

August 2009

Hot Enough for Ya? (No, not really.)

What happened to the dog days of summer? It hasn't been hot enough (never mind dry) for even the laziest dog to seek shade. And . . . there's way too much going on: Cash for clunkers, recession on the run, beers at the White House, and a market 'all shook up' about corporate earnings.

More? OK, how about those new government regs aimed at the financial industry. In normal, non-recession times, government regulation might appear under the heading 'pet peeve'. Not now. Current proposals to rein in retail financial practices have my blessing. Here's why. At base, two groups of people comprise the financial industry. The first works for the house as a broker. These folks aim to make money for the house (Merrill Lynch, Smith Barney . . .). The second group are Advisers. We work for the client. The chief difference between the two groups addressed by the proposed rules resides in one word: disclosure.

Big subject, disclosure. Simply stated, however, the new regs rest on one premise: Everybody's primