

## The Economic and Market Environment

**In Sum:** Investment portfolios whose asset allocations have not been materially altered in the past four months are participating robustly in the securities markets recovery. Economies around the globe are beginning to show signs of stabilization following the multiple financial shocks, and the attendant fiscal and monetary prescriptions designed to counter those shocks, during the past twelve months. A change in direction for fiscal and monetary policy appears to be on the horizon. Interest rates have firmed in anticipation of better economic conditions.

**Geo-political:** International relations (outside of discussions on goods/services trade flows) continue to take a back seat to the more pressing economic matters. Allies and foes alike appear to be in a mode of "sizing up" President Obama in an effort to determine his vision of the global order, which in the first eight months of his administration, does not yet appear cohesive. While remaining passive in regard to the post-election uprising in Iran, the Obama administration took an active stance in pressing for the return to power of Honduran President Zelaya following his ouster by that country's Supreme Court (for allegedly violating their democratically determined constitution). Also noteworthy was former President Clinton's visit to North Korea to meet with an ailing Kim Jong Il to retrieve a pair of imprisoned American journalists. It remains to be seen whether the former President's actions will influence the Obama administration to unilaterally engage North Korea. Again, this predicament arises because of the seeming lack of foreign policy cohesion.

**Economic:** Suggestions in the past several issues of this publication that the economy would not fall into another great depression is looking increasingly prescient. In fact, pent up demand could well unleash a round of growth in excess of general expectations but it is unlikely that

such a rate of advance would be sustained for more than a few quarters. The pace of job losses in the U.S. declined in July and China recently reported high single digit growth rates in its gross domestic product.

**Monetary:** Australia's central banker recently raised interest rates in that country. Fed Chief Bernanke has hinted that eventually rates in the U.S. will have to be increased to combat prospective inflation. In its deliberations at the August 12, 2009 meeting, the Fed was fairly explicit in this regard.

**Fiscal Policy:** While improving economic growth can be at least partially attributed to government spending, concerns are surfacing that once the economy is firmly expanding, such spending may need to be curtailed. A recent dose of fiscal rectitude, in the form of the elimination of an "earmark" for private jets to ferry congressmen and staff, provides some hope that Washington will be more sensitive to the apparent mood of the country as it relates to future deficit spending.

**Equity markets:** After a pause in June, equity prices around the globe continued their four month long recovery in July. The violent movement of common stock prices over the past several months reveals the danger in trying to "time the market." It seems evident that the proper advice and course of action during this tumult was to maintain a long term focus, and not deviate meaningfully from well conceived asset allocation strategies.

**Fixed income markets:** Interest rates generally have had a moderate upward bias, reflecting growing confidence that global economies are stabilizing and that debt funding from governments spending at deficit levels will require higher interest to meet that demand.

## ...and then there were two

Amidst the financial chaos of the winter, Shari and I celebrated the birth of our second granddaughter, Natalie Ann Lehnert, on February 3. She celebrated her six month birthday with us in early August when her mama and sister accompanied her to Michigan. The visit was pure joy (think Christmas).

As those of you who are already grandparents know, in contrast to having/raising children, toddler grandchildren foment patience. I suspect it is for no other reason that their mere presence reminds you of your own children, and you quickly realize how fast time has passed and you therefore do what you can to "savor the moment" and hold back time.



We are fortunate that we get to see the girls just about once a month. We either fly to Denver, or we fly them in.

Sometimes I just sit and watch them play. I participate when asked. Ava is good at playing independently, but enjoys having Papa around for company. I am periodically pressed into action, serving as either "Harry the Horse" or "Princess Papa" (don't ask). We have tea parties. I am the audience as she sings heartily into the toilet paper microphone. We play "up-up-up with pup-pup-pup" which means Ava gets lifted toward the branches of the tree outside so she can examine the leaves. We frolic in the pool. We snuggle at night.

One gets a feeling that all might be right with the world when a 3 year old cradles grandma on the right and papa on the left and exclaims, "I love you guys!"

I do think all is going to be alright.

Bob Bilkie

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These enhancements are part of a firm wide information technology upgrade program that we initiated two years ago and which is now largely completed. As a result of these efforts, our overall capacity has been expanded and we are now accepting new clients. We appreciate referrals of family and friends.

The views in this publication are as of August 2009. Any forecasts and market outlook presented reflect subjective assumptions and unexpected events may occur. The information presented is for informational purposes only and it should not be construed as investment advice.