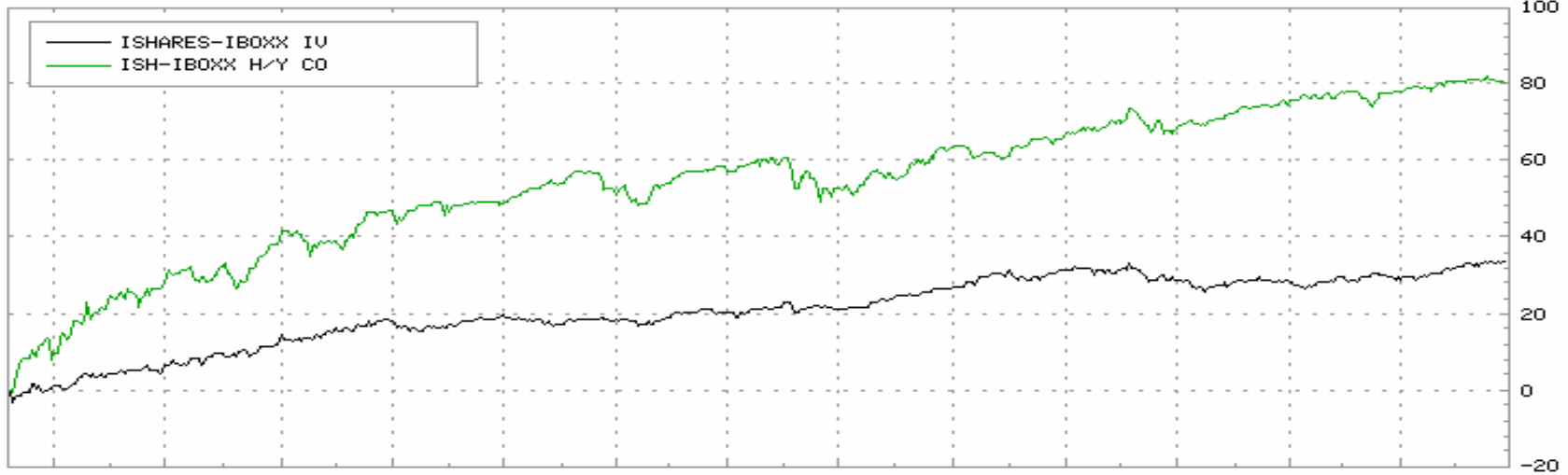
### COMPARATIVE RETURNS

Page 1/40

Range 3/ 6/09 - 5/27/11 Period  Daily 812 Day Period

Securities	Crcncy	Prc Appr	Total Ret	Difference	Annual Eq
1 LQD US Equity	USD	19.71 %	33.82 %	-46.88 %	13.99 %
2 HYG US Equity	USD	48.63 %	80.70 %		30.47 %
3					

(\* = No dividends or coupons)



31MAR09 29MAY 31JUL 30SEP 30NOV 29JAN10 31MAR 31MAY 30JUL 30SEP 30NOV 31JAN11 31MAR  
 Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
 Copyright 2011 Bloomberg Finance L.P.  
 SN 867301 PDT GMT-7:00 6627-340-0 27-May-2011 19:26:41

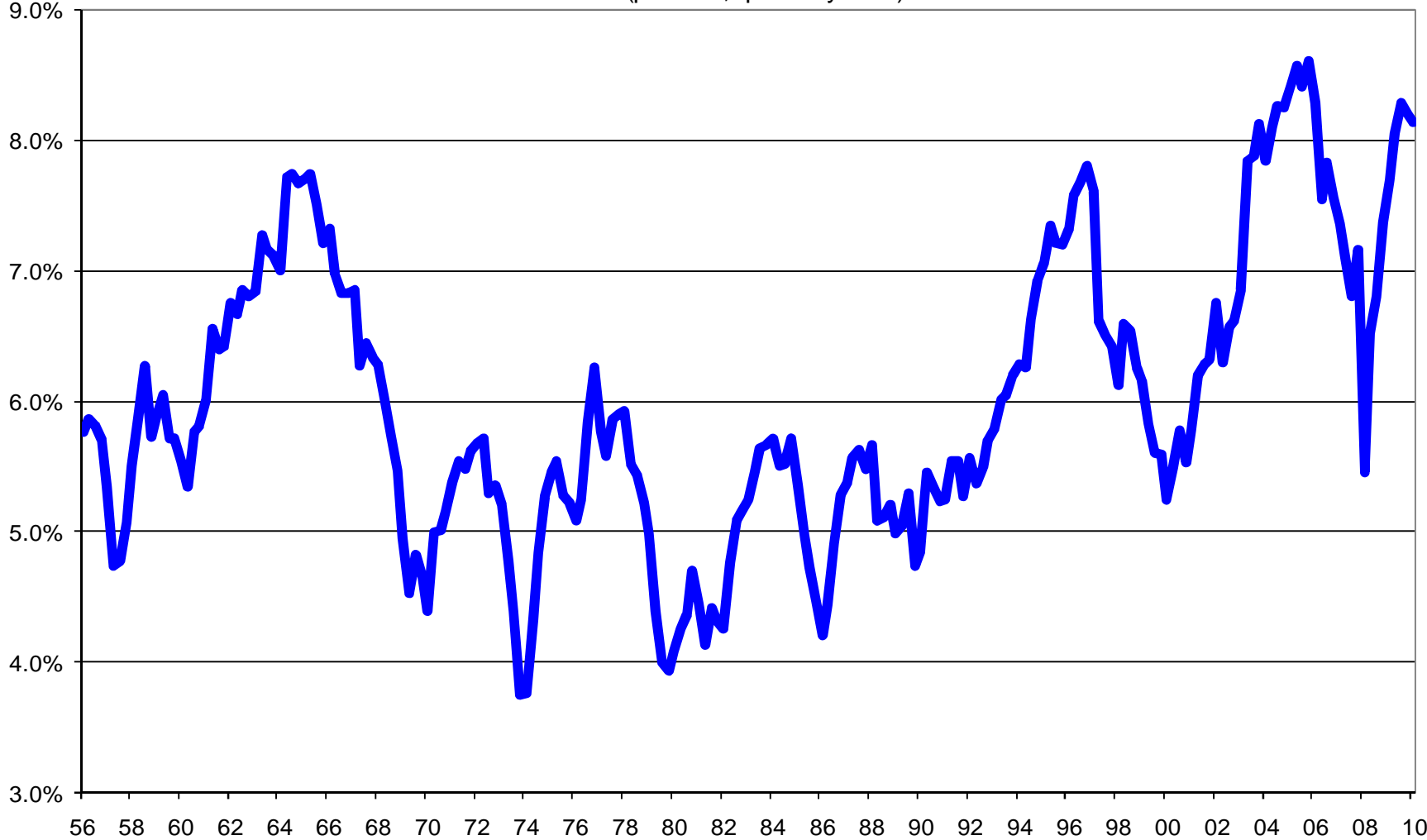
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# Corporate Profits as a Percent of GDP: 1956 to present

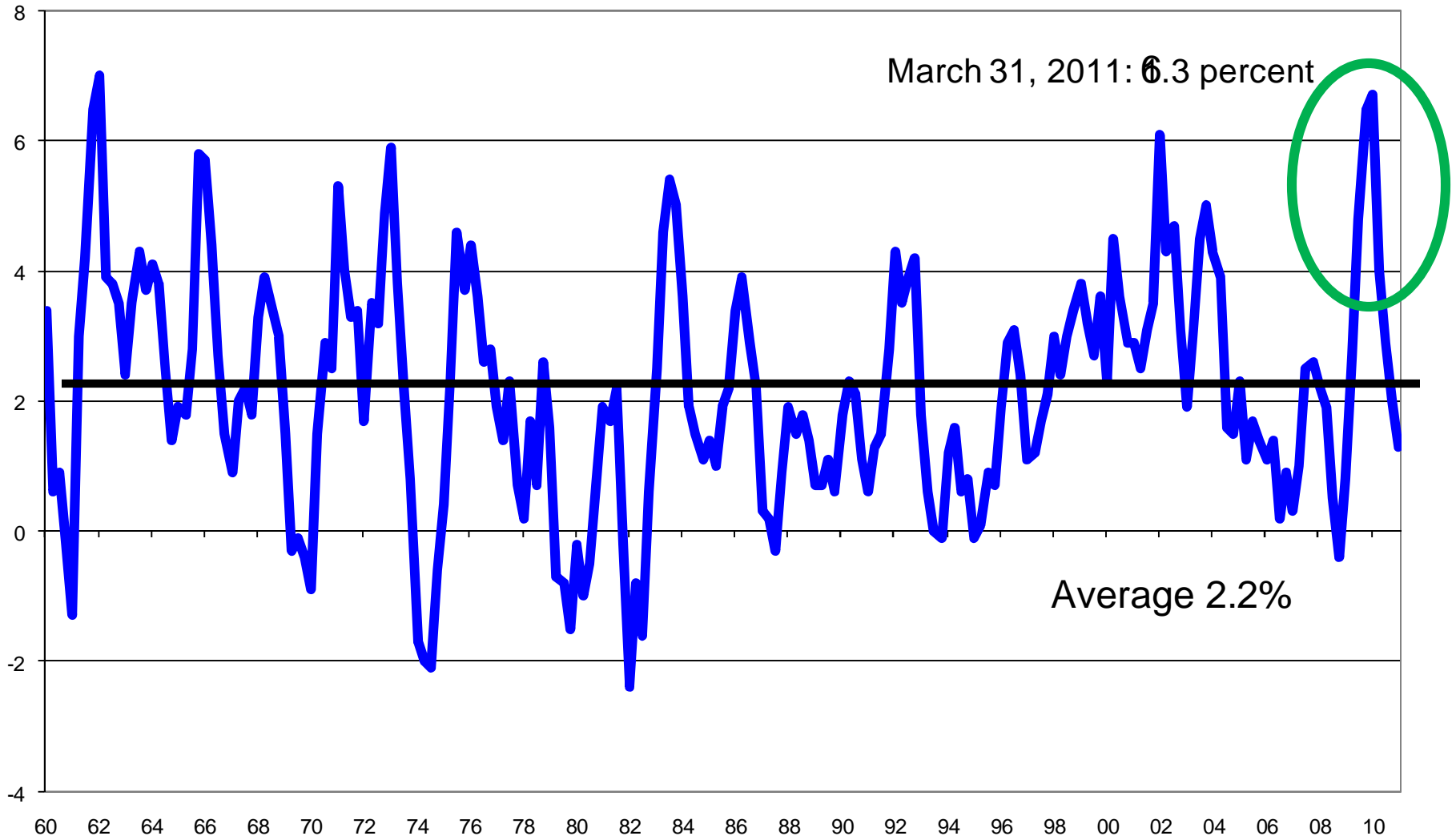
(percent, quarterly data)





# Productivity, Nonfarm Business: 1960 to present

(percent change, quarterly data)



