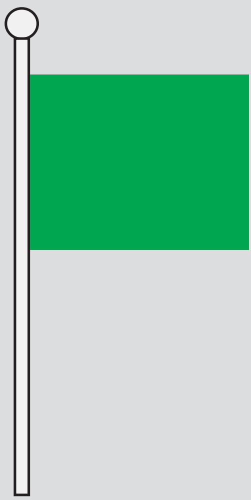
The Financial Research Center, Inc.

Money Forecast Letter



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APRIL, 2010

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April, 2010

Holliston, Massachusetts - March 16, 2010

With Wall Street expressing such concern over the prospects for jobs growth in the coming year, I thought this would be a good time to examine this most important topic in depth. It seems apparent that this issue is the last piece of the puzzle that investors would like to see fall into place before they become comfortable with the notion that America's economy can once again really take off.

I have selected a series of charts that I think demonstrate that this concern over job creation is misplaced. It seems obvious to me that we are right on track when compared to past recoveries, yet there is no denying that the average investor is having a hard time buying into that notion. I hope to convince you that you should not spend too much time worrying about new job creation now that this recession is behind us.

Before I get into this I feel compelled to discuss two other important topics being dealt with in Washington, D.C. these

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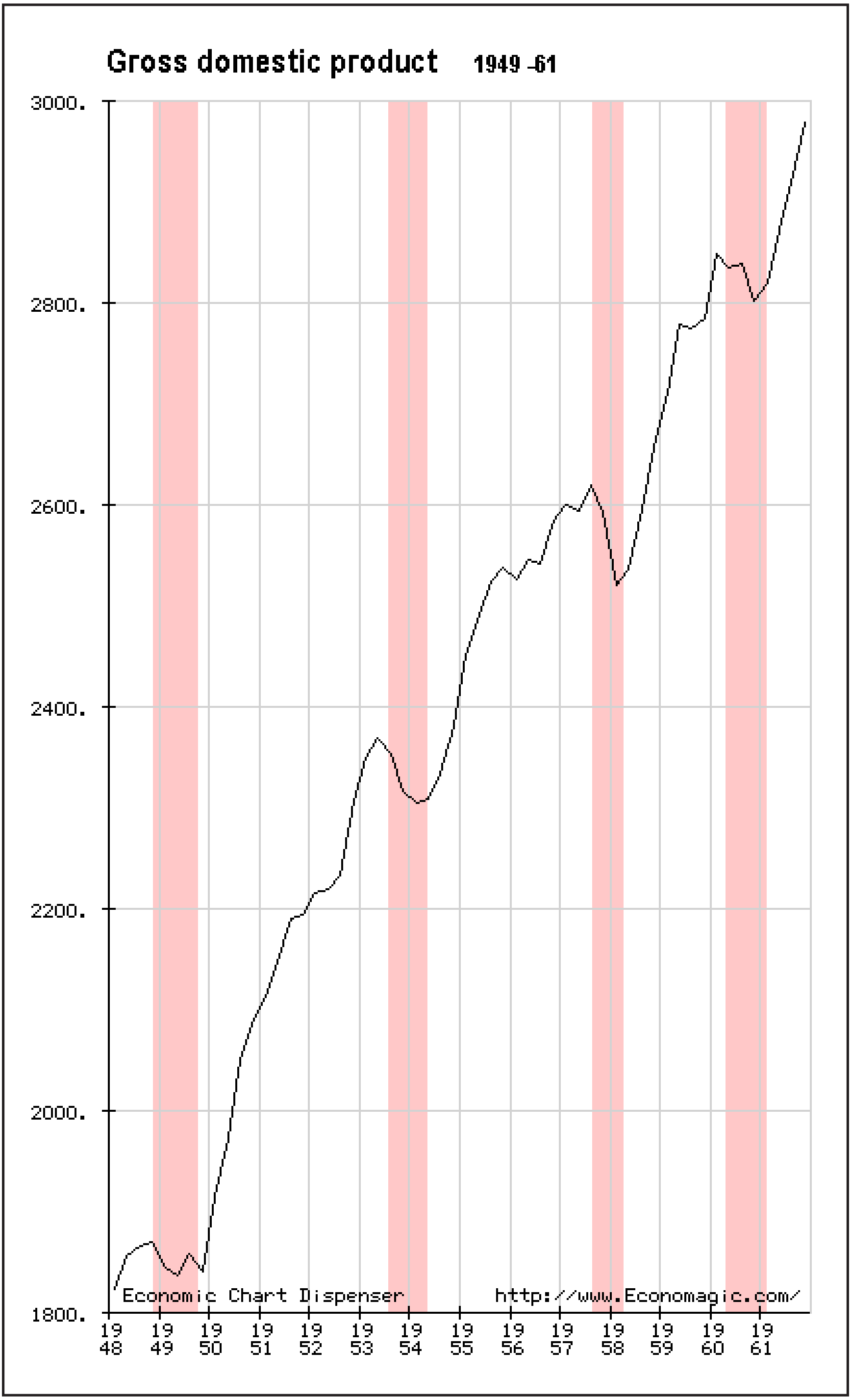
Gross domestic product 1949 -61
3000.
2800.
2600.
2400.
2200.
2000.
1800.
Economic Chart Dispenser
http://www.Economagic.com/
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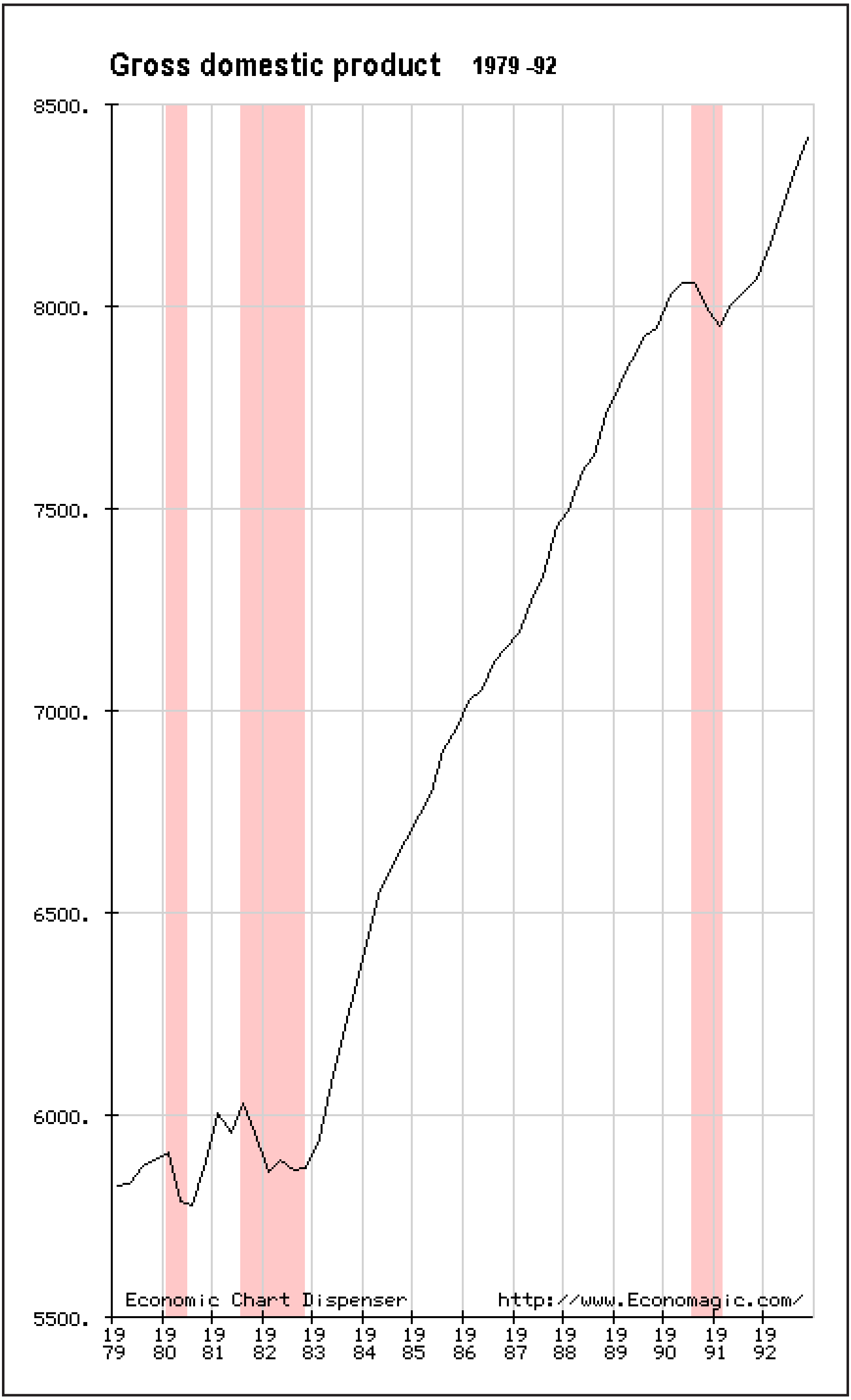
19 60
19 61

