HS Dent Forecast

May 1, 2009

The Economic Guide for Effective Financial Decision Making

Feature Articles

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New Session Demographics School

Fall 2009, Tampa, FL!

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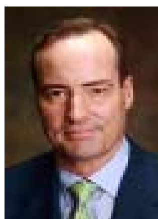
What's on the mind of HS Dent'?

Check out the new financial blog at www.hsdent.com/blog to find out!!

Solid Rally Increasingly Overbought—Modest Corrections in May Followed by Continued Rally Toward 10,000 into July/August



In brief: The stock rally since March 9, 2009, has been consistently strong, giving up very little on corrections. We saw a follow through rally on March 12 and generally rising volume throughout. Hence, this long-expected rally looks as if it has legs, as we have been commenting. However, stocks have become extremely overbought near term and have bumped up against strong resistance between 8,100 and 8,300, as we forecast in the last issue. The Nasdaq is also testing its 200-day moving average as of 4/30. Thus, it is very likely that stocks will undergo at least a minor setback into late May or early June on a natural seasonal cycle. The question is whether we will get a shallow correction with targets between 7,460 and 7,800 or a deeper correction back to at least 7,240 and possibly much lower. Two reverse head-and-shoulder patterns both point toward a target of 10,100 to 10,200 but with very different correction patterns and downside targets. The shallower correction is the more likely scenario at this point given the market's consistent strength. We have been warning of this impending correction and gave a sell signal at 8,150 on the Dow for shorter-term traders, which was triggered on the morning of April 29. We will be looking for a buy signal again around late May or early June. It is also possible that the market could just continue to edge up despite its very overbought readings. In that case we won't be able to generate a second buy signal for adding to stocks.

Bearish economists tend to see risks of deflation this year but greater risks of inflation in the years ahead. We continue to see deflation as the clear threat, and it is likely to set in more fully by mid- to late next year after a brief dose near the midpoint of this year. We see inflationary trends and rising commodity prices again more in the 2020s and 2030s – very long term – and due to demographic and commodity cycles, not money printing. Not only do financial institutions and corporations have problems with excessive debt and leverage, consumers are $14 trillion in debt and need to get back into balance, given falling retirement assets and slowing economic and job growth. The government instead wants consumers to borrow and spend, which is the opposite of the natural demographic trends and their new reality, in which retirement assets are disappearing rapidly. The deleveraging of debt

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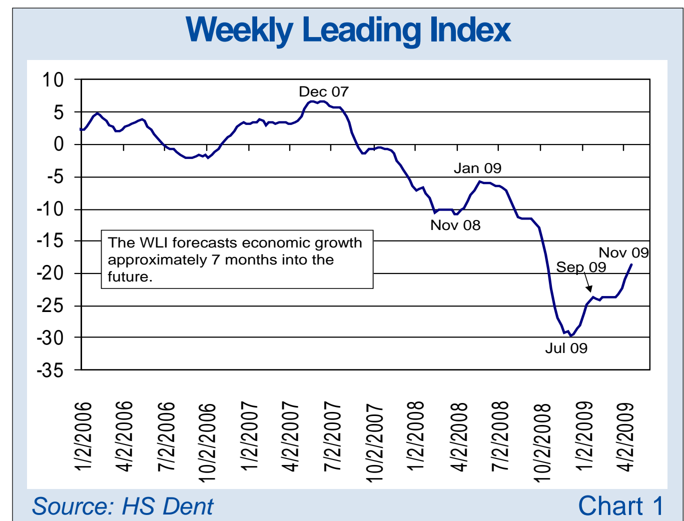
will destroy more loans and assets than the government will create with its stimulus plan, as we have been saying in recent issues.

We are just beginning another level of international research that we will cover more in the quarterly July issue. Emerging countries are clearly the future of world growth as the western nations, Japan and most of East Asia age and slow. The big question is: How rich will these emerging countries get? And the answer typically is—not as rich as you might think! We will start to look in this issue at how emerging countries develop on an S-curve of urbanization. There typically exists a clear relationship between GDP per capita and urbanization that allows us to project the future wealth and growth of economies decades into the future. Brazil is already 80% urban, similar to the U.S., yet their GDP per capita is only $6,000, 20% of ours. China may attain a GDP per capita of only $9,000 in today's dollars vs. $30,000+ in the U.S. They may not quite attain even that level, given a prematurely aging population due to their government's one-child policies, which have been in place since the early 1970s.

The Economy: Leading Indicators Starting to Accelerate Upward—But How High?

The biggest change in our economic indicators since the last newsletter has been that the Weekly Leading Index has finally started to accelerate more convincingly (**Chart 1**). However, the rise thus far has been merely from -30% to -18%. That indicates a slowing of the slowing and means that we are still likely to be in a lesser but still serious recession by year end. We think that the markets will be disappointed if we are not closer to coming out of this recession by then.

Our intermediate 8- to 9-year geopolitical/terrorism cycle is due to peak between late 2009 and early 2010; any such events will make our economy more vulnerable to shocks and potential rising oil prices. The government's official leading indicators have not bounced upward as strongly as this index has, which brings even more into question the strength and timing of this recovery.



Source: HS Dent Chart 1

GDP for the first quarter came in weaker than expected at -6.1% vs. -6.3% in the fourth quarter. Inventories for business were down, which is good news; that accounted for -2.7%. The rest of the downturn was dominated by exports, which declined 30%, vs. 23% in the fourth quarter. Clearly, world trade is still worsening. The best news was that consumer spending was up 2.2%, with strong durable goods surges. Housing may be starting to bottom out for now; we will continue to monitor that over the next few months.

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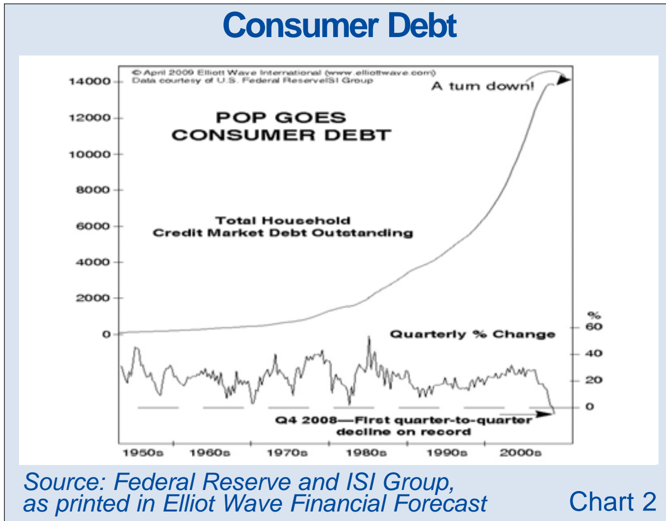
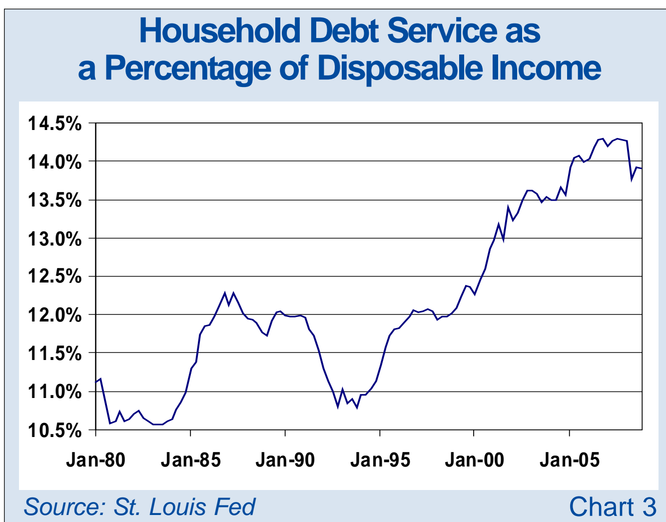
Consumer Debt



Source: Federal Reserve and ISI Group, as printed in Elliot Wave Financial Forecast — Chart 2

The great dilemma for the government's stimulus plan is that the government is trying to get consumers to spend at the same time that consumers naturally are starting to save. That savings trend is being augmented by fears of a failing economy and by rapidly disappearing retirement assets. We have talked about how ridiculous it is to add debt and leverage to the government at a time when its debts already are going to rise rapidly due to huge budget deficits and the severe economic slowdown. But the same is true for consumers. **Chart 2** shows the acceleration of consumer debt, which is now near $14 trillion, or 100% of GDP. Consumers are more in debt than the government is, at 60% of GDP—although we have shown in past issues how our government's debt ratio easily could rise to 150% to 200%, as Japan's has from trying to stimulate during a long slowdown. However, the more important insight to gain from Chart 2 is that consumer debt declined for the first time in almost 6 decades. We think that this is the beginning of the deleveraging of consumer debt, which will take years to complete.

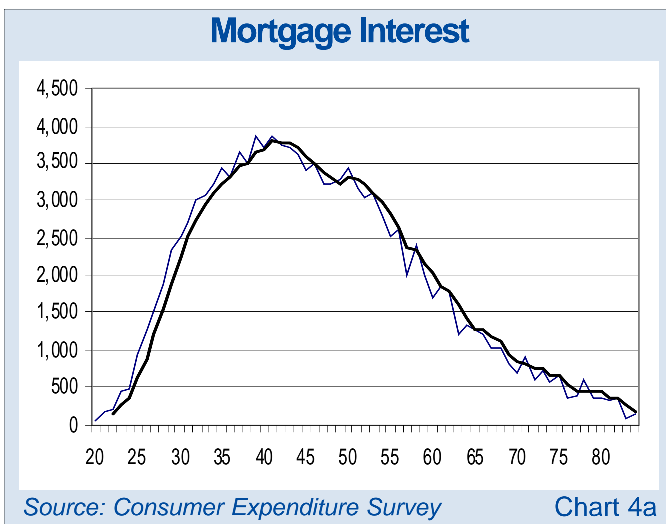
Household Debt Service as a Percentage of Disposable Income



Source: St. Louis Fed — Chart 3

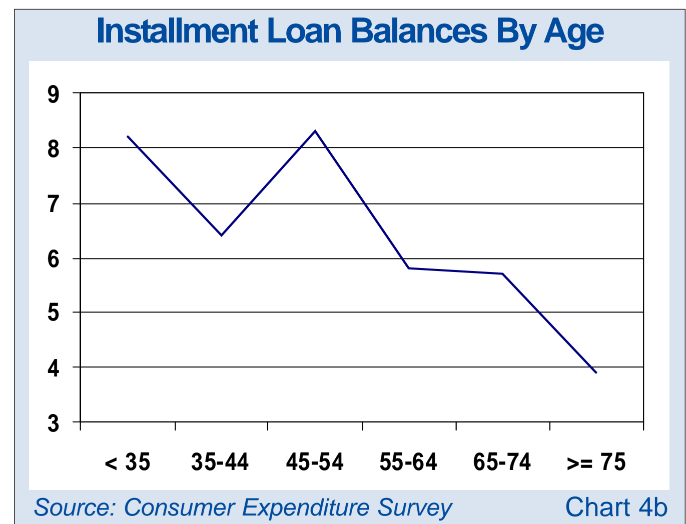
Chart 3 shows consumer debt as a percentage of disposable income. Of course, consumer debt is the highest we have ever seen, near 14.5% recently, although this debt level is finally falling a bit. If consumer debt falls back to the percentage it was back in 1994 or 1980—between 10.5% and 10.8%—then about $5 trillion of consumer debt will be paid down or written off by banks. **Chart 4a** shows the dominant borrowing pattern for mortgage interest by age. This pattern peaks by the time

Mortgage Interest



Source: Consumer Expenditure Survey — Chart 4a

Installment Loan Balances By Age



Source: Consumer Expenditure Survey — Chart 4b

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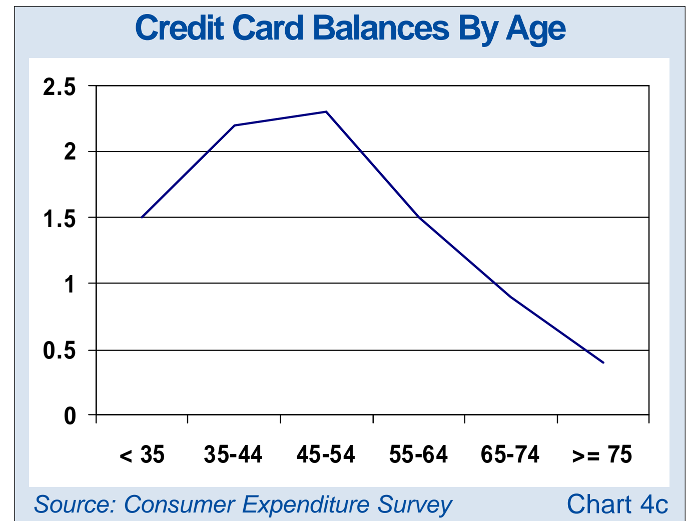
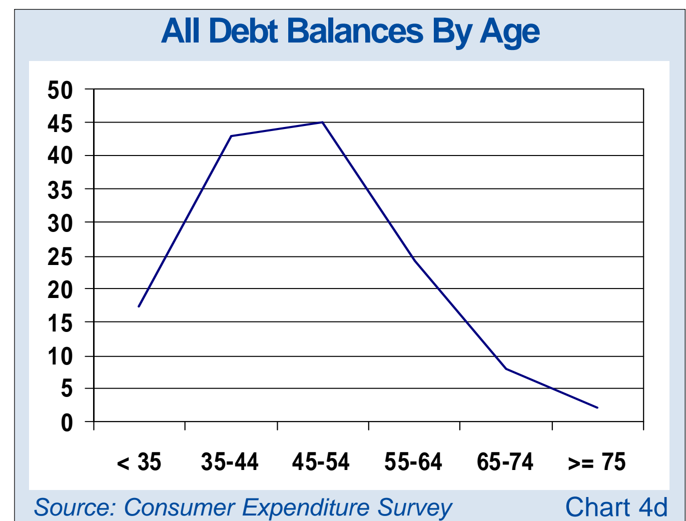
the consumer is age 42 and steadily declines thereafter. **Charts 4b – 4d** show other sectors of debt that all accelerate into 35 – 44 and peak in the 45 – 54 age range, likely between 46 and 50, although we don't have that data on a yearly or 5-year cohort basis. Baby Boomers will pay down debt very substantially in the coming years. Isn't that a good thing long term? How is the government going to get them to borrow and spend? As we showed in April, household asset deflation is $13 trillion but is likely to end up closer to $25 trillion before the downturn bottoms. This, again, is clearly deflationary! The government's plan to stimulate spending and borrowing works against this natural and necessary rebalancing of consumer debt and creates massive amounts of additional government debt. The sophisticated economists who argue that more stimulus money is the right medicine have outsmarted themselves with the now commonly accepted Keynesian logic—which never fully made sense in the first place. Again, a 10 year-old could easily grasp that adding more debt and leverage to an economy suffering from too much debt and leverage simply doesn't make sense!



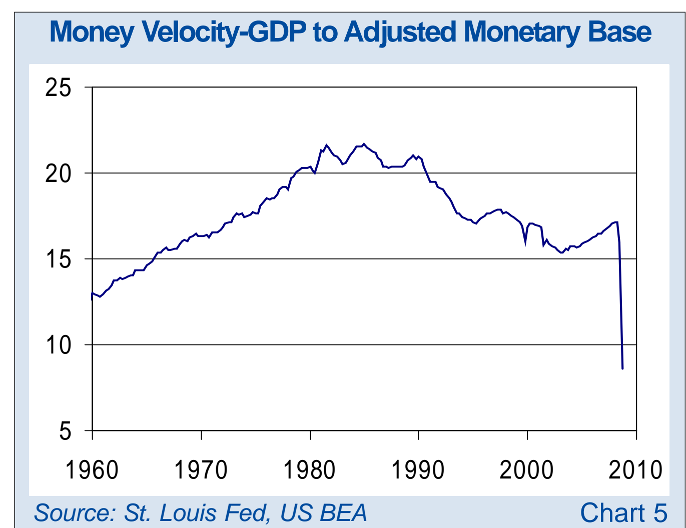
Source: Consumer Expenditure Survey Chart 4c



Source: Consumer Expenditure Survey Chart 4d

Money Velocity: Why not Inflation from Stimulus?

In the April issue we showed **Chart 5,** with GDP divided by the monetary base. This is the most basic definition of monetary velocity. This chart thus far shows declining velocity—banks aren't lending and consumers aren't spending the massive increase in the monetary base from the stimulus program. Now that situation could change. Thus, Chart 5 along with our Weekly Leading Index will be an important indicator to continue to track. **Chart 6** shows money velocity according to a broader definition using M2 instead of the monetary base. The indicator on this chart is falling as well. This indicator actually peaked back in 1997. Since then, the economy has seen a gradual fall in velocity (especially after the 2000-2002 stock crash) that should accelerate downward in the years ahead, much as it did in the early 1930s. This drop probably will not be as deep as in the 1930s. Note that the same pattern occurred 80 years ago (our 80-year New Economy cycle).