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# Cheap Money

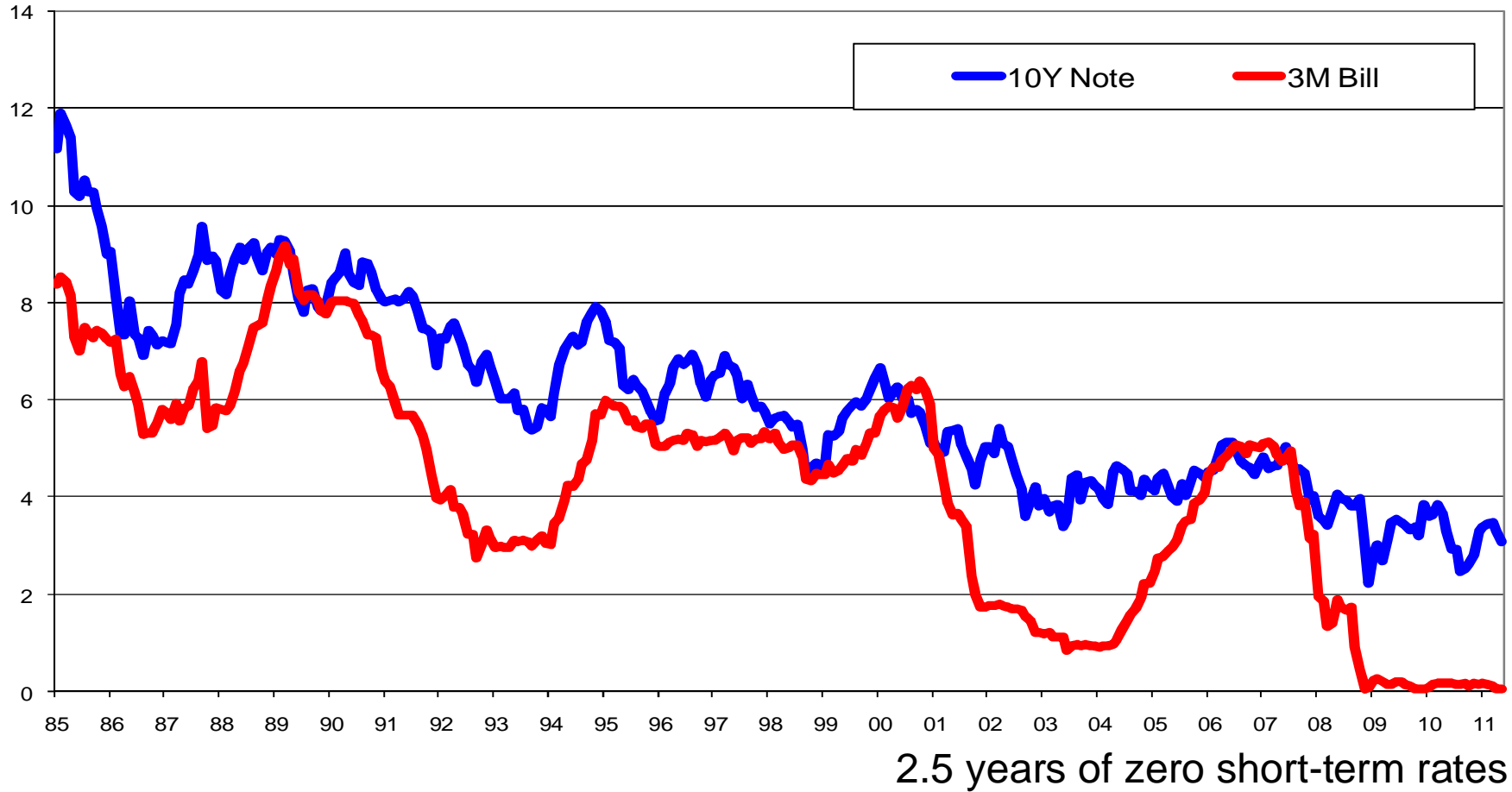






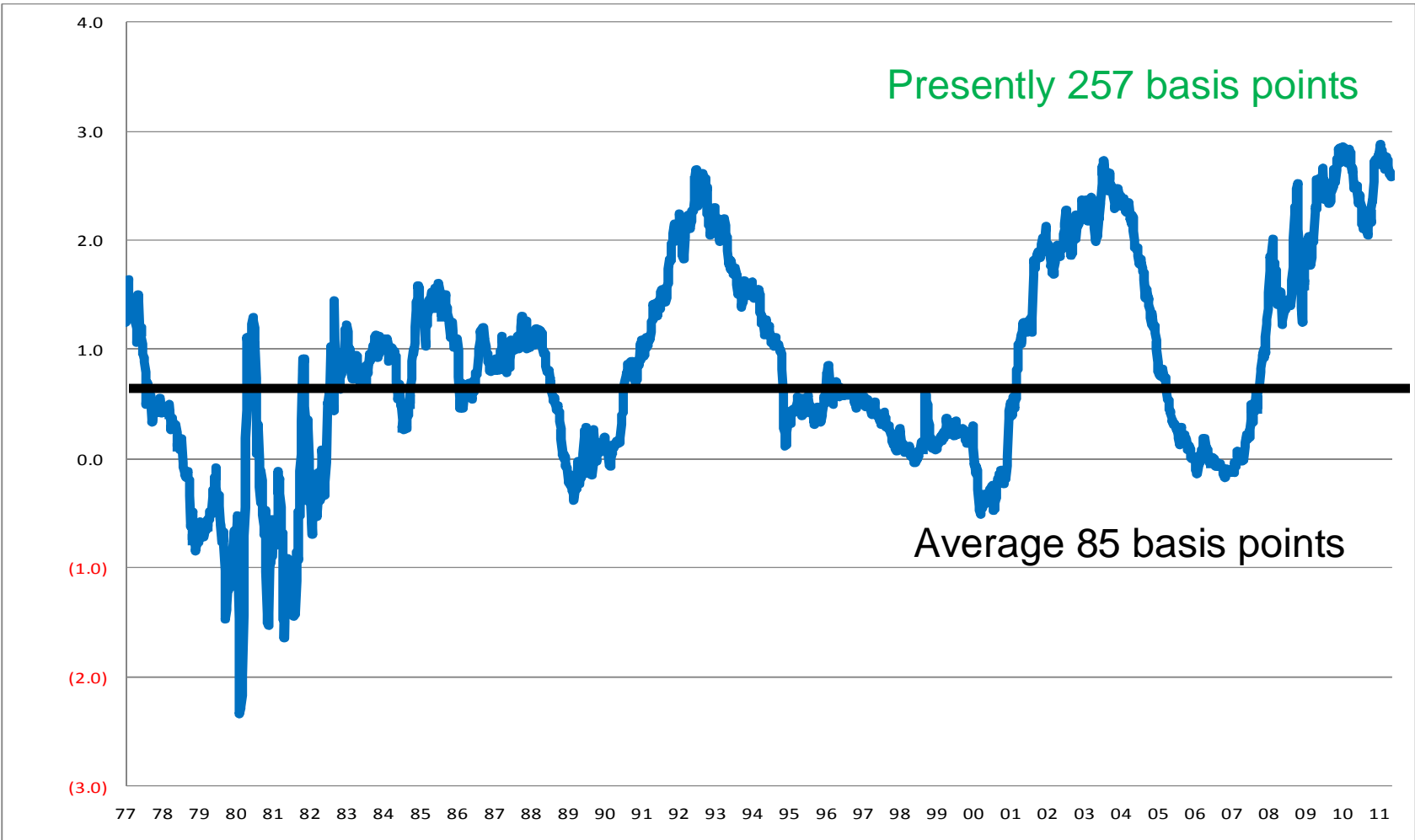
## Treasury Note and Bill Interest Rates: 1985 to present

(monthly data)





# Spread between Two Year and Ten Year US Treasuries



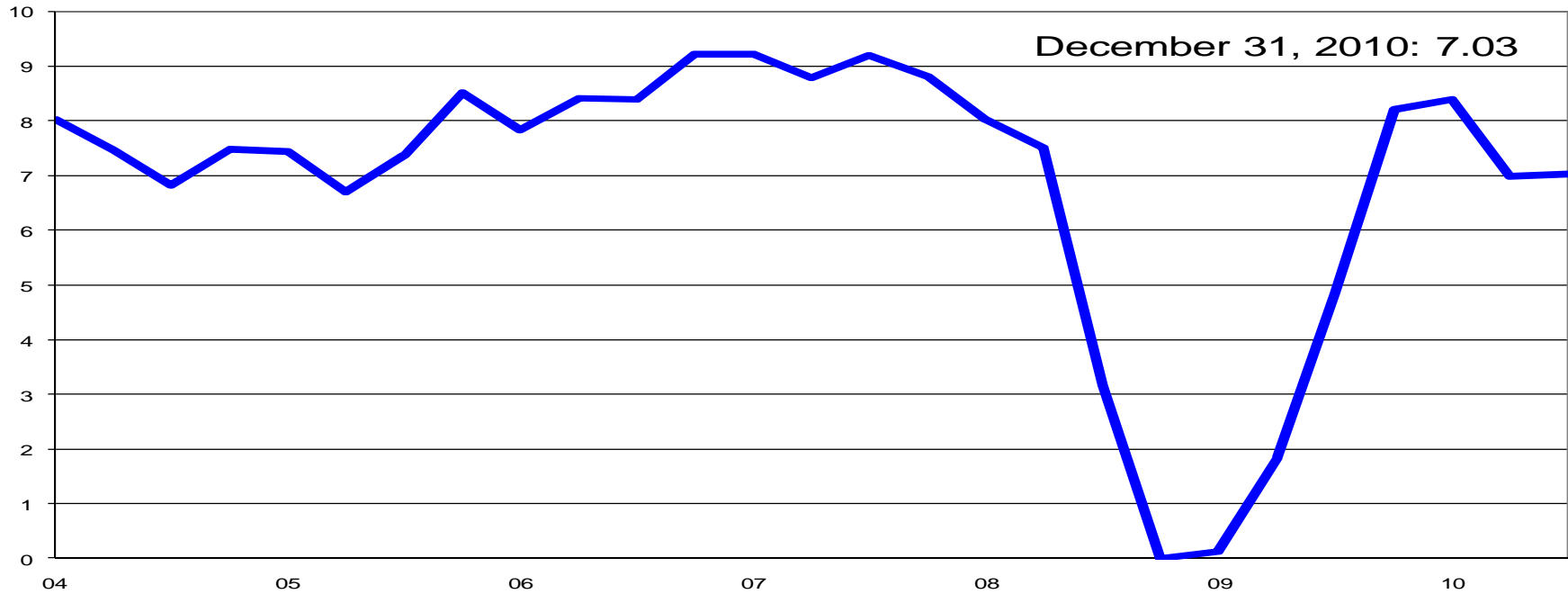


# BRICs



**BRICs Real GDP Growth Y/Y: 1992 to present**

(quarterly data)



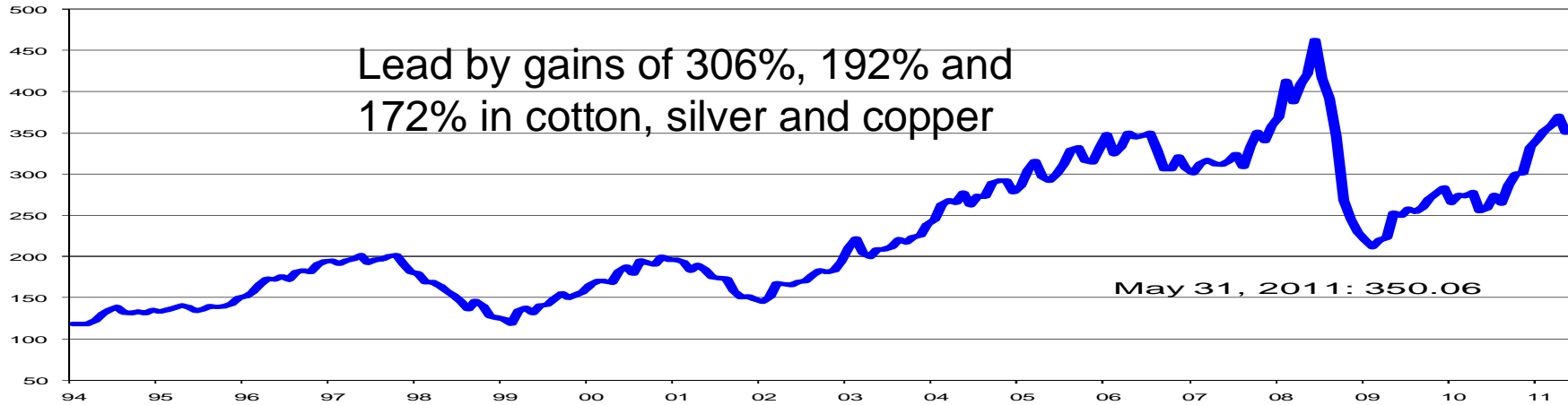
## Developing Economies vs. Developed Economies

- Expected to continue to grow 4.0% faster
  - Growing middle class
- Gross Public Sector Debt is about 40% compared to 110% for the G3 (United States, Germany and Japan)
- Total foreign exchange reserves of \$5.5 trillion compared to \$1.5 trillion in for developed countries
- Fiscal deficits of 4.0% of GDP compared to about 10.0% for developed countries



# Commodities

Commodity Futures Index: 1965 to present  
(monthly data)



<HELP> for explanation. ClientCRR  
99<GO> for tabular data, Enter # <Yellow Key> <GO> to access security.