days – healthcare reform and the overhaul of financial regulations.

The Healthcare Vote Seems Destined To Be A Nail Biter

The final House vote on the Senate's version of healthcare reform is still days away as I sit down to write this letter, but it seems obvious that Speaker of the House Nancy Pelosi has come within an eyelash of securing the necessary votes for passage. Because of this I think it is important for you to be up to speed on just what it would mean for the economy should this bill and the subsequent "fix" pass both Houses of Congress and move to the White House for an assured presidential signature.

The most important thing to keep in mind is that passage of this bill will not have much of an impact on healthcare for several years. That's because the only way that the Democrats can maintain the illusion that this bill will save money is by starting to collect the tax increases in the plan right away while delaying for three years most of the changes to the system. That includes the government mandate that all Americans buy health insurance coverage either through their employers or through a government run health exchange program. While these exchanges would technically be private companies there would be an option to join a national plan run by the same federal office that oversees the health plan available to members of Congress. Others would be able to get their insurance through an expanded Medicaid



Gross domestic product 1979 -92
8500.
8000.
7500.
7000.
6500.
6000.
5500.
Economic Chart Dispenser
http://www.Economagic.com/
1979
1980
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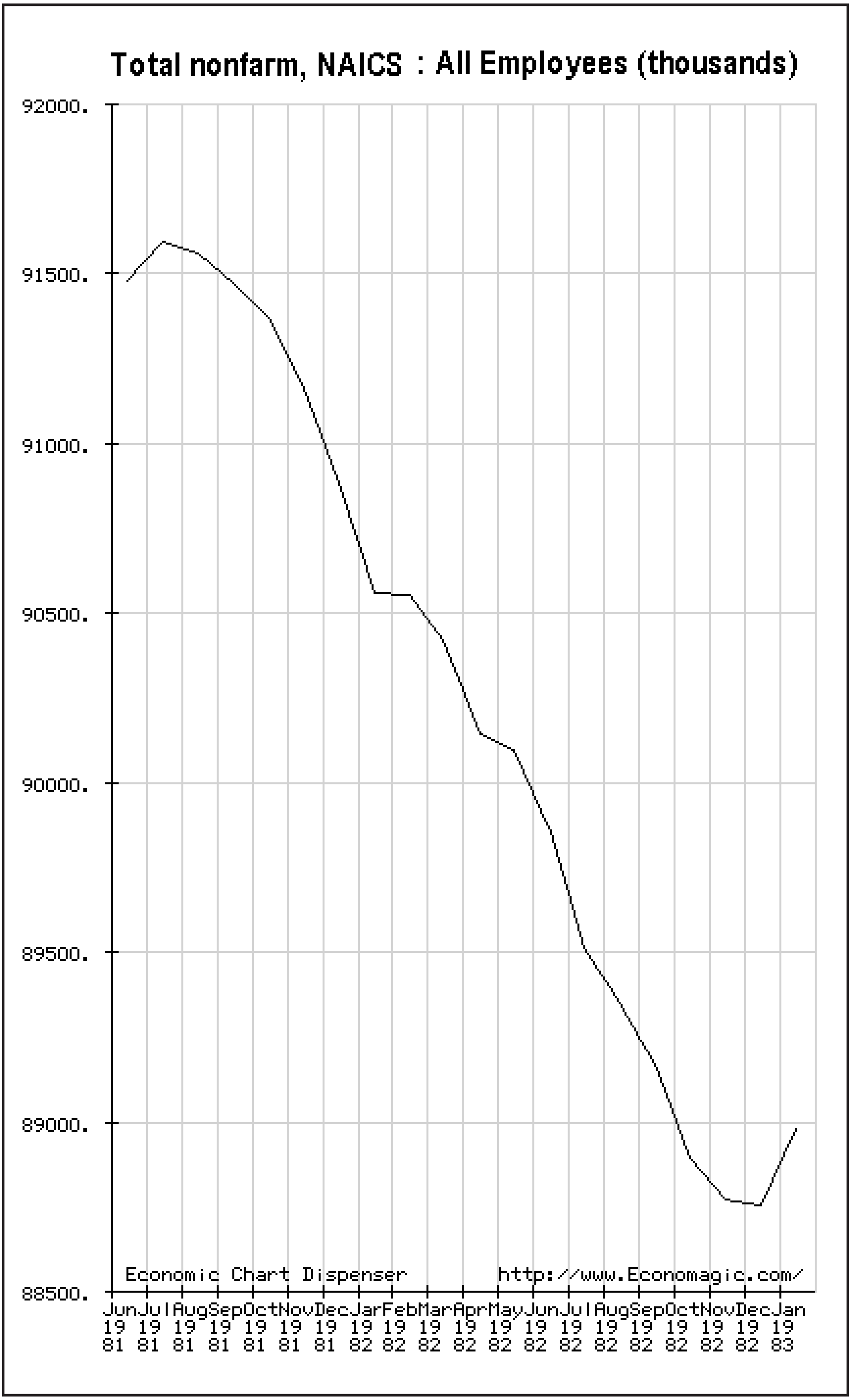
1988
1989
1990
1991
1992

program. Those under 26 years of age would be able to get insurance by staying on their parent's plan. Currently they lose that option when they turn 21.