Source: St. Louis Fed, US BEA Chart 5

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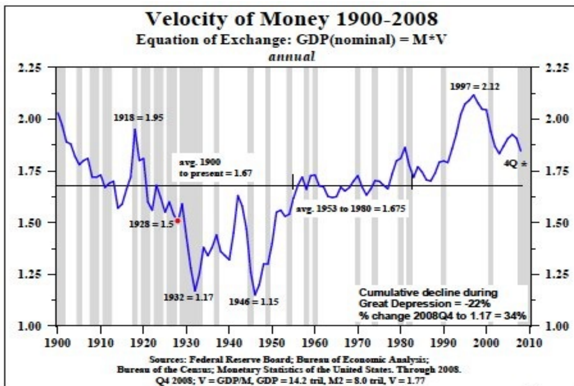
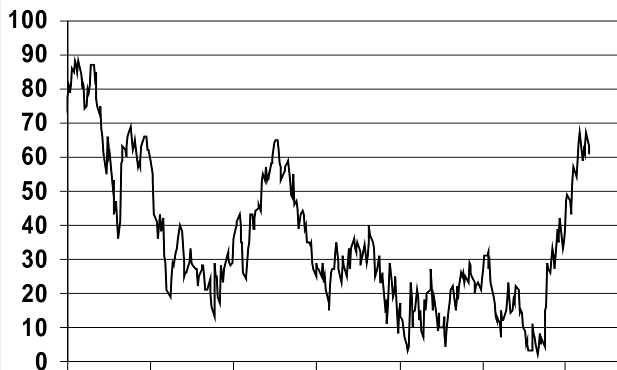
Velocity of Money



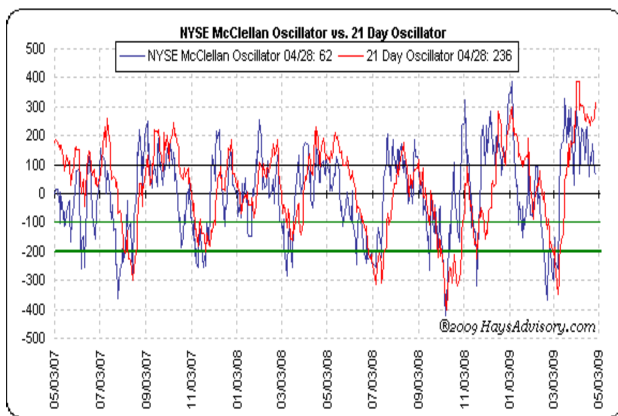
Source: Van Hoisington and Hunt 2009 Chart 6

S&P 500 Sentiment



Source: Jake Bernstein (www.trade-futures.com) Chart 7

NYSE Oscillators



Source: HaysAdvisory.com Chart 8

Money velocity peaked in 1918, started to decelerate, and then the stock market peaked 11 years later. We saw deflation and a more extreme slowing in money velocity into 1932 and again into 1946. In the current cycle, we peaked in 1997. Nearly 11 years later in late 2007 the stock market peaked; we now are entering a deleveraging and deflation period similar to that seen in the 1930s. We could see a short-term reversal of this deceleration trend. However, the long-term trend should continue to be toward a deeper decline in monetary velocity, as banks tighten their loan standards and write off more loans and as consumers grow more fiscally conservative: saving more, paying down debt, and walking away from mortgage, auto, and credit card debts. That is how deflation can occur despite massive money printing and money supply expansion; declining velocity more than offsets government creation of money and declining assets and loan write-offs destroy more monetary value than the government creates.

Technical Analysis and Reverse Head-and-Shoulders Patterns

(for an explanation of head-and-shoulder patterns, visit: http://www.investopedia.com/terms/h/head-shoulders.asp)

If we look at Jake Bernstein's indicator on trader sentiment, the S&P 500 bullish sentiment (**Chart 7**) has risen to nearly 70%, which is as bullish or more bullish than at the top of both bear market rallies thus far. This indicator suggests that the current rally is due for at least a mild setback. We will be looking for bullish readings of at least 80% but probably closer to the peak in late 2007, around 87% for a top in July or so. **Chart 8** shows the oscillators for the NYSE, with the blue line or McClellan already pointing downward and with extreme readings on the red line or 21-day oscillator. The 21-day oscillator peaks the latest, and this chart strongly suggests that a setback is likely to occur in the weeks to come. The Nasdaq oscillators in **Chart 9** also are oversold, although not quite as much as those for the NYSE. We think that the Nasdaq will be a bit stronger in late April but eventually is due for a correction as well. **Chart 10** shows how the Nasdaq is the first major index to test its 200-day moving average which is very likely to become strong short term resistance.

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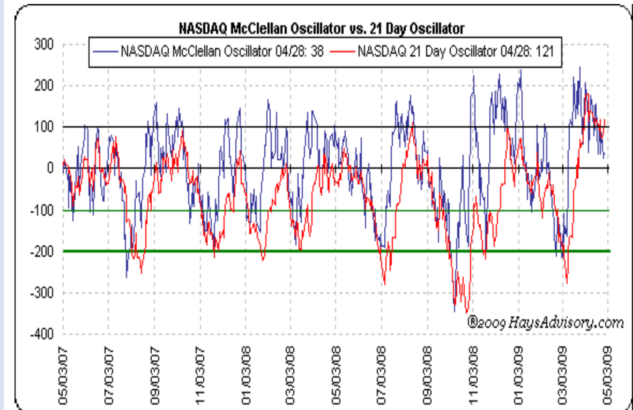
Two potential reverse head-and-shoulder patterns are developing, with similar targets on the upside but different levels of correction ahead. However, if the Dow moves much above 8,300 these patterns are going to start to be violated and less relevant. Scenario 1 in **Chart 11** is the more likely given the market's consistent strength and conviction and the fact that scenario 2 has already been violated in S&P 500 and NYSE charts. This is a narrower pattern with a shallow left shoulder in January to early February and with the head around the bottom in early March. This pattern suggests that a shallower correction will occur in May to form the right shoulder, after which the pattern is likely to break upward above a flatter neckline. The distance from the bottom or head and the neckline of 1,800 points suggests a target of around 10,100 after a breakout from the neckline around 8,300 in early June or so. In that pattern, the top is more likely to come in mid- to late July.