**Commodity Ranked Returns**

Period Custom Source RJ/CRB Index Currency None  
Range 02/28/09 - 05/31/11 Return Rolling Contracts Roll Days 0

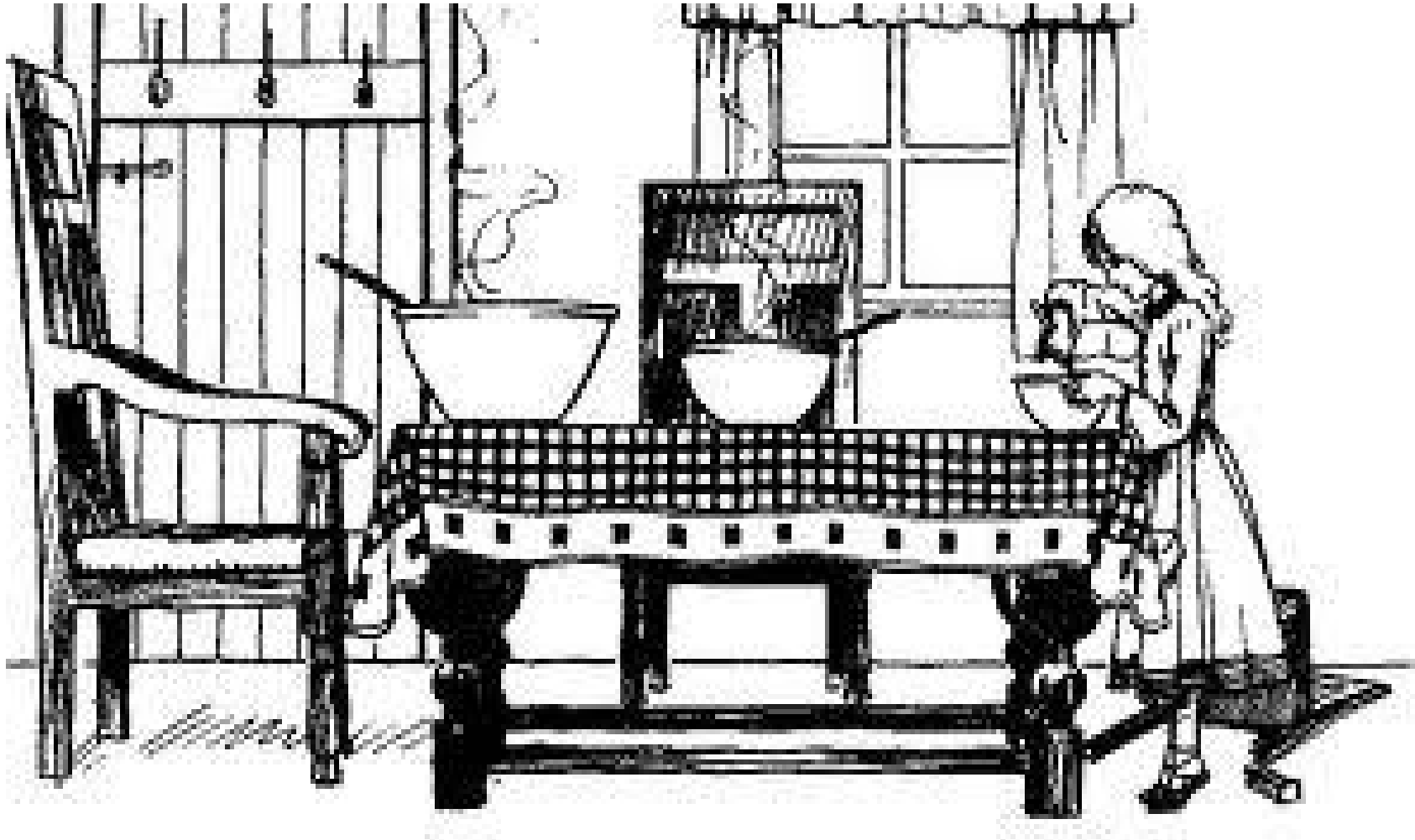
All Member Performance

1) CTA	Cotton	306.63
2) SIA	Silver	191.76
3) HGA	Copper	172.41
4) JOA	Orange Juice	164.63
5) XBA	RBOB Gasoline	137.68
6) KCA	Coffee	131.43
7) LNA	Nickel	131.39
8) SBA	Sugar	111.00
9) HOA	Heating Oil	96.53
10) C A	Corn	85.10
11) LAA	Aluminum	84.79
12) CLA	Crude Oil	84.63
13) S A	Soybeans	73.70
14) GCA	Gold	62.20
15) LCA	Live Cattle	20.77
16) CCA	Cocoa	8.89
17) WA	Wheat	4.11
18) LHA	Lean Hogs	
19) NGA	Natural Gas	

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# Forecast





# Consensus Forecast

	3Q 10	4Q 10	1Q 11	2Q 11 Est.	3Q 11 Est.	4Q 11 Est.
Real GDP	2.6%	3.1%	1.8%	2.0%	3.2%	<b>3.4%</b>
CPI (Yr/Yr)	1.0%	1.5%	2.7%	3.5%	3.3%	<b>3.2%</b>
Unemployment Rate	9.6%	9.6%	8.9%	9.0%	8.8%	<b>8.5%</b>
10 Yr Bonds (quarter end)	2.5%	3.4%	3.5%	3.1%	3.3%	<b>3.5%</b>
Fed Funds	0.1%	0.1%	0.1%	0.1%	0.1%	<b>0.1%</b>
EPS S&P 500	\$80.00	\$85.35	\$88.00	\$91.00	\$93.00	<b>\$95.00</b>