Meanwhile many of the taxes that are part of this plan will begin at the start of next year. Perhaps the dumbest and most destructive tax will be the one which applies the newly raised Medicare payroll tax (going up from 1.45% to 1.95%) on individuals making $200,000 or more and couples who earn $250,000 or more. This new tax will apply not just to so-called earned income, but to investment income as well. Democrats see this new tax as just a down payment on their promise to redistribute the wealth by raising taxes on high income earners. Wrongly believing that anyone earning dividends or interest income must be rich.

Massive new taxes will also be immediately assessed on insurers, drug companies and any employer with more than 50 employees who fails to provide health care insurance. The insurance industry would see an annual fee of $6.7 billion starting this year. Pharmaceutical companies will need to pony up $2.3 billion a year and medical device makers would see their taxes raised $2.0 billion starting in 2010. Just for good measure a 5% tax on elective cosmetic surgery has been added to prove that Congress understands that the little people are really tired of rich folks wasting their money on non-serious things.

The game plan by the Democrats is a tried and true approach to expanding the reach of government. Get the camel's


Total nonfarm, NAICS : All Employees (thousands)
92000.
91500.
91000.
90500.
90000.
89500.
89000.
88500.
Economic Chart Dispenser
http://www.Economagic.com/
Jun 1981
Jul 1981
Aug 1981
Sep 1981
Oct 1981
Nov 1981
Dec 1981
Jan 1982
Feb 1982
Mar 1982
Apr 1982
May 1982
Jun 1982
Jul 1982
Aug 1982
Sep 1982
Oct 1982
Nov 1982
Dec 1982
Jan 1983

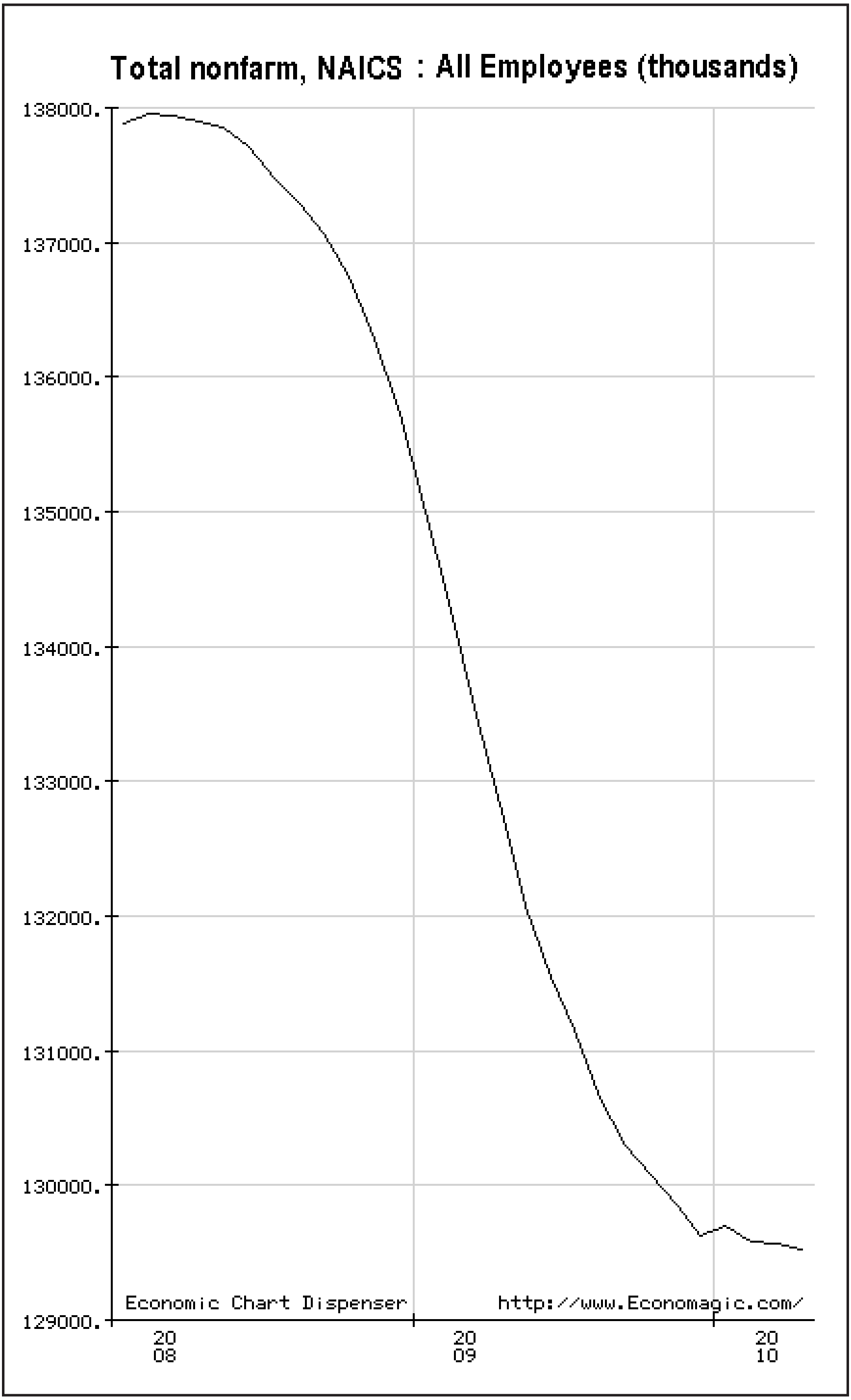
nose under the tent right away, then add more goodies later after the program is safely established. This approach to legislation has proven monstrously successful with Social Security, Medicare and Medicaid. For good measure the new legislation slips in changes to the student loan program that will eliminate private companies from the student loan business and make institutions of higher learning and anyone who wishes to attend these institutions completely at the mercy of the federal government.

But there is a danger that comes with this approach

Because the reforms are delayed for years the average person will see little immediate change to their health insurance situation. That means that the Democrats will have left a three year window that will allow for the repeal of much, if not all, of this legislation before it really gets started.

The magic year for the start of this plan is 2013 - after the 2012 presidential election. It is not inconceivable that the 2012 contest will become a referendum on this healthcare plan (should it pass). If the Democrats lose the battle of public opinion over this plan in the next three years they risk seeing all their work go for naught in a landscape-changing election. One that could rival the election of 1800, when Thomas Jefferson and his Democratic-Republican party swept the big government Federalist Party from power.