The second pattern is one that we have been monitoring for a while. Scenario 2 in **Chart 12** has a broader and deeper left shoulder that bottomed in November; the head bottomed in early March. This pattern has a steeper neckline, which suggests that a broader and deeper right shoulder will occur that could go as low as the head near 6,500 but probably will bottom a bit higher. This shoulder may not bottom until sometime in June and is not expected to see a break above the declining neckline until late June or early July. The head-to-neckline projection of 2,300 points from around 7,800 to 7,900

Nasdaq Oscillators



Source: HaysAdvisory.com: Chart 9

Nasdaq 200-Day Moving Average

Source: Yahoo Finance Chart 10

Dow Industrials
Scenario 1 – Reverse Head and Shoulders

Source: Yahoo finance Chart 11

Dow Industrials
Scenario 2 – Reverse Head and Shoulders

Source: Yahoo finance Chart 12

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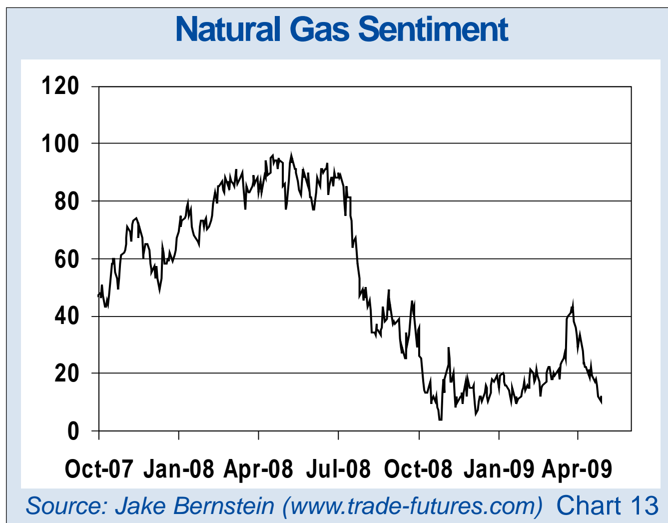
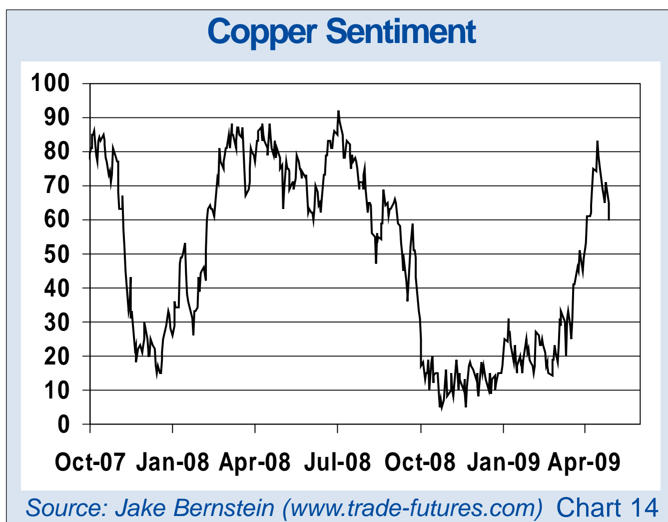
suggests a target more around 10,100 to 10,200 that is more likely toward late August. These two patterns have similar resistance at the necklines near 8,300 and similar targets. The correction could be much deeper in scenario 2, so we will hope for scenario 1, which looks somewhat more likely given the strength of the market's rally thus far. Again, a break near term much above 8,300 would start to violate these patterns and make them less applicable. But the symmetry and targets are still likely to have some relevance.

Commodities present the other, even more opportune buying opportunity. We have been looking for a buy target in oil around $42 to $44 and we could see that in May. Natural gas has been the only energy and major commodity that has continued to fall, partly because China's recovery is the main stimulus for the commodity rebound and China does not import much natural gas. The biggest factor has been that there has been a major discovery in Northern Louisiana called the Haynesville Shale that could hold 200 trillion cubic feet of natural gas, the equivalent of 33 billion barrels of oil. And there have been major new capacities added by Exxon and others in Qatar. Hence, we are suddenly swimming in natural gas which is a cleaner source for electricity than coal and has some potential to replace gasoline in trucks and fleets. However, natural gas has fallen to as low as $3.23, well below production costs, which are closer to $3.50. Natural gas should not stay at these levels for long and may be a great late-stage buying opportunity between $3.20 and $3.35. The trader sentiment for natural gas in **Chart 13** is approaching 10, and if it gets much lower it would create an even greater buy signal.



Source: Jake Bernstein (www.trade-futures.com) Chart 13



Source: Jake Bernstein (www.trade-futures.com) Chart 14

Copper has been one of the strongest and most persistent commodities in this rally due to rising demand in China and in emerging countries. **Chart 14** shows that copper has seen a bullish reading over 80, which is extreme this early in a rally. Hence, a correction is overdue. We will be looking for bullish readings near 90 in latter 2009 or early 2010 for a sell signal for copper and commodities in general.

We are hoping for a second buy signal in stocks in late May or early June that could have a wide range but is likely to be between 7,460 and 7,800. If 10-year Treasury bond yields get back near 2.50%, then investors should sell any remaining Treasury bonds and even look to sell them short, if they feel comfortable doing so. Natural gas would be a great buy between $3.20 and $3.35 and oil between $42 and $44.

