

March 2011

### Changes There and Here

It's hard to believe a revolt in tiny Tunisia could start an uprising that topples the Egyptian president and bids fair to do the same in oil-rich Libya. Yemen, Bahrain, Jordan, even Iran, and now Oman? are feeling the pressure to cast off oppressive regimes and put in their place governments more responsive to people's needs. A stunning tsunami of protest presents a once-in-a-generation opportunity to the citizens of these countries, most of whom have known no other governments than those now teetering and falling. The turmoil of protest will give way to the turmoil of establishing new political structures. The changes will not likely be uniform, nation to nation. We shall all watch, amazed, as they unfold. It is sobering to see that Iran applauds these uprisings in other nations. If they're good for Iran, can they be good for everyone else? Theocracies on the Iranian model are not likely to make a smooth entry into the global family of nations. All of that oil in the hands of rabid anti-American governments hardly portends a comfortable future for the world's largest oil consumer . . . that would be us.

The social and political fall-out may include, to be optimistic, the possibility of reforms we can certainly endorse and embrace, including the improved status of women in these countries. The economics involve chiefly oil, as I have said, the lifeblood of many Western economies. Our economy is in the midst of a consistent and meaningful recovery and a substantial increase in the price of oil could curtail or even derail continued progress. A disruption in the supply of oil and the price increase that comes with it create a direct and immediate reduction in disposable income for us and a disincentive for further growth in the manufacturing segment. It is a headwind we would prefer not to have at this point in our recovery.

My view: the potential social gains far outweigh the short-term economic consequences.

The final week of February was the worst for the stock market in several months. The immediate cause: an increase in oil prices and the threat it creates for our economy. Then there is the uncertainty these protests create in that all too volatile and misunderstood part of the world. A third factor is the overdue breather our stock market needs after running up more than 2000 points since the end of August. It would not be unusual to have the market give up 50% of the gain before continuing. That's not a prediction, but a possibility. Last month I reported that my index was at the 80% level, an indicator of risk. Something usually happens in the weeks or months following such a high level to reduce risk. Candidly, I would be happier to see the market lower rather than higher at this juncture.

To be sure, considering historic price-earnings ratios, the markets are not unreasonably high or running on fluff. I agree, mostly, with Warren Buffett that our economy is recovering, and every month most of the numbers driving the economy are normal. Many areas of the economy are doing much better than they were six, ten, or twelve months ago. Exception: the unemployment rate, still stubbornly above 9% and not expected to change soon. The politicians meanwhile continue their *dance macabre* threatening a government shutdown as though their egos were what really matters. Angry Americans are also in the streets. Attention must be paid.

Housekeeping item: you should have received tax reports from Schwab by now. If you haven't, please phone and I will get a copy for you and your accountant. If you have any questions about these forms, please don't hesitate to call me.