Because of the time lag involved here I think it important

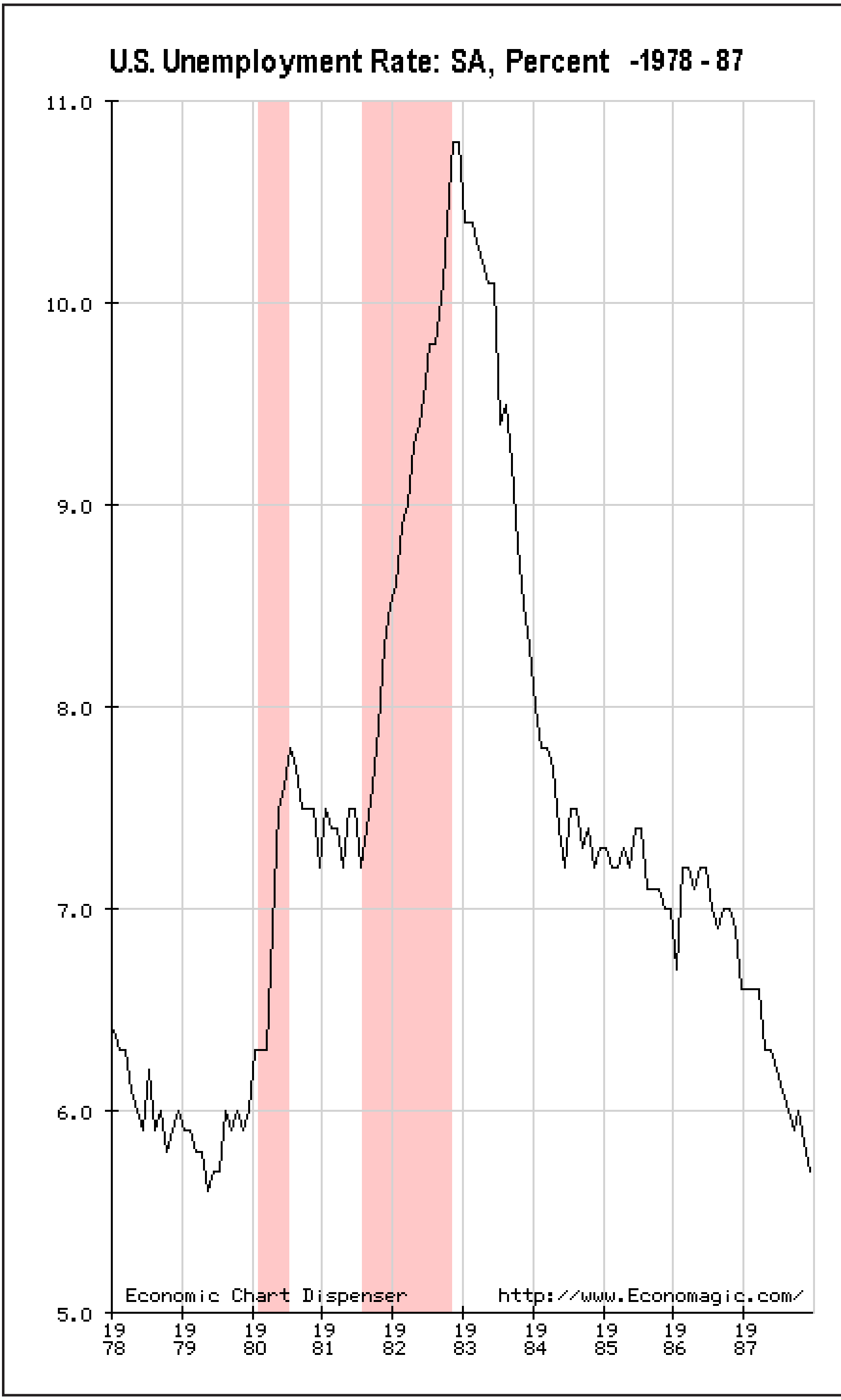

Total nonfarm, NAICS : All Employees (thousands)
138000.
137000.
136000.
135000.
134000.
133000.
132000.
131000.
130000.
129000.
Economic Chart Dispenser
http://www.Economagic.com/
2008
2009
2010

that you not fixate too much on the repercussions of a successful vote in the House in the coming days. A Democratic victory will not be end of this story, no matter how the president will attempt to spin it as such.

A Republican victory on this vote must not be considered the end of the debate either. Should the Democrats fail to pass the current plan it simply means that work will continue on healthcare reform on a less partisan basis. Healthcare desperately needs reforming - the country can not long tolerate healthcare costs rising at two, three even five times the rate of the general price level. Should this plan fail there will be another bill produced eventually. The question before Congress then will be just what types of reform will there be. Keep in mind that the Democratic leadership needs just one Republican vote to pass reform. It is not to hard to picture a scenario where one of the more liberal Republican Senators from the Northeast is enticed into supporting a scaled back reform plan. Simply put, the coming vote on healthcare does not really solve anything.

The financial reform bill being worked on in Congress is a different story entirely

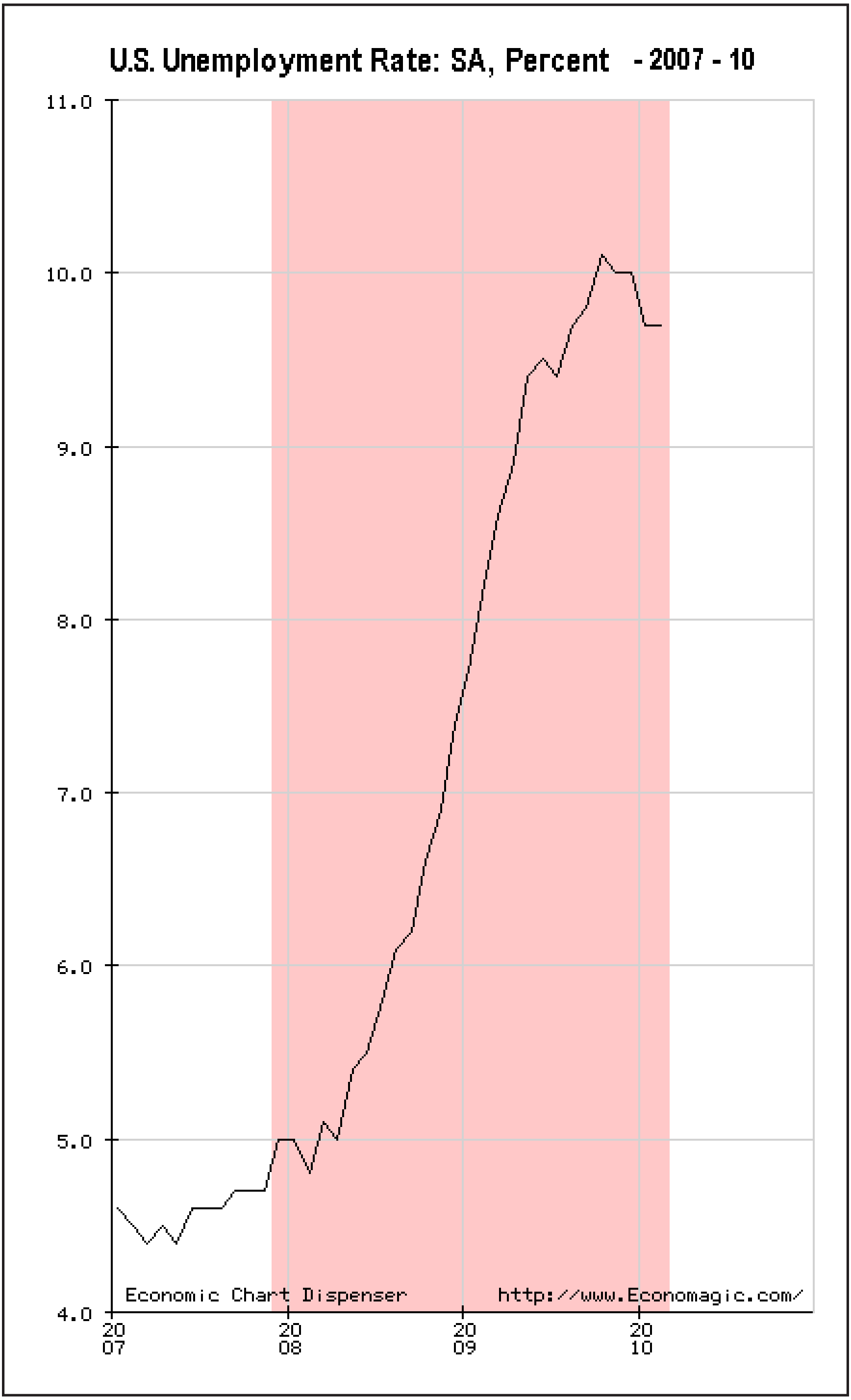
The House has already passed a (lousy) version of financial reform and is awaiting Senate action on it's own bill. After months of attempting to win Republican support for a massive expansion of government oversight at the expense of the Federal Reserve Board, it now appears that wiser heads are prevailing. Gone from the Senate plan is the