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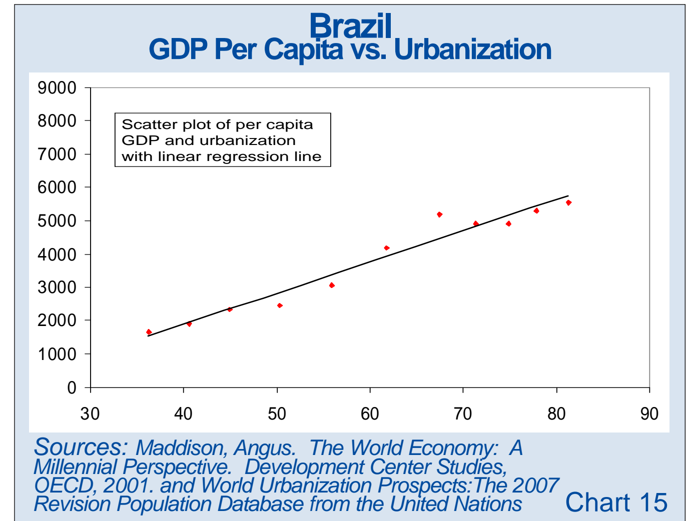
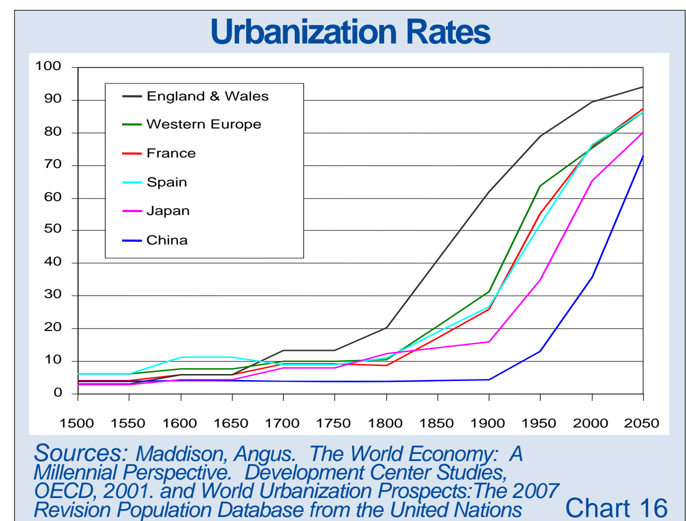
New Forecasting Tools for Emerging Markets

Chart 15 caused us to ponder months ago the issue of how rich emerging countries will become. Most of these countries obviously have much larger populations than do countries in the maturing and affluent western world dominated by North America and Europe. Brazil is an extreme example of not growing wealthy beyond commodity exports that benefit the few. Brazil has already reached 80% urbanization and only has a GDP per capita of about $6,000. That's not very rich!



Sources: Maddison, Angus. The World Economy: A Millennial Perspective. Development Center Studies, OECD, 2001. and World Urbanization Prospects:The 2007 Revision Population Database from the United Nations Chart 15

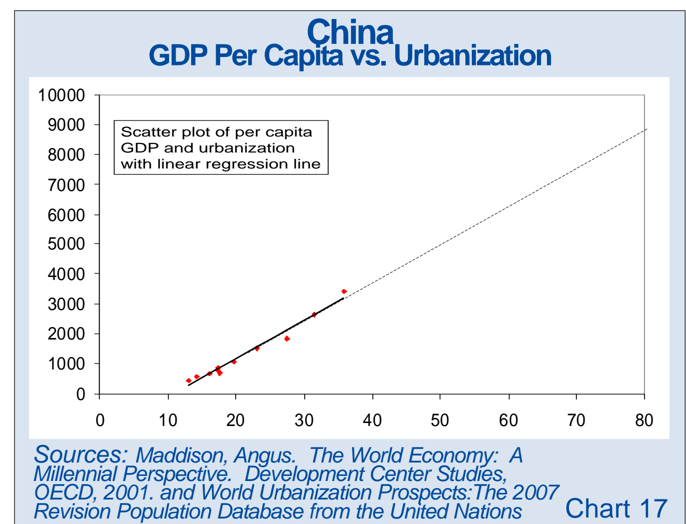
Chart 16 shows that there historically has been an S-curve acceleration of urbanization since the Industrial Revolution, with England taking off first, followed by the rest of Western Europe, Japan, and then China. England was urbanizing at even higher rates starting back around 1600 AD, so they had a head start. That urbanization probably was a big reason that they led the Industrial Revolution and became wealthier faster than the rest of Western Europe. Western Europe more broadly saw the S-curve of urbanization take off around 1800 and start to mature between 1950 and 2000. We think that UN projections into 2050 may be a bit optimistic and that urbanization rates may flatten out in more of an S-curve pattern.



Sources: Maddison, Angus. The World Economy: A Millennial Perspective. Development Center Studies, OECD, 2001. and World Urbanization Prospects:The 2007 Revision Population Database from the United Nations Chart 16

The more important point is that urbanization, industrialization, and rising productivity are highly intertwined, as moving to cities allows for greater scale, for specialization of labor, and access to infrastructures and education. We would expect a close correlation between urbanization and GDP per capita and there is such a correlation. This association allows us to project how wealthy the emerging countries will become and how much their GDPs will grow for decades into the future, beyond the general upward and downward trends of the Spending Wave which doesn't measure relative income which varies greatly around the world.

We will cover this topic in more depth in the quarterly July issue. However, **Chart 17** shows the correlation between GDP per capita and urbanization in China and projects that it is likely that China eventually will see



Sources: Maddison, Angus. The World Economy: A Millennial Perspective. Development Center Studies, OECD, 2001. and World Urbanization Prospects:The 2007 Revision Population Database from the United Nations Chart 17

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$9,000 per capita—higher than Brazil, but nowhere near the $30,000+ enjoyed in the U.S. Hence, even though China has 3 to 4 times the population of the U.S., China's economy is likely only to approach the size of ours and not surpass it. Also, they may be slower to reach high urbanization than the UN projects given that they have dwindling numbers of the young people who dominate migration to cities due to one child policies dating back four decades. Again, we will present more on this in July.