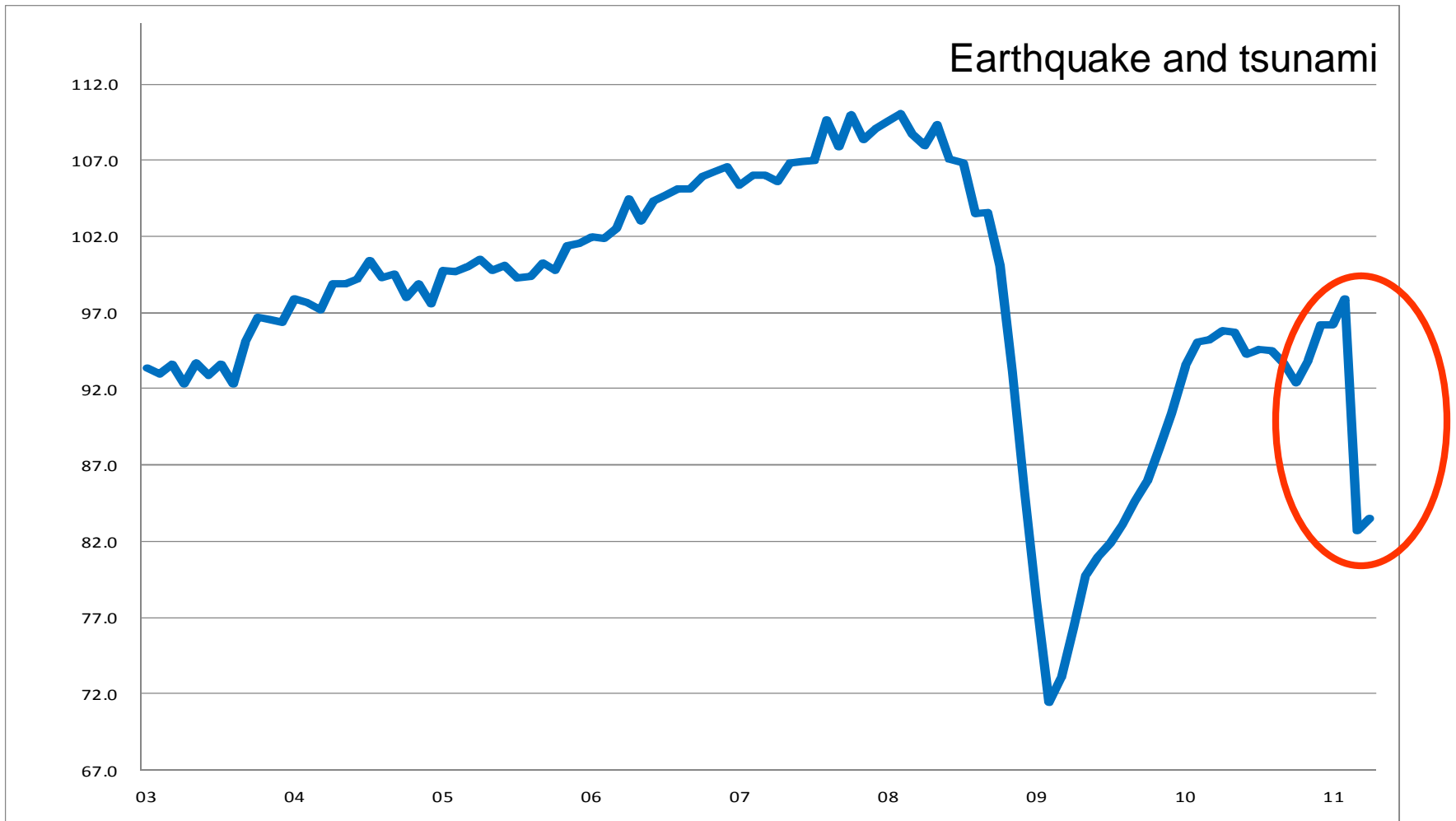
# Bad Weather







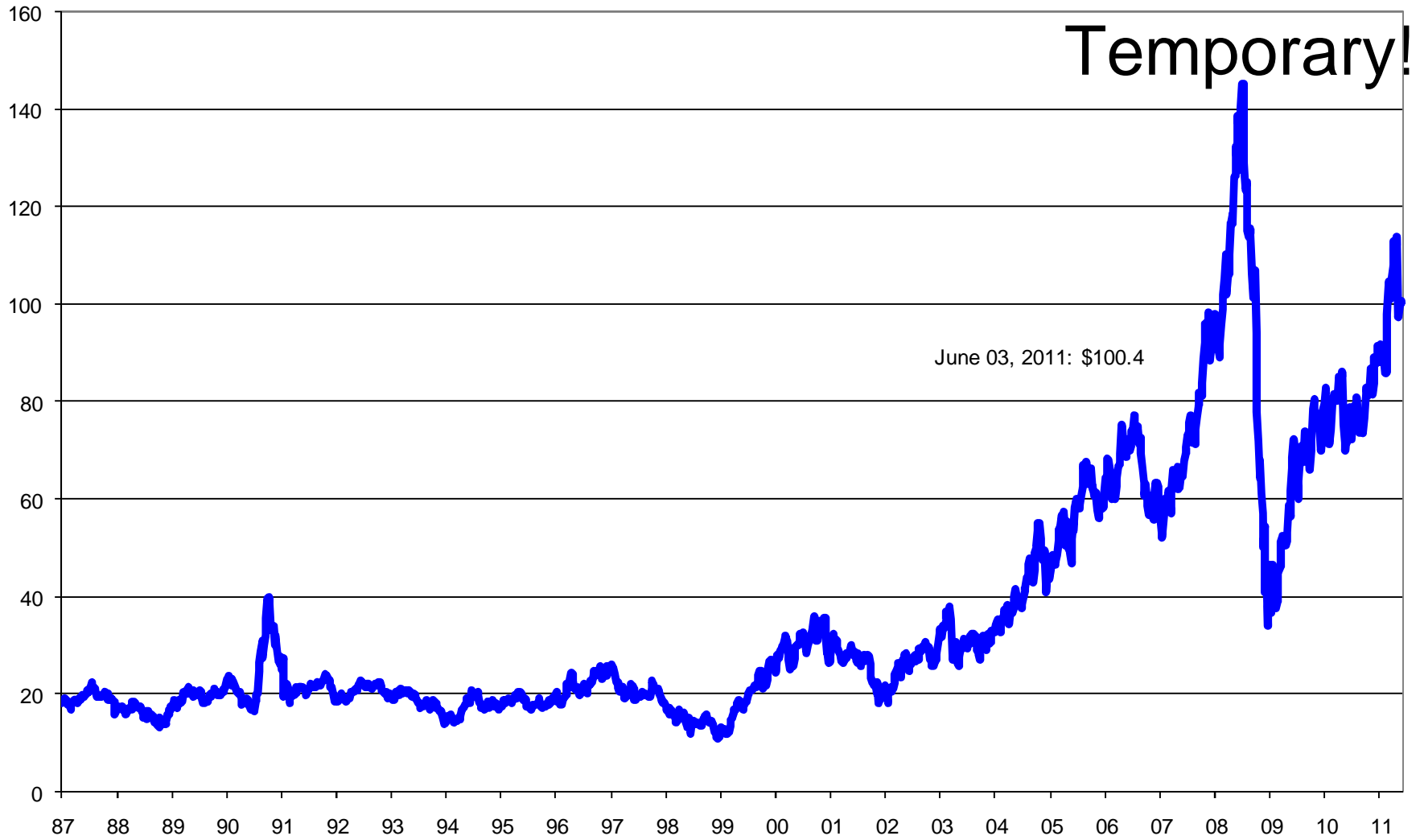
# Japanese Industrial Production





# Crude Oil Prices: 1987 to present

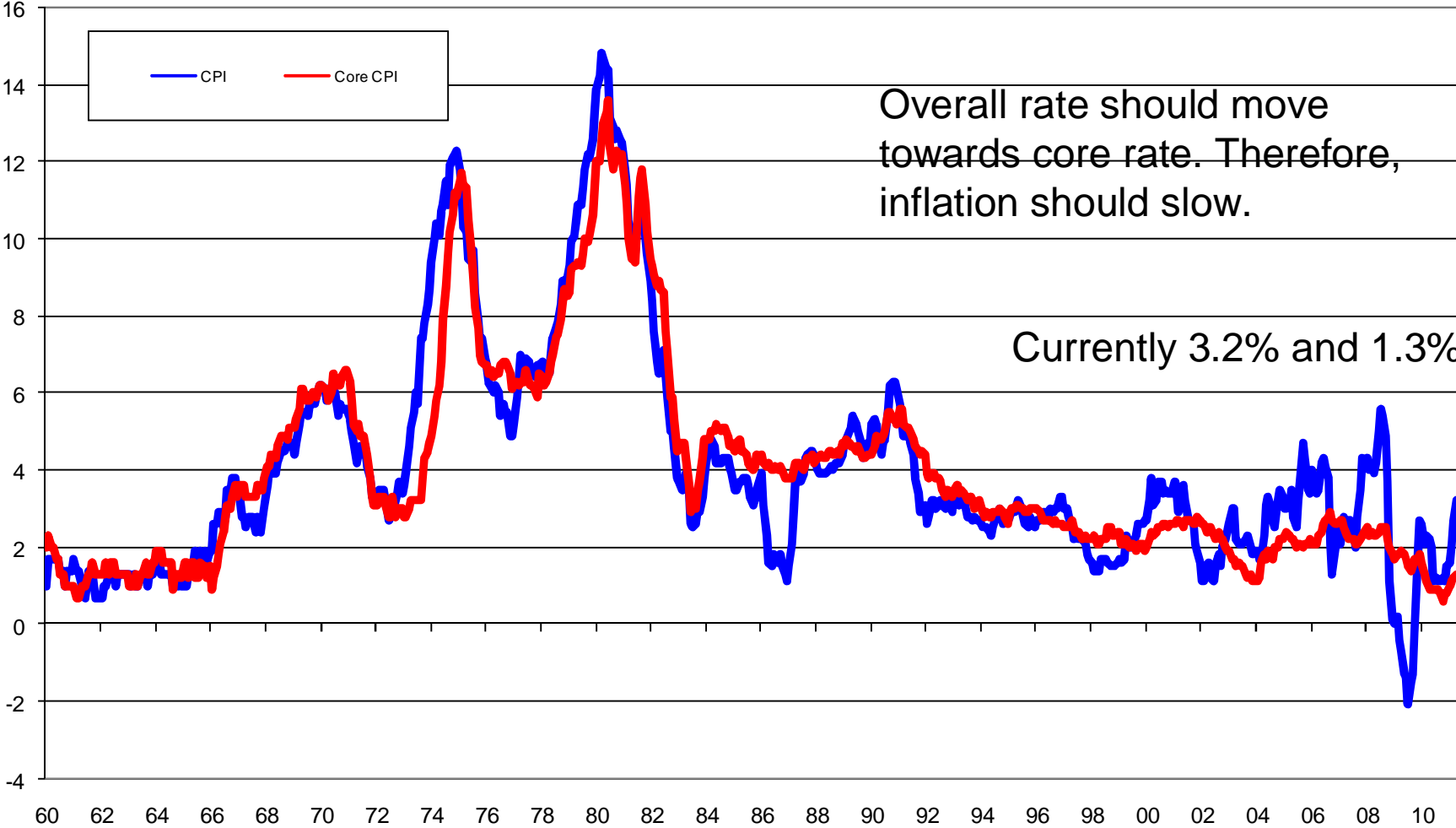
(dollars per barrel, weekly data)





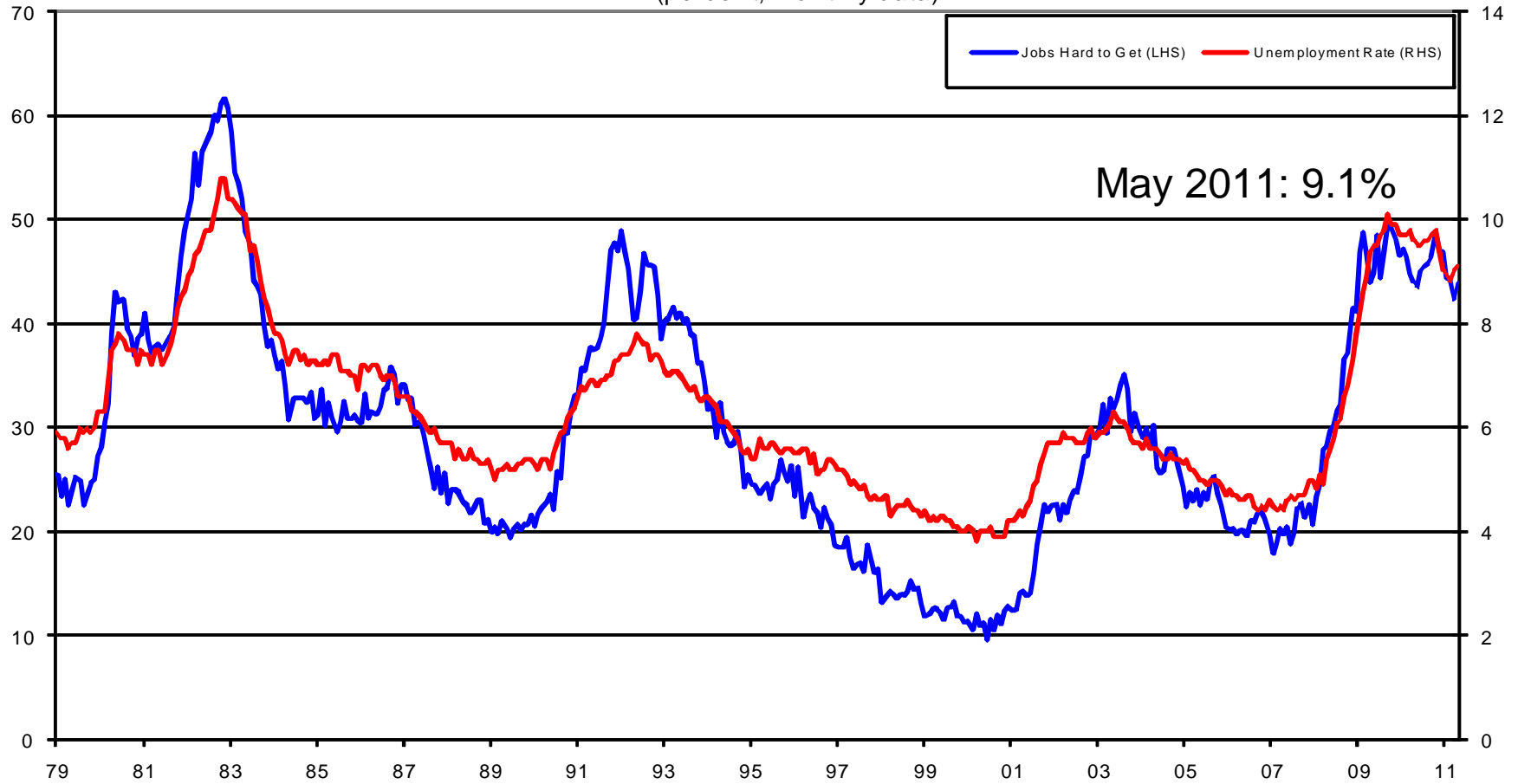
### CPI and Core CPI: 1960 to present

(year over year percent change, monthly data)





### Jobs Hard to Get vs. Unemployment Rate: 1979 to present (percent, monthly data)





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# Typical Consensus View

Don't worry. The June swoon is on. It's more a typical or even traditional Wall Street correction after a huge bull run than the beginning of another crisis. Granted however, the May jobs report was disappointing, with the private sector creating just 83,000 jobs (following stellar reports in February, March, and April). The report follows several other weak economic reports over the last week, prompting newspapers and TV commentators to suggest the possibility of a double dip recession. General economic growth may experience a respite now but that's not uncommon. There are few fundamental reasons why the economy would stall. Faster growth is slated for the rest of the year, including the creation of jobs and improvement in the housing markets as a result.