U.S. Unemployment Rate: SA, Percent -1978 - 87
11.0
10.0
9.0
8.0
7.0
6.0
5.0
Economic Chart Dispenser
http://www.Economagic.com/
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987

creation of an independent consumer protection agency as well as plans to take banking oversight duties away from the Fed. Not dead yet though are plans to create a new council headed by a presidential appointment. It would be tasked with overseeing the financial markets and presumably empowered with the authority to mandate any behavior the ruling party felt could best enhance their chances for reelection - long-term consequences to the economy be damned. The good news is that the Fed and its supporters seem to be making substantial headway in blocking this wrong-headed approach to financial regulation. Further good news is that even if the Senate passes a version of financial reform the two houses would need to hammer out a compromise bill that seems likely to make neither side happy. This promises to be a prolonged debate that will likely last up until the Congressional election this Fall. Since it seems quite likely that Republicans will pick up a substantial number of seats in those elections I suspect that the efforts to reform the financial sector will have to wait until next year. By then all sense of panic should be well forgotten and perhaps some of the better ideas for reform such as the much maligned, but far from dead, Volcker rule will have time to gain more support.

Given the partisan bickering in Washington these days, a delay on financial reform legislation must be considered a good thing.

Not only is it likely that there will be more votes for those who understand how the economy really works, the country

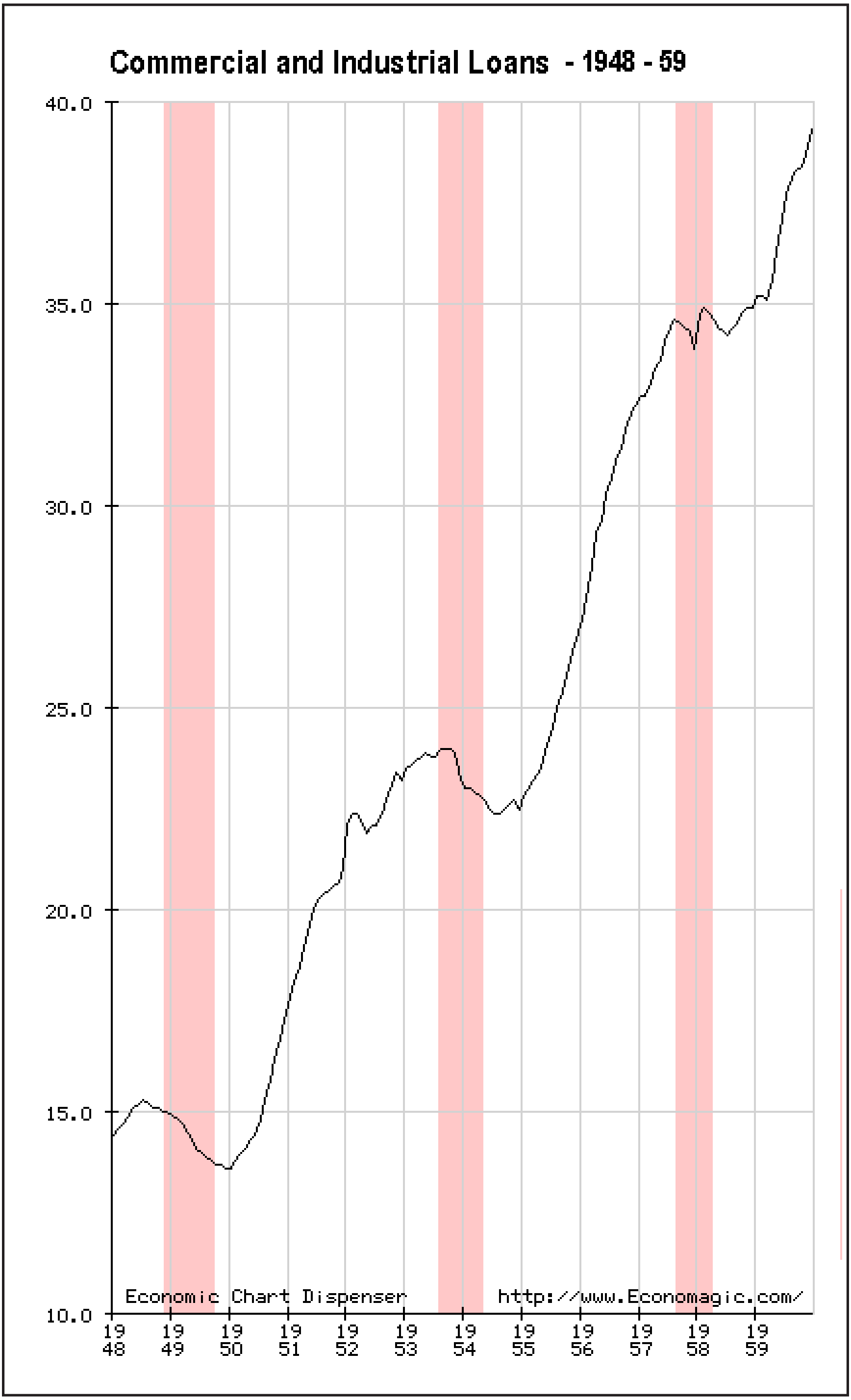

U.S. Unemployment Rate: SA, Percent - 2007 - 10
11.0
10.0
9.0
8.0
7.0
6.0
5.0
4.0
2007
2008
2009
2010
Economic Chart Dispenser
http://www.Economagic.com/

will be well into economic recovery by next spring and that will take even more steam out of the current populist desire to “punish” those deemed responsible for the financial panic and the recession that followed. That greatly increases the odds that something good can be achieved with a much needed reform bill. I am sure that this is a topic I will be revisiting frequently in the coming months.