The Dominoes Are Starting to Fall
What the Ordeals at GM and Chrysler Tell Us About the Future

By: Rodney Johnson, President

Don't get sidetracked by the details. Even as this article is being published, snippets of information are coming out concerning the imminent Chapter 11 bankruptcy filing of Chrysler. The lenders will not agree to the deal that has been proposed by management, the unions, and the U.S. government. It seems that the lenders—most of whom hold loans that are secured—are not interested in receiving less than 30 cents on the dollar. Over at GM, the story is unfolding a little slower, but the general theme remains the same—capital providers from the past, the unsecured bondholders and equity shareholders, are balking at having their shares diluted by 99.5% and 99%, respectively. You read that correctly. Under the GM deal proposed last week, unsecured bondholders would retain less than 1% of what they invested (they would own 10% of GM stock, which today amounts to less than 0.5% of the debt that the bondholders would tender) and stockholders would be given 1 share of stock for each 100 they own today.

In both instances, the unions would end up owning large chunks of the companies: in GM's case, 39%, and in Chrysler's case, 55%. While these things are not set in stone as negotiations continue, they do make for interesting conversation. At the next round of labor talks in 2010, who exactly are the unions going to pressure for greater concessions? Themselves?

However, these pesky details are not the main thrust of what is happening; instead they are symptoms of a greater shift in how our population views its relationship with employment, with companies, and with capital. The shift is moving quickly now and will have far-reaching implications across our economy for years to come.

To understand GM and Chrysler, we have to put this entire economic crisis into perspective. Many people are convinced that we can stop this current economic downturn from becoming a depression. They are wrong. It already is a depression in everything but duration, and that

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of course will play out over time. Home prices are falling, with Phoenix marking the first area to record an average home price plunge of 50%. Unemployment is over 10% in several states, over 11% in California, and over 15% in many metropolitan areas, and it shows no sign of abating. The stock market is roughly 40% below its high and bond prices are gyrating wildly—everything except treasuries, of course, because the U.S. government is keeping the printing presses humming to hold down treasury yields, which keeps prices high. These are just a few of the big things we are dealing with, but they are not the biggest. The single largest factor that we face is a change in mindset from expansion to conservation. It is leading everything, and it will keep us in this mode for years. This is the heart of our research on ages and stages of life and is keenly illustrated by how things are unfolding at GM and Chrysler.

One of the industries devastated by 9/11 was travel, the airlines in particular. After a good run in the 1990s, the airlines were expanding and taking on more equipment. In September 2001 everything changed. Passenger counts plummeted, leaving the airlines with tremendous fixed costs and declining revenue. As the industry tried to claw its way out, it sought relief. Unable to find a lender willing to participate, the airlines turned to the U.S. government. Does this sound familiar yet? A major disruption hits an industry that is a large employer of organized labor, which also happens to have incredible infrastructure costs, and, unable to obtain outside financing, the industry turns to the government for emergency support?

The difference, of course, is that in 2002-2003 the airline industry was rebuffed by the U.S. government. The short version of what happened next is that some of the airlines went bankrupt, most notably United. It was ugly. During the restructuring the pensions of the current retirees were foisted onto the PBGC, which pays out on its own schedule of benefits. These benefits were much more modest than those who were in retirement were accustomed to receiving. The benefits of current employees were cut dramatically, work hours were increased, and shareholders were wiped out. United received debtor-in-possession (DIP) financing from a consortium of banks with the understanding that they would have first rights to any monies available after the restructuring.

Now fast forward to today. A major disruption hits an industry that is a large employer of organized labor and that also has incredible infrastructure costs and, unable to obtain outside financing, the industry turns to the government for emergency support. And we provide it. We (the secretary of the U.S. Treasury, the president of the United States, and the U.S. Congress) then pressure the current stakeholders—equity shareholders, bondholders, lenders, etc.—to accept a fraction of what they are owed in order to preserve much of the benefits that had been promised to the employees. While many people might write this off as a political swing to the left, it is not; or rather, it is that and much more. This change is a seismic shift in how our aging population wants to deal with the potential pitfalls and violent upheavals that occur in a market-based system. It has been building for years as the Boomers got older. We have seen it before.

Several years ago, while reviewing Depression-era materials, I was struck by the polarity of the messages that were presented for public consumption during the 1930s and early 1940s. Articles, books, art, speeches, songs—just about everything seemed to be in one of two flavors. There were strident populist messages that called upon everyone to do their share, messages like "join the sacrifice" and "give for the common cause," and then there were messages of blame and hate laced with suffering. While the populist movement was all about how America could grow her way out of the current dilemma if only everyone tried, the messages of blame and suffering were clearly aimed at something different—equalizing what was seen as gross inequality of wealth, both earned income on a daily basis and amassed fortunes. We seem to be headed down this path at lightning speed today.

Compare song lyrics from then and now. Below are the lyrics to a song from 1941 that obviously is aimed at pointing out an injustice along with suffering, contrasting everyday workers with those who had prospered:

We worked to build this country, Mister,
While you enjoyed a life of ease.
You've stolen all that we built, Mister,
Now our children starve and freeze.

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So, I don't want your millions, Mister,
I don't want your diamond ring.
All I want is the right to live, Mister,
Give me back my job again.

All I Want (I Don't Want Your Millions), 1941
The Almanac Singers, including Woodie Guthrie and Pete Seeger

Now read the lyrics from a current popular song that contrasts auto workers in Detroit with persons working on Wall Street:

Because in the real world they're shuttin' Detroit down,
While the boss man takes his bonus pay and jets on out of town.
DC's bailing out them bankers as the farmers auction ground.
Yeah while they're living up on Wall Street in that New York City town,
Here in the real world they're shuttin' Detroit down.