# Global GDP & Forecasts

	2009	2010	2011 Est.
Global	-1.0%	4.9%	3.7%
US	-2.6%	2.9%	3.0%
Euro land	-4.1%	1.8%	1.7%
Japan	-5.3%	4.0%	-2.0%
China	9.1%	10.3%	9.5%
BRICs	8.0%	7.0%	6.5%

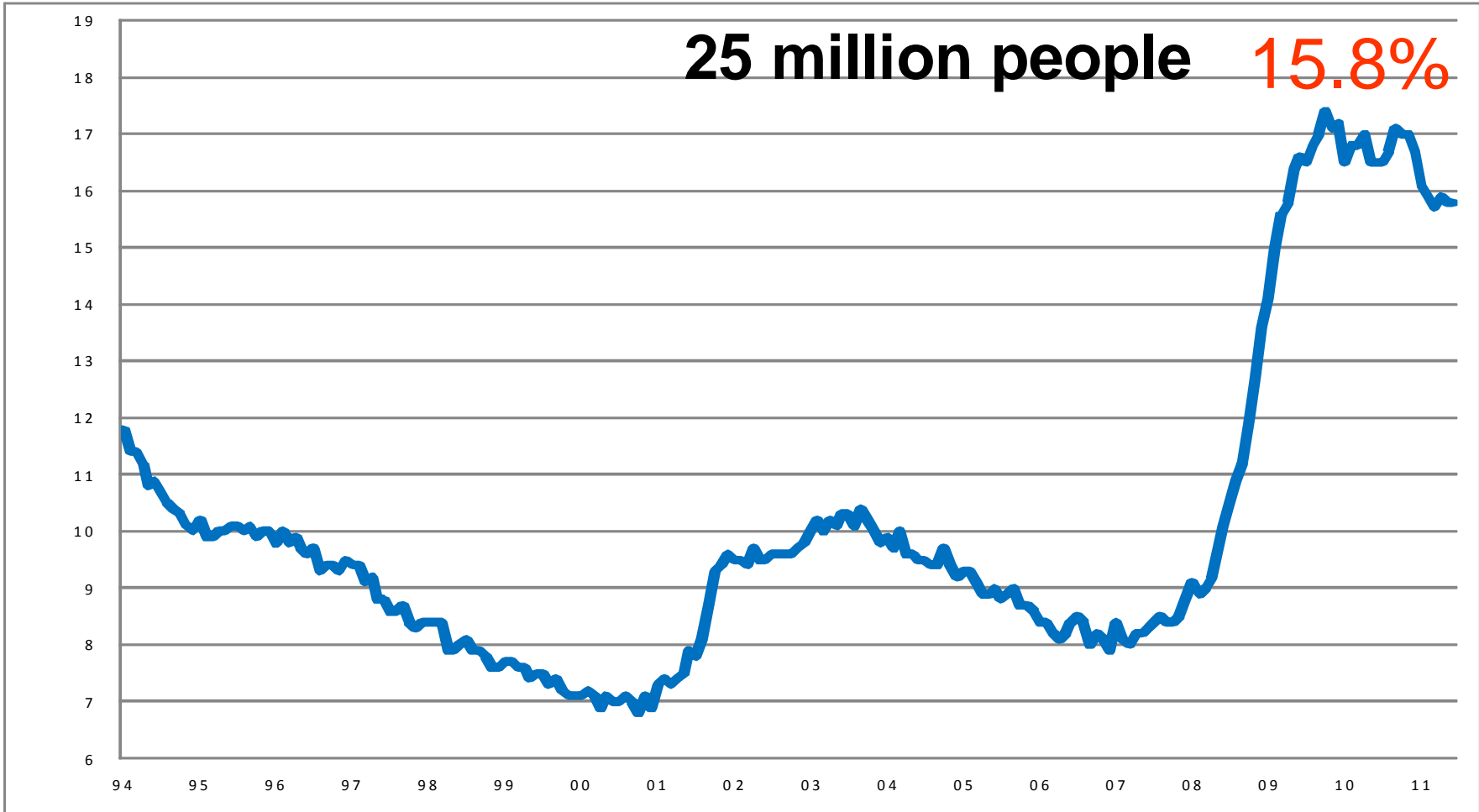
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# Tail Risk





# Unemployed, Margin and Part Time Workers as a Percentage of the Labor Force

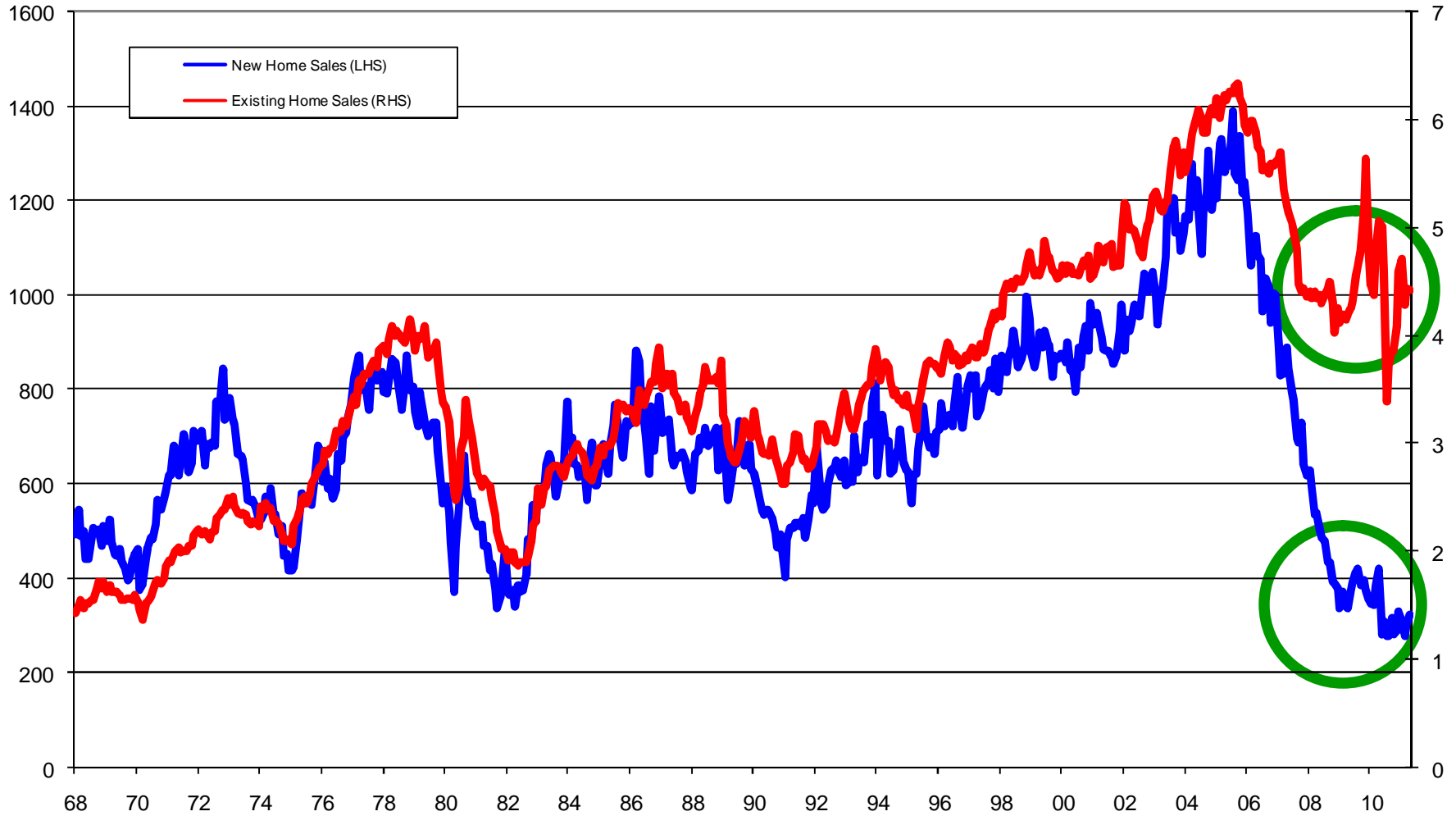




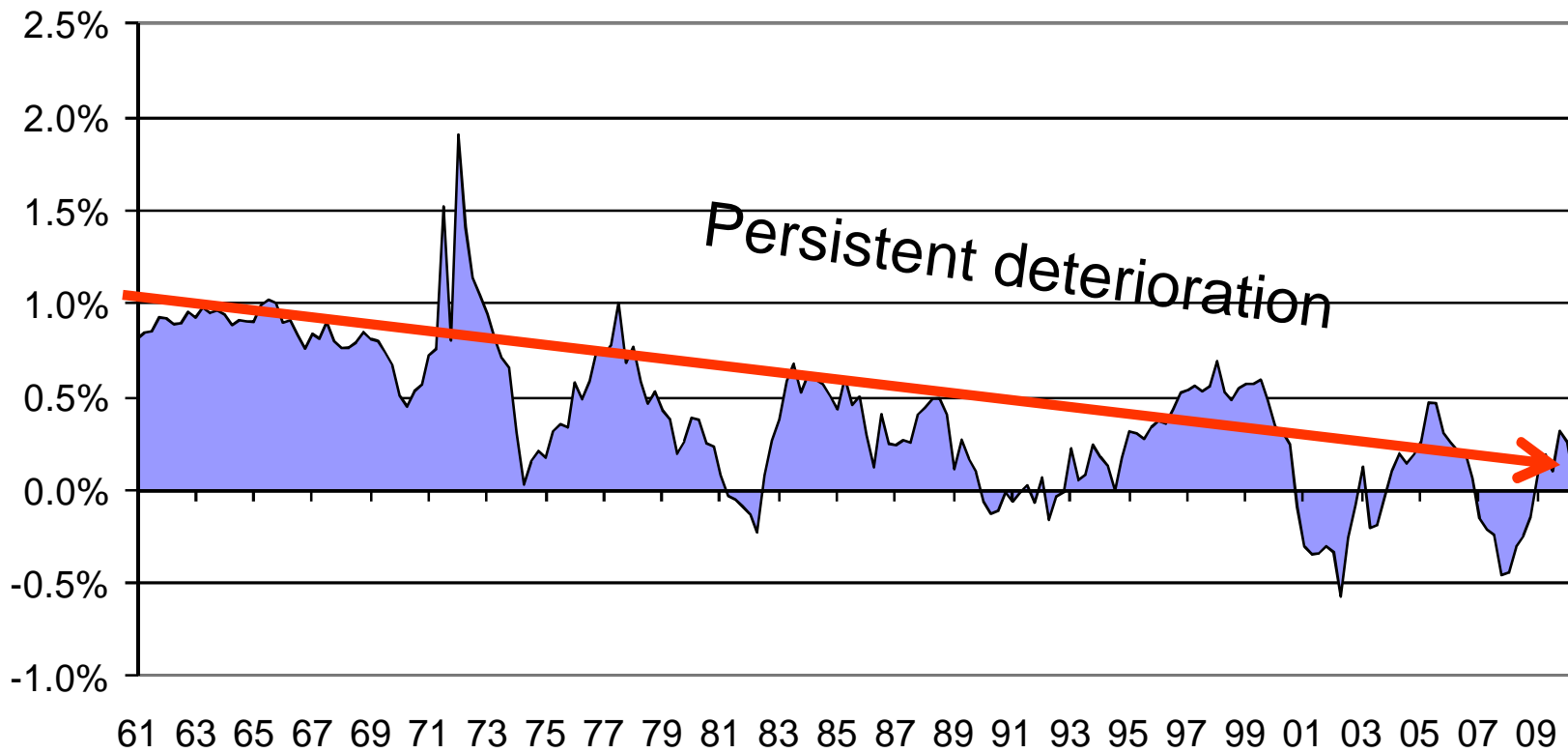


# New and Existing Home Sales: 1968 to present

(millions of units saar, monthly data)