Let me turn to what I most want to write about this month: job creation.

I continue to marvel at how much time and energy is being spent worrying about the strength and durability of this economic recovery. In all my years I have never seen people so determined to deny the facts put before them. Not even the revelation that the GDP grew nearly 6% in the fourth quarter has moved the conventional wisdom to consider the possibility that this economy is not poised to struggle along for another decade. Their favorite scenario seems to be one in which America of the next ten years resembles Japan during their post-bust 1990’s.

This desire to paint a bleak picture of America’s future is not a new phenomenon. On page 2 you will see how this country measured recessions back in the relatively non-partisan days of the 1950’s. Recessions were easily identified by a decline in GDP and were pronounced “over” once the economy began growing again. The chart on page 4 shows that this simple concept has been replaced. So anxious are those who produce the official stats on


Commercial and Industrial Loans - 1948 - 59
40.0
35.0
30.0
25.0
20.0
15.0
10.0
Economic Chart Dispenser
http://www.Economagic.com/
19 48
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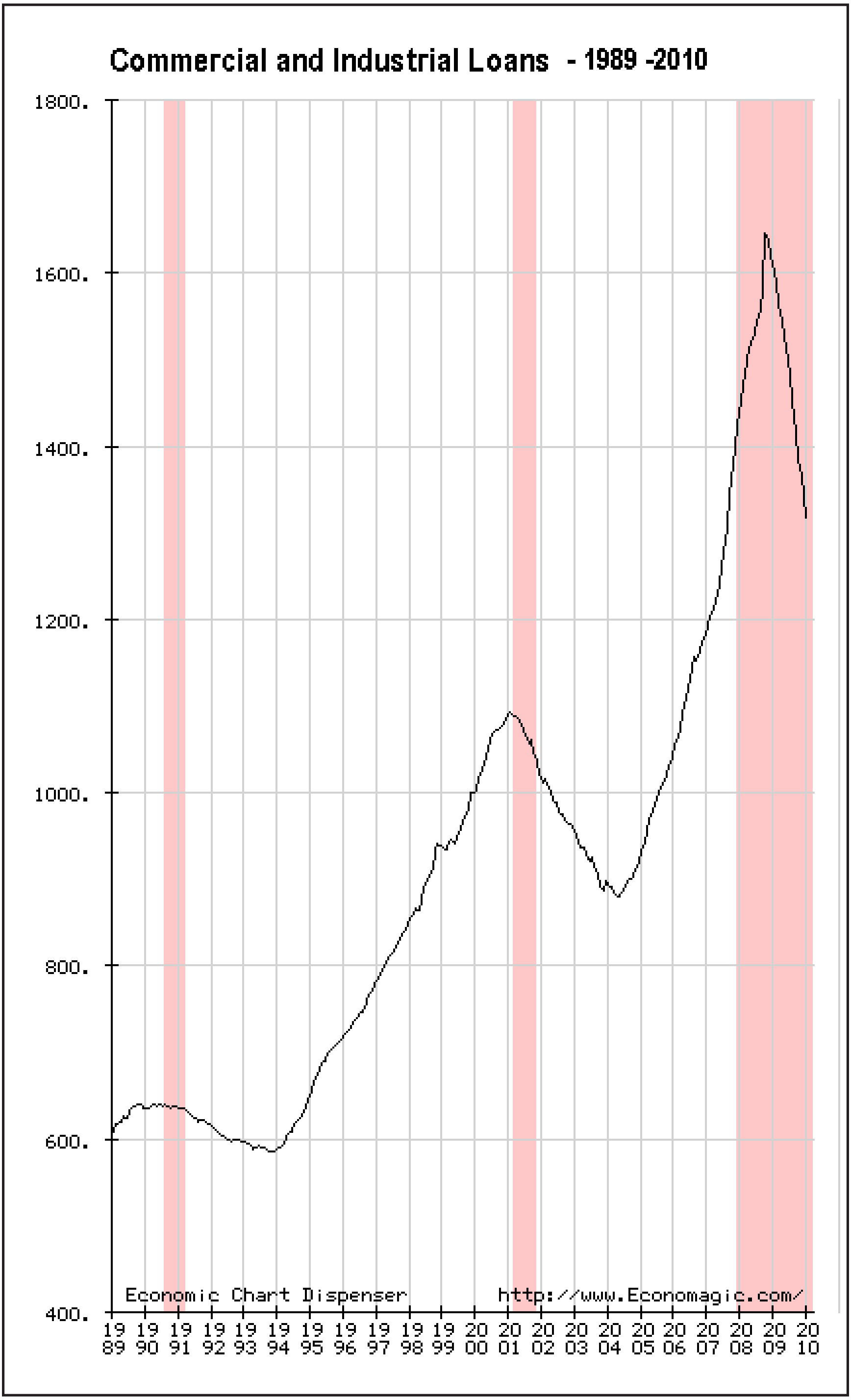
recessions to prove that the country is in terrible shape, they rushed to declare that this recession started a full six months before they would have under the old rules. They also seem to be in no hurry to declare this recession over, despite the fact that growth resumed during the third quarter of last year.

It may seem inconsequential, but it neatly represents the desire on the part of the elite in this country to portray an America that is in desperate shape. So desperate in fact that huge, unpopular changes need to be made in the way Americans are allowed to live their lives. Rather than concentrating on the positives such as renewed economic growth, higher profits, rising real estate prices, higher personal incomes and dramatically higher exports, it seems the people pushing for a transformed America wish to remain fixated on employment numbers and bank loans. On pages 6 and 8 you can see the charts that show the job losses that resulted from the recession of 1981-82 and this current recession.

Those who would have you believe that this economy is still in trouble like to compare the 2008-09 recession to the one that took place in 1981-82. That ‘81-82 recession was pretty bad and the critics of this economy have made it cottage industry to say that this one will prove far worse. They point out that we have lost roughly twice as many jobs in this recession and that it took just 17 months for job losses to stop during the ‘81-82 recession while we have been losing jobs for 26 months and counting now.

Two things need to be pointed out about these numbers.