Shuttin' Detroit Down, 2009
John Rich

There are many other examples, of course—"Mister Can You Spare a Dime" from the 1930s and "Red, White, and Pink-Slip Blues" from today. The point is that in pop culture we are starting to hear a refrain from 80 years ago. The message is that wealth and its attendant consumption is a sign of ill-gotten gains. On the political front, it is also a retro message. The New Deal has become the Grand Bargain. The programs we are putting into place at enormous cost are designed to protect and support services, not to foster and initiate growth. In short, we are on a clear path to redistribution, with no pretenses.

None of this is meant to imply that there should not be reforms and restructuring in business, and the current environment will require that many companies go through the process. However, it has not been since the 1930s (except briefly in the 1950s) that companies in the U.S. dealt with the sort of reverse power play that is beginning to occur. Other countries have been like this for decades. Recent layoffs in France have resulted in employees taking managers hostage and demanding that their jobs be reinstated, although I cannot see how that would foster a great working relationship down the road.

What is occurring is a tectonic shift in how we as a population view the workplace, beginning with the employee and moving to the employer and the directors and then to shareholders and lenders. As individuals deal with unemployment, healthcare, debt burdens, houses underwater, and declining retirement accounts, they demand assistance and eventually start to wonder how the "haves" in the economy got to be that way instead of themselves. Now that the Boomers are marching past their peak in spending and considering the next 30 years of their lives, the precarious nature of their situation is dawning on them. They don't like it.

During the first 45 years or so of life we tend to look at our economic lives as a series of possibilities and opportunities. Things don't always work out, but we want the chance to improve our lot in life, to grow our own wealth. This occurs, of course, in conjunction with raising children and marching up our personal spending waves. As we transition to the next stage of life, the reality of where we are, good or bad, begins to take hold. The goals of the economic game begin to change. No longer is it about the next big opportunity to branch out and do something daring, it is now about securing where we are—paying down debts, saving more, and removing volatility from our lives. In short, as our working days diminish, we have less time to make up for mistakes or setbacks.

So what happens when the largest generation in our economy makes the change from risk-taking to conserving? What happens when the biggest group of employees (who are also consumers) begins to draw circles around their personal situation and is more interested in protecting and preserving what they have instead of breaking through to the next level of earning and spending? You see the tenor of public conversation turn. This takes many forms but can be seen as a constant thread in the situations at Chrysler and GM.

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The employees are the faces of the companies. They have spouses, children, mortgages, etc. They are very real. There is a public move toward more empathy when considering how to assist employees in preserving what they have worked for. There is less consideration, if any, for the bondholders or investors. This group is trotted out as a symbol of what is wrong. They are an amorphous crowd of vultures intent on squeezing the last drop out of companies for nothing but their own profit. Rarely do we see a headline story about a bondholder who also happens to be a person, who happens to have a spouse, children, and a mortgage, even though there are thousands of them. These are the people who bought GM bonds (or investors who bought GM stock in their 401k, IRA, regular account, etc.) with the intent of preserving their own accumulated wealth, no matter how large or small it might be. Instead, headlines are reserved for the discussion of benefits preserved and jobs saved; these things are important, but are not the full story.

In the years to come, with Boomers now firmly on the other side of the coin, this line of reasoning—protection of employment and benefits and redistribution of wealth—is going to gain steam. It is going to reflect the mood and outlook of the largest group in our economy and affect all aspects of life. Laws will become more protectionist, more legal judgments will be made in favor of workers, taxes will be skewed toward businesses and those with high income levels. This is not temporary and it is not simply a knee-jerk political reaction; instead it is a natural progression based on the structure of the demographics of our population.

This is the point where we are often asked if some trend or development is "good" or "bad" From our point of view, it simply "is." Trends such as this should be viewed with an eye toward its meaning for your personal situation or your business. Recognizing that we are moving toward more regulation and higher taxes gives you some guidance as to how you should view opportunities, whether they be in stock market or in your career or business.

The legal profession will most likely pick up, as will compliance consulting. This will run the gamut from the securities industry to health inspections to medical facilities. In terms of business, expect less growth going forward due to several reasons - less spending, greater compliance costs, and higher labor and benefits costs for employees. A great way to deal with some of these developments is to automate as much as you can and as quickly as you can. Use the falling price of computers, software, and various third-party consultants to upgrade your business as much as possible, creating greater efficiencies for reporting as well as reducing your reliance on manpower. Remember, people are the key variable here. Computers and software get cheaper every year; they don't get annual seniority raises, nor do they expect medical benefits and vacation days. Employees, though often critical to your business, will become harder to afford and to manage in this environment.

On the personal side, the greatest issue in the next two years will be increases in taxes - not federal, but local. This subject is big enough for an article of its own in a later issue, but suffice it to say that the more effort you make to lower your taxable footprint, the better off you will be! As taxing authorities face falling receipts and rising liabilities, the issue becomes much more important. From a business standpoint, this might mean reducing your physical presence in some states, including selling off some non-critical real estate and other physical assets. It may mean making a concerted effort to move your revenues to lower tax jurisdictions, if possible. Smaller firms may find it economical to pack up and move entirely.
For the rest of us, less extreme measures will need to be taken. Every dollar that can be saved through cost cutting and tax planning will be valuable in the scenarios we see unfolding. Use the next few months wisely to plan as best you can.

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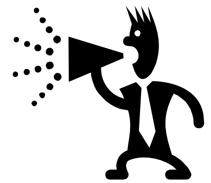

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Projections like these are intended to offer timing guidance in two ways. Traders may use them to enhance their decisions for actively buying and selling on a short-term basis. For longer-term and more conservative investors, the intention is different. Harry Dent's price targets can be used to better time portfolio rebalancings and the investment of new monies.

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