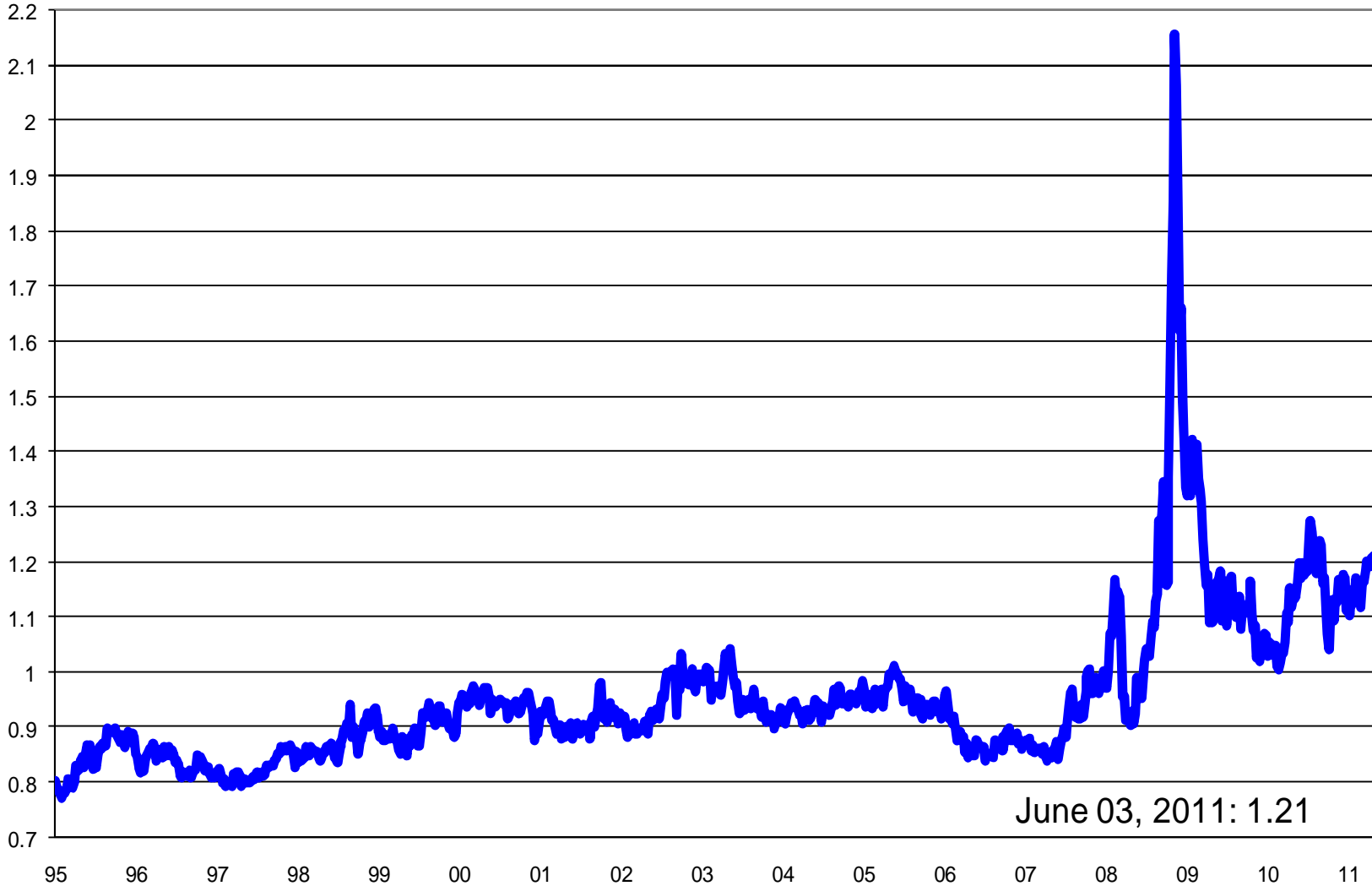
State and Local Government Budget Positions as a Percent of GDP : 1960 - present





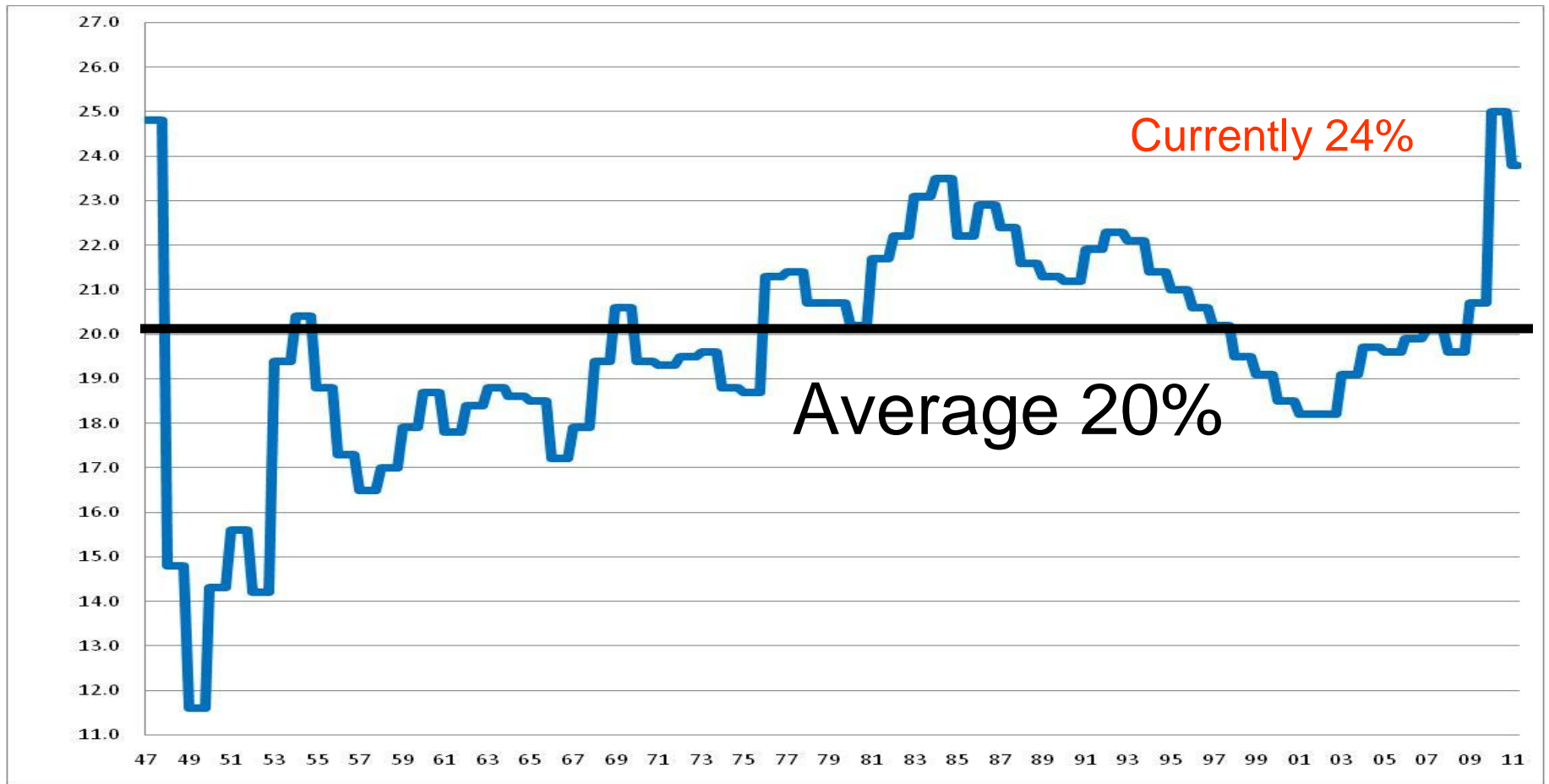
# Ratio of Long-term Municipals to Long-term U.S. Treasuries: 1995 to present

(weekly data)