Commercial and Industrial Loans - 1989 -2010
1800.
1600.
1400.
1200.
1000.
800.
600.
400.
Economic Chart Dispenser
http://www.Economagic.com/
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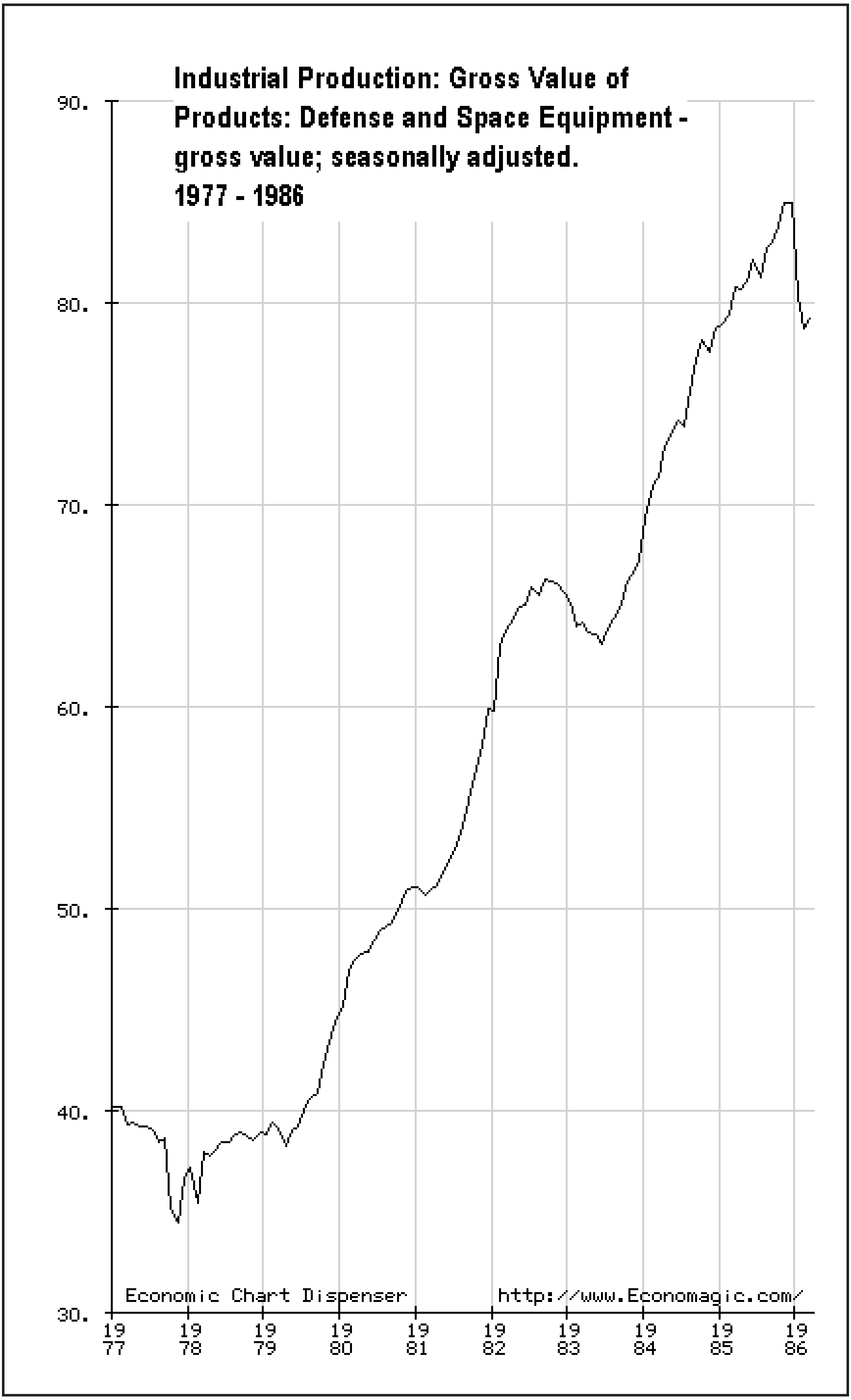
First off, the working population in America has gone up some 50% since the 1981-82 recession and those recession numbers were skewed by the fact that the country experienced a previous recession during 1980 where some 1 million jobs were lost. That helped shake out some of the excess workers who otherwise would have lost their jobs during the ‘81-82 recession.

Secondly, this fixation on job losses extending out to 26 months ignores the obvious bottoming out of job losses late last year. It is only a matter of time, perhaps as early as next month, that new job creation will become apparent.

But this story of recovery is about more than just previous job losses. The chart on page 10 shows you the unemployment rate before, during and after the recession of 1981-82. Note how steep the initial drop in the unemployment rate was once the economy began to recover. Those who talk of a jobless recovery like to point only to the two most recent recessions - when it took much longer for jobs to come back. I believe that the unemployment rate was slow to drop during those two recessions because the Fed wrongly intervened to stop the recessions before they were allowed to do their job. Recessions are a necessary part of the economic cycle. As painful as they are they’re needed so that businesses can clean house. It forces companies that have become bloated with unnecessary costs to trim and once again become lean and mean. This nasty process usually is overdone and that is why a typical recession is followed by an initial burst of new hiring.