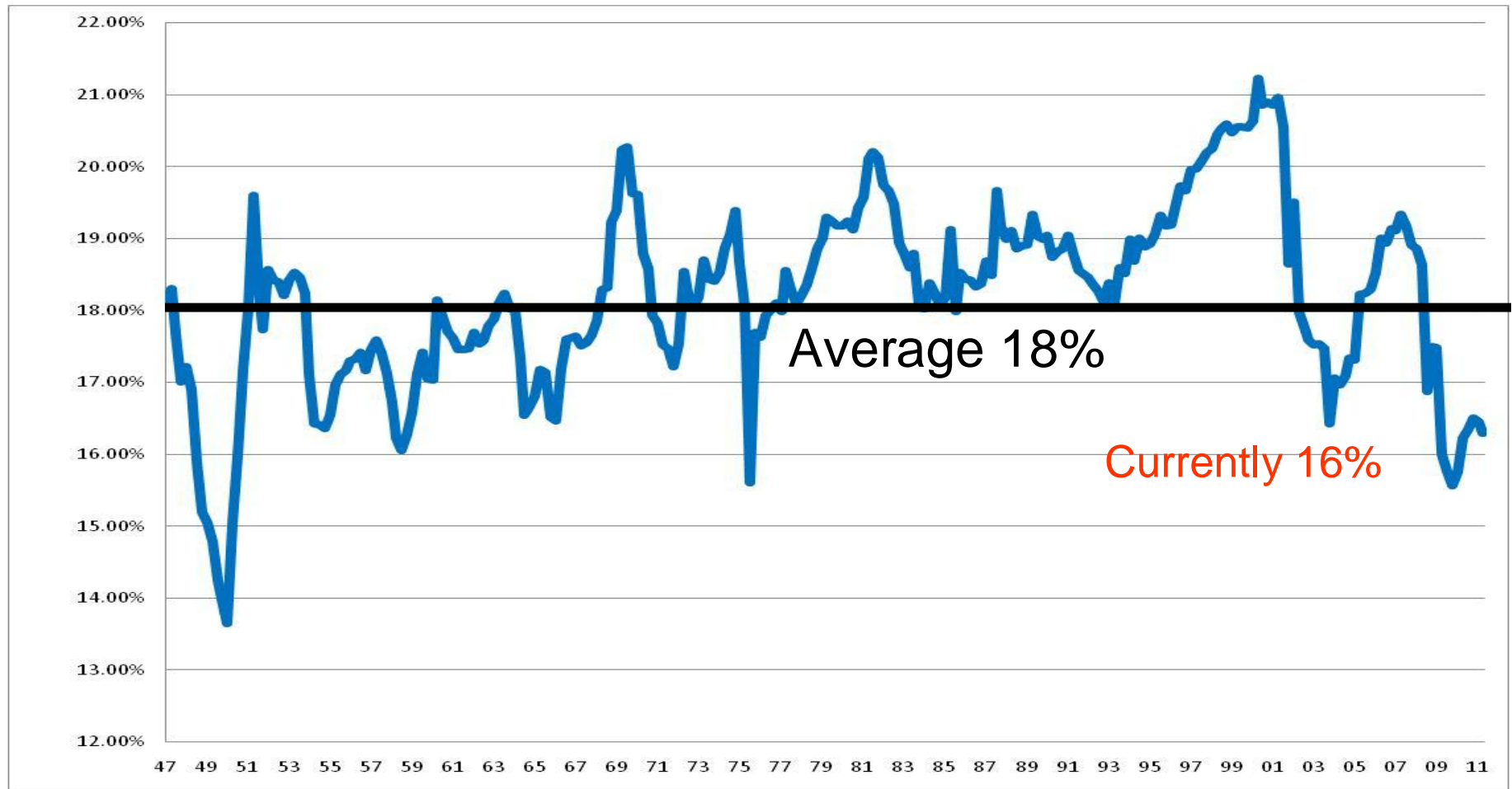


# Federal Government Expenditures as a Percentage of GDP



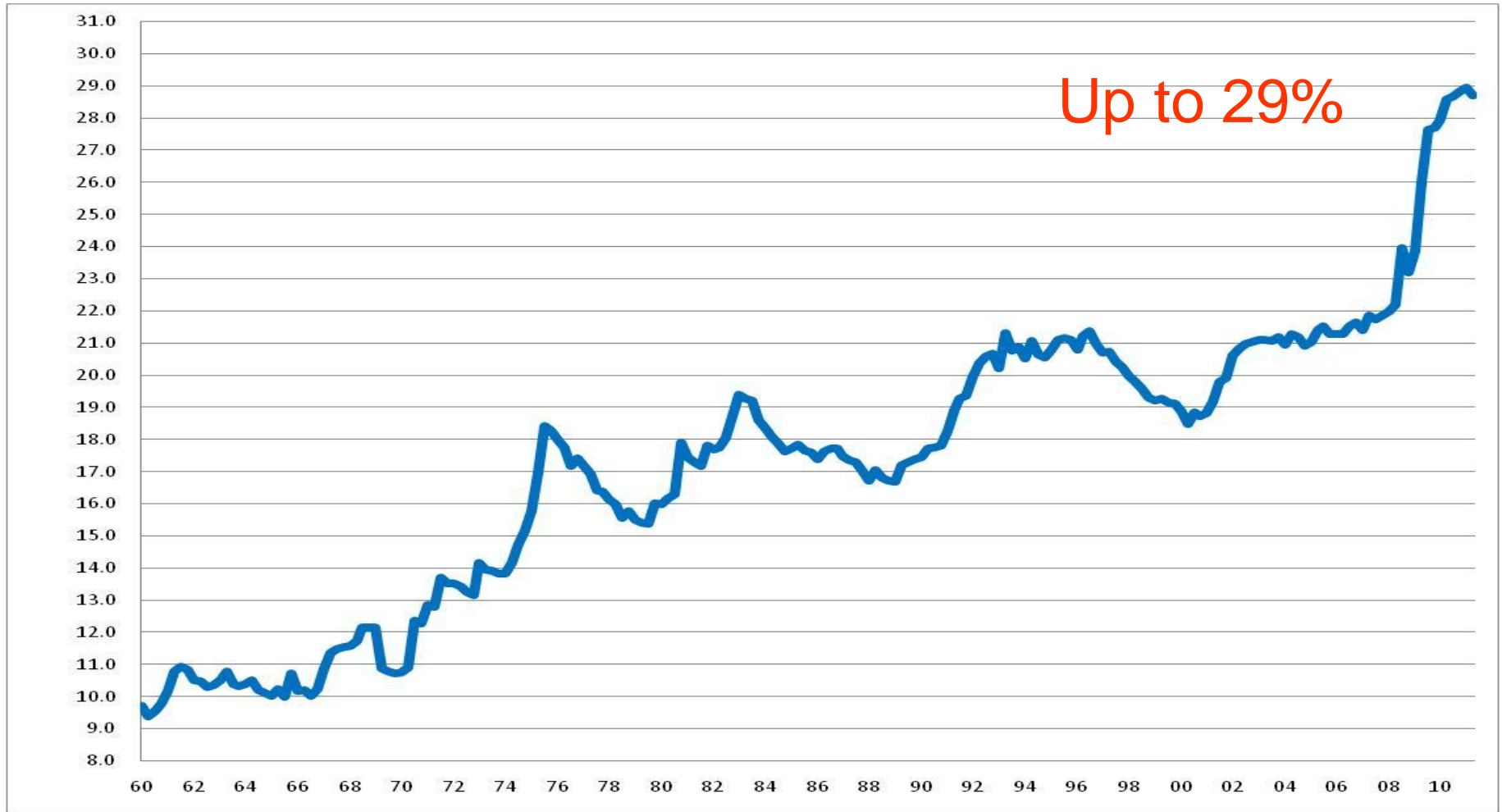


# Federal Government Receipts as a Percentage of GDP



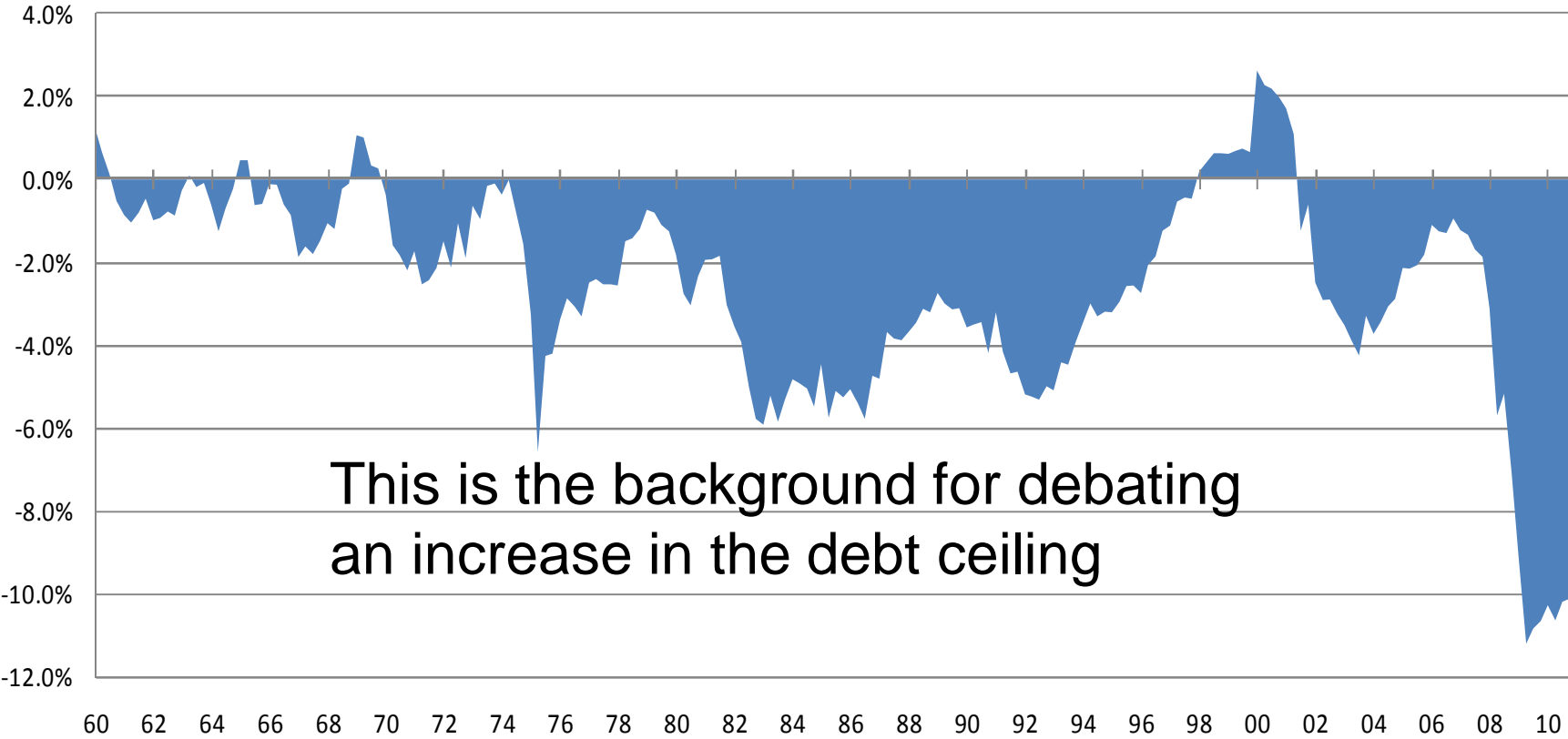


# Transfer Payments as a Percentage of Personal Income





### Federal Deficit as a Percentage of GDP (1960 to present)

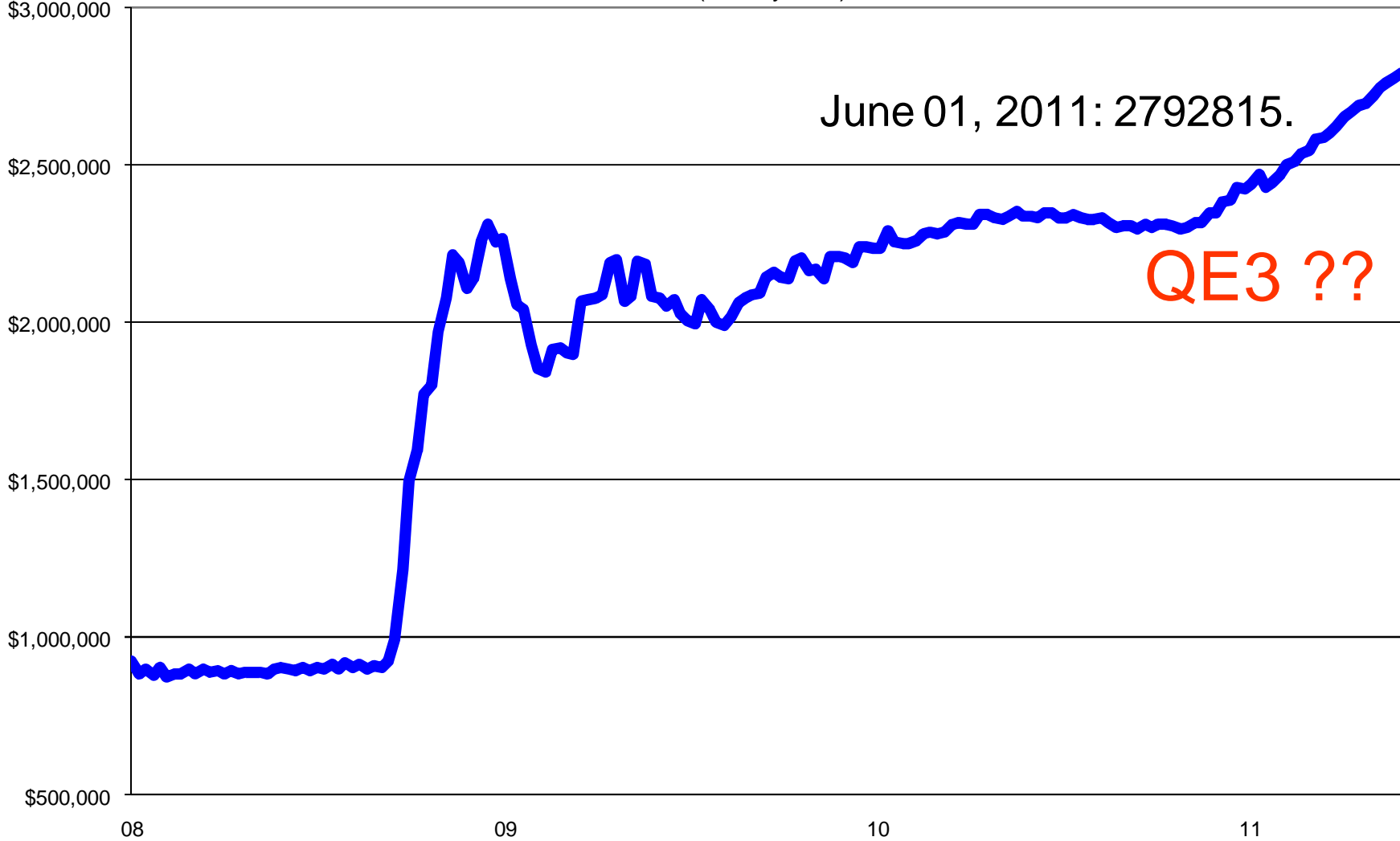


This is the background for debating  
an increase in the debt ceiling



# Federal Reserve's Balance Sheet: 2007 to present

(weekly data)





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# Three “Little PIGs” (Portugal, Ireland and Greece)

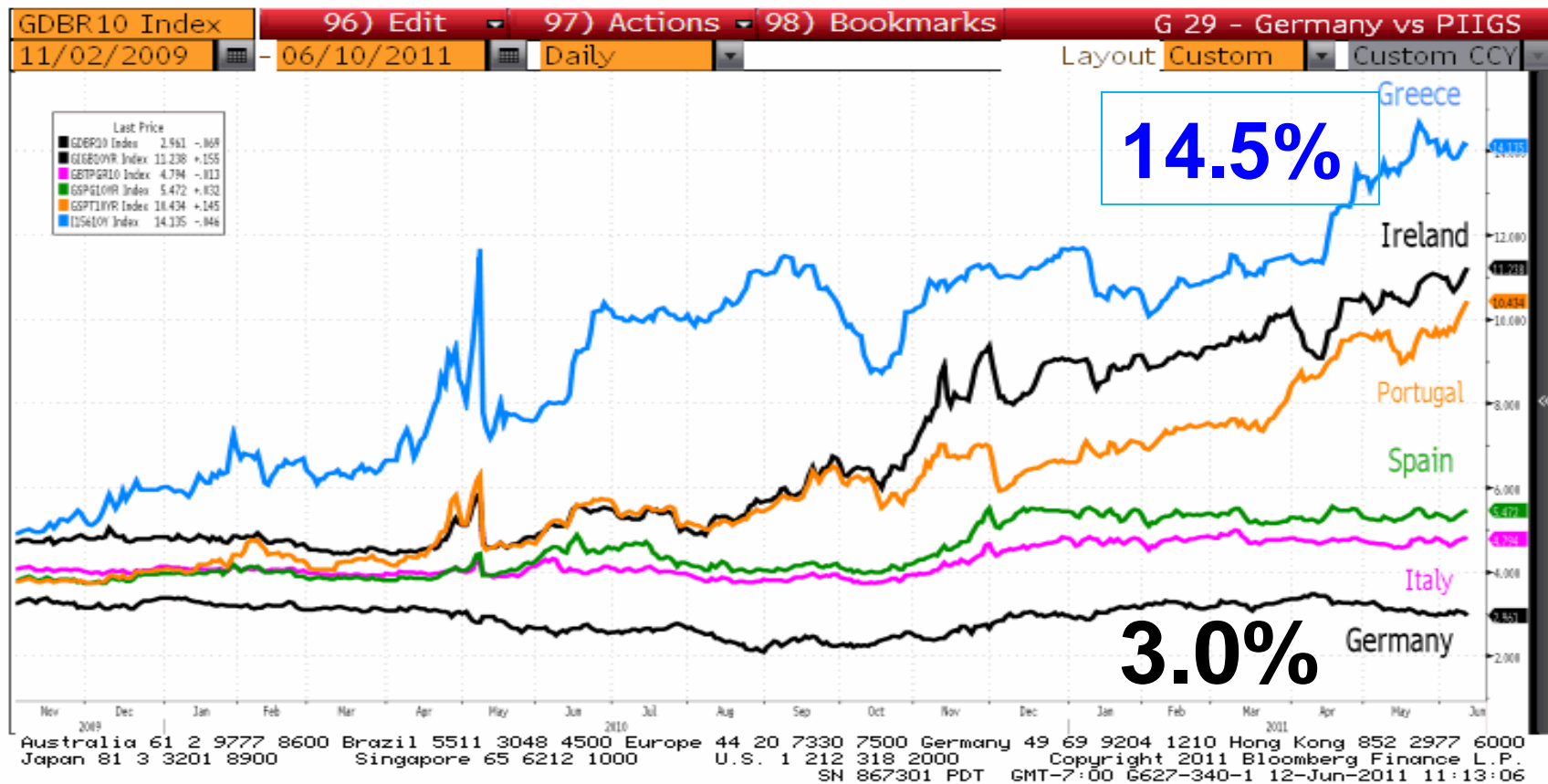




# Ten Year Interest Rates PIIGS vs. Germany

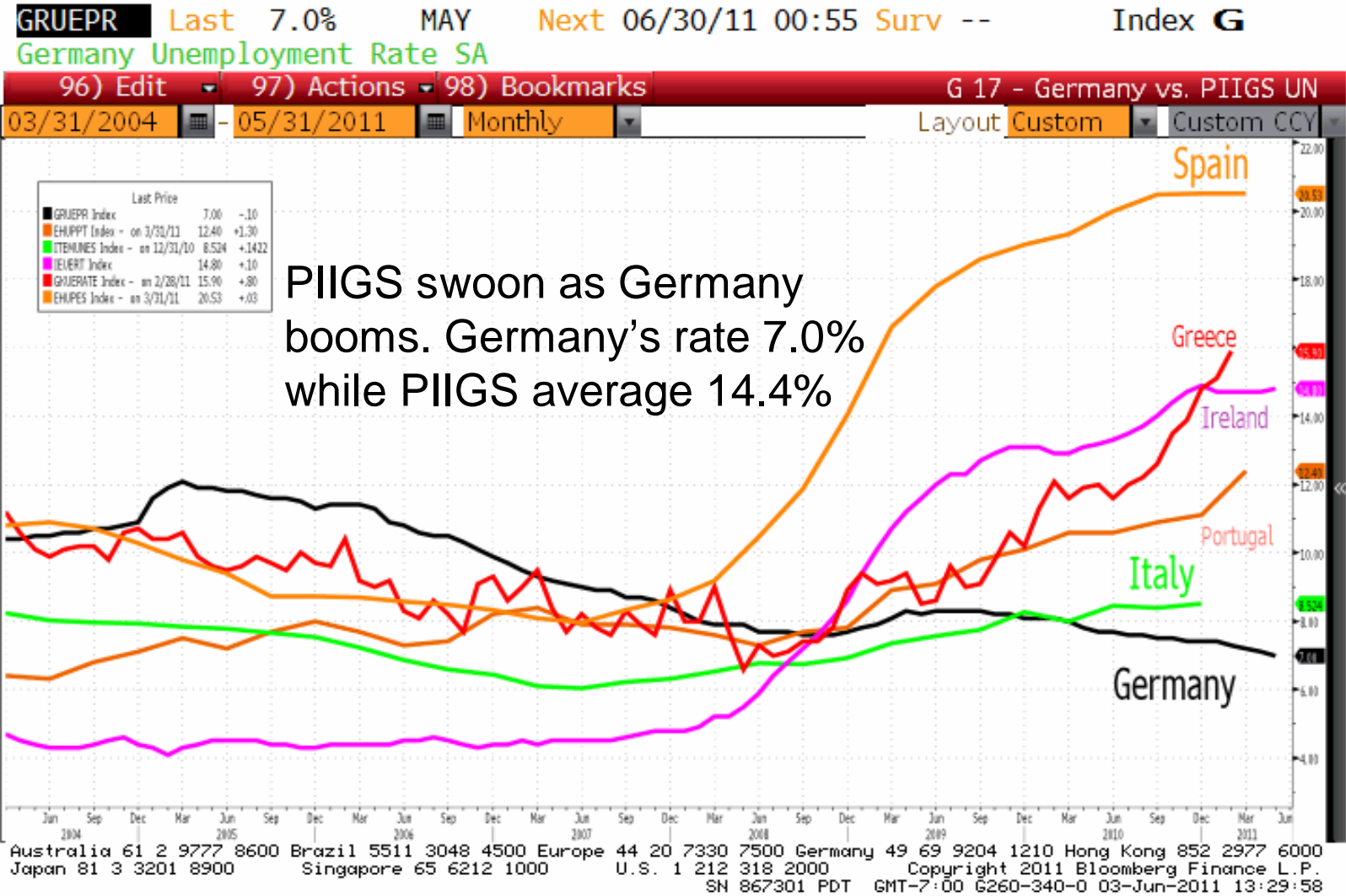
**GDBR10** 2.961s as of close 6/10

Index **G**





# PIIGS and German Unemployment Rates





## US Trade Weighted Dollar: 1973 to present

(January 1997 = 100, monthly data)





## Gold: 1975 to present

(Dollars per ounce, weekly data)





# What Now Coach?



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## Returns on Various Stock Market Sectors Since S&P 500's Peak

Ticker	Name	Pct Chg 4/29/11 to 6/10/11
IDU	ISHARES DJ US UTILITIES SECT	-1.35
IYZ	ISHARES DJ US TELECOMMUNICAT	-1.75
IYH	ISHARES DJ US HEALTHCARE SEC	-2.02
IYK	ISHARES DJ US CONSMR GOODS	-3.43
IYC	ISHARES DJ US CNSMER SERVICE	-5.63
IYR	ISHARES DJ US REAL ESTATE	-5.94
SPY	SPDR S&P 500 ETF TRUST	-6.54
IYT	ISHARES DJ US TRANSPORT AVG	-7.87
IYW	ISHARES DJ US TECHNOLOGY SEC	-8.45
IYJ	ISHARES DJ US INDUSTRIAL SEC	-8.61
IYF	ISHARES DJ US FINANCIAL SECT	-8.73
IYE	ISHARES DJ US ENERGY SECTOR	-8.98
IYM	ISHARES DJ US BASIC MATERIAL	-9.98



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## Performance of Various National Stock Markets Since S&P 500's Peak

Ticker	Name	Pct Chg 4/29/11 to 6/10/11
EWJ	ISHARES MSCI JAPAN INDEX FD	-5.03
EWO	ISHARES MSCI AUSTRIA INVESTA	-6.35
FXI	ISHARES FTSE CHINA 25 INDEX	-6.39
IVV	ISHARES S&P 500 INDEX FUND	-6.50
BKF	ISHARES MSCI BRIC INDEX FUND	-6.67
EWZ	ISHARES MSCI BRAZIL	-7.14
EWU	ISHARES MSCI UNITED KINGDOM	-7.23
MPYMX	METZLER/PAYDEN EURO EMER MKT	-7.52
EWW	ISHARES MSCI MEXICO INVESTAB	-7.90
EPP	ISHARES MSCI PACIFIC EX JPN	-8.07
EWC	ISHARES MSCI CANADA	-8.49
EZA	ISHARES MSCI SOUTH AFRICA IN	-8.91
EZU	ISHARES MSCI EMU	-9.63
EWY	ISHARES MSCI SOUTH KOREA IND	-10.09
EWA	ISHARES MSCI AUSTRALIA INDEX	-10.40



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## Performance of Various Bond Market Sectors Since the S&P 500's Peak

Ticker	Name	Pct Chg 4/29/11 to 6/10/11
TLT	ISHARES BARCLAYS 20+ YEAR TR	4.28
CXA	SPDR NUVEEN BARCLAYS CAPITAL	3.41
IEF	ISHARES BARCLAYS 7-10 YEAR	3.40
VWESX	VANGUARD L/T INVEST GR FD-IV	2.82
EMB	ISHARES JP MORGAN EM BOND FD	1.78
VFIIX	VANGUARD GNMA FUND-INV	1.63
AGG	ISHARES BARCLAYS AGGREGATE	1.55
LQD	ISHARES IBOXX INV GR CORP BD	0.92
TIP	ISHARES BARCLAYS TIPS BOND	0.80
SHY	ISHARES BARCLAYS 1-3 YEAR TR	0.48
HYG	ISHARES IBOXX H/Y CORP BOND	-2.27



# Performance of Various Commodities Since the S&P 500's Peak

<HELP> for explanation.

Index **CRR**

99<GO> for tabular data, Enter # <Yellow Key> <GO> to access security.

## Commodity Ranked Returns

Period Custom Source RJ/CRB Index Currency None  
 Range 04/29/11 - 06/12/11 Return Rolling Contracts Roll Days 0



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
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# Performance of Various Currencies Versus the U.S. Dollar Since the S&P 500's Peak

<HELP> for explanation.

CurrencyWCRS

Modify ranking criteria and hit <GO> for new ranking, <PAGE> for tabular data

97) Refresh		98) News		99) Edit Baskets		Page 1/2 World Currency Ranker	
Period	Custom	Country Baskets		Major Currencies		Base Currency	USD
Range	04/29/11 - 06/10/11	Ranked By		Spot Return			
Currency Performers (%)							
-0.60		1) Swiss Franc	CHF	2.65			
-1.03		2) New Zealand Dollar	NZD	1.42			
-1.06		3) Japanese Yen	JPY	1.08			
-1.35		4) Taiwanese Dollar	TWD				
-2.87		5) South Korean Won	KRW				
-3.11		6) Singapore Dollar	SGD				
-3.12		7) Brazilian Real	BRL				
-3.45		8) British Pound	GBP				
-3.49		9) Euro	EUR				
-3.55		10) Danish Krone	DKK				
-3.96		11) Mexican Peso	MXN				
-4.29		12) South African Rand	ZAR				
-4.51		13) Canadian Dollar	CAD				
		14) Australian Dollar	AUD				
		15) Norwegian Krone	NOK				
		16) Swedish Krona	SEK				
						Total Currencies	16
						Ranked	

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.  
 SN 867301 PDT GMT-7:00 6260-340-0 14-Jun-2011 20:05:50

Strategy as of June 10, 2011  
(S&P 500 1271 and Ten Year 2.97%)

- **Stay with what working until the situation is clearer**
  - **The best offense is a good defense**
    - **Intermediate and long-term high quality corporate bonds**
    - **Utilities, telecom, and health care stocks**
    - **Be careful with high yield**
      - **Defense stocks might be better**
      - **Spreads are narrow and have cyclical risk**
    - **Want yield and international exposure look at emerging market debt funds**
      - **Know their government to corporate mix**
      - **How much is dollar versus local currency payable**
        - » **TGEIX and EMB**
- **Since there is a 35% chance, some might say more, of goldilocks working**
  - **Take the opportunity to add to some out of favor stocks**
    - **AAPL, CAT, BA, AMNZ**
    - **BKF (iShares MSCI BRIC Index Fund)**
    - **TIPs**
    - **Municipals**
- **IAU for tail risk**