Industrial Production: Gross Value of Products: Defense and Space Equipment - gross value; seasonally adjusted.
1977 - 1986
90.
80.
70.
60.
50.
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Economic Chart Dispenser
http://www.Economagic.com/
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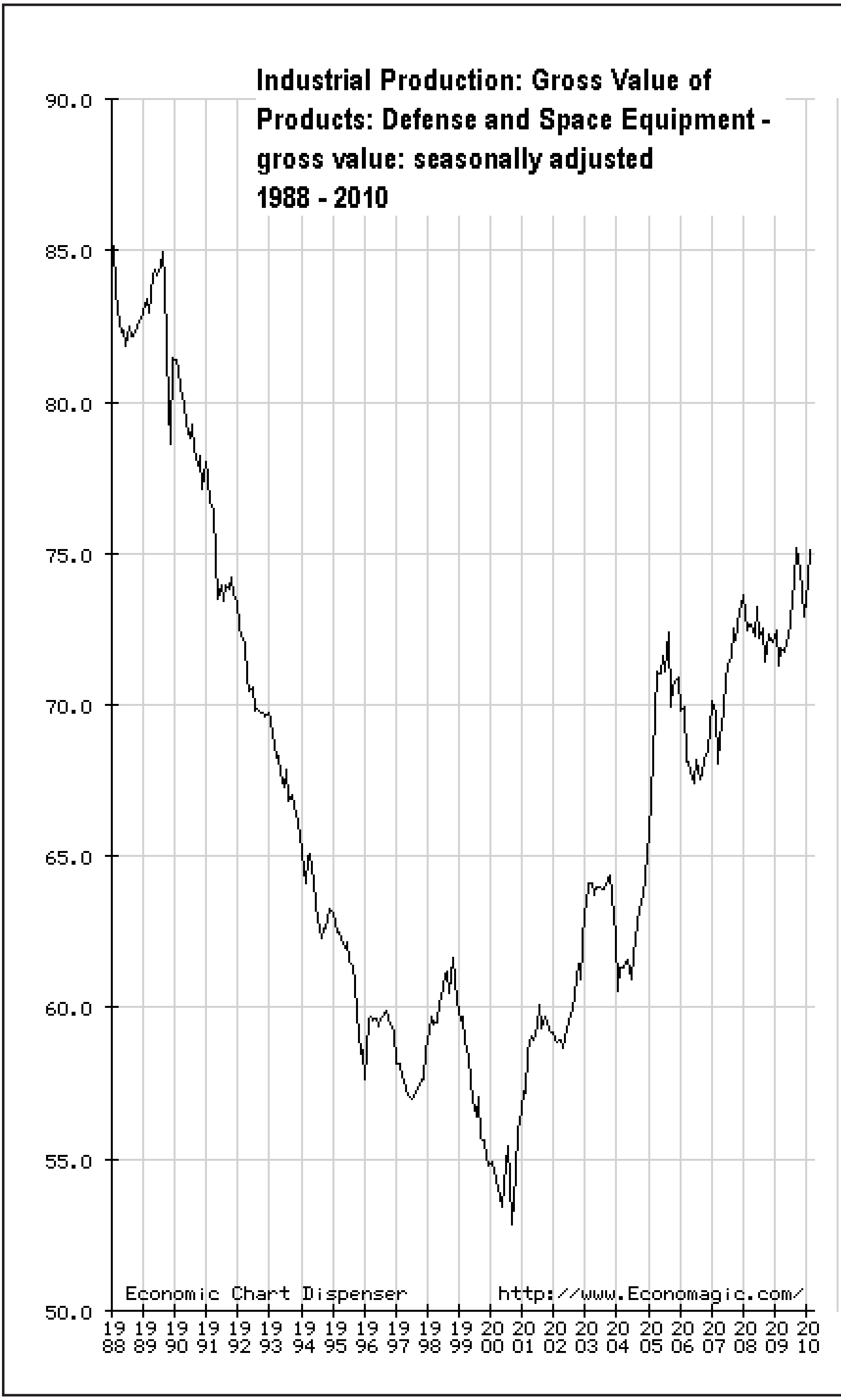
Aggressive Fed interventions during the 1990 and 2001 recessions short-circuited the renewal process.

Because the recessions were prematurely ended by the Fed these recessions did not complete their jobs and set up the need for the really, really big recession we have just suffered through. If only the Fed under Alan Greenspan understood what the Fed during the Eisenhower Administration knew. That recessions, while unpopular, are very much needed to maintain long term economic health. Ike allowed three of them during his eight years in office yet the 1950's were a golden age of American growth. Rising incomes, low inflation and rising stock prices. The Dow more than doubled during the "boring" Eisenhower years. It would take another 25 years before it doubled again!

On page 12 you see what has been happening to the unemployment rate during the past three years. I put it to you that there is not a whole lot of difference between the early '80's recession and recovery and today. I fully expect that accommodative fiscal and monetary policy will allow job growth to explode in the coming year or two with out igniting inflation. Like the recession of the early '80's, it might be five years before the unemployment rate falls back to pre-recession levels, but the trend should be unmistakably down.

On pages 14 and 16 I have reproduced commercial loan activity for 1948 thru 1959 and 1989 to today. Note that loan activity exhibits the same trait during all of the recessions


Industrial Production: Gross Value of
Products: Defense and Space Equipment -
gross value: seasonally adjusted
1988 - 2010
90.0
85.0
80.0
75.0
70.0
65.0
60.0
55.0
50.0
Economic Chart Dispenser
http://www.Economagic.com/
19 88 19 89 19 90 19 91 19 92 19 93 19 94 19 95 19 96 19 97 19 98 19 99 20 00 20 01 20 02 20 03 20 04 20 05 20 06 20 07 20 08 20 09 20 10

shown. Loans don't just fall during a recession, they continue to fall for months after it has ended. That is because loans are a function of trust. *Trust on the part of the bank that the borrower will be able to pay the loan back and trust on the part of the borrower that it is a good idea to borrow the money in the first place.*

All this talk about needing to reform the banking industry so that they can be forced into making new loans is absurd on the face. The economy will recover without a noticeable upturn in loans because that is how recoveries work. Loan activity will eventually recover without the need of some government bureaucrat mandating that it happen. Any financial reform plan that proposes something different should be dead on arrival in Congress.

The last two charts, on pages 18 and 20 are simply there to remind you that one of the important legs on which the economy stands is defense spending. You will recall that the first President Bush doomed his chances at a second term when he reversed his stand on taxes and raised them in a vain effort to buy cooperation from the Democrats who controlled Congress. Those higher taxes help slow the economy. But it wasn't just the taxes that doomed George H. W. Bush. He was the first president to cut defense during a war and during a recession. He paid for this mistake by giving up any real chance at a second term.

Compare that period of time with the Reagan years. President Reagan knew that the country had cut military spending far too much and he embarked on an ambitious rebuilding plan that doubled defense spending during his years in office. This spending helped boost the economy and brought prosperity back to America after a lost decade of economic malaise. The chart on page 20 clearly shows that the lessons of the first George Bush were not lost on the second George Bush. He, like Reagan, inherited an America where defense spending had been cut recklessly. Even before 9/11 and the start of the Iraq war George W. Bush embarked on a plan to rebuild America's defenses and at the same time helped boost the economy.

As we exit this recession we have a new president who is faced with a tough decision. His political leanings suggest that he is going to want to cut defense spending to the bone as a means of controlling runaway deficits. But his commitment to the war in Afghanistan suggests that he has an appreciation of the benefits of a strong military. Should he follow the advice of those who wish to gut military spending he will weaken the economy and slow the pace of new job creation. If he is interested in a second term he will need to remember the lesson that the first George Bush learned. Drastically cutting the defense budget is the quickest way to become just a footnote in the history books. He need not double spending in the coming six years, he simply needs to resist the calls from both the far left and the far right of the political spectrum to gut the defense budget. The natural strengths of the American capitalist system will take care of the rest.

– Adrian Van Eck

ADRIAN VAN ECK EXPLAINS WHY HE OFFERS HOTLINES

In the summer of 1990 , Adrian finished His monthly Money Forecast Letter, Put it in the mail and flew off to Washington, D.C. for an appointment.

Adrian was in the office of the Secretary of Treasury when an aide rushed in and breathlessly announced that Iraqi armor and troops had just crossed the border of Kuwait. Needless to say, the planned meeting was cancelled, as first President George Bush summoned his cabinet officers to an emergency meeting at the White House.

The economy was suddenly turning upside down and Adrian wished he had a way to communicate with his readers. On the flight back to Boston, he decided it was time to supplement the in-depth analysis and forecasts in his monthly letter with a time-value weekly hotline.

At first he provided a voice message. That proved impractical and it was soon replaced by a fax version. More recently he added an E-Mail version, which is today the choice of 5 out of 6 hotline subscribers.

If you do not yet take Adrian's hotline on Money and the Economy, please turn over and sign up now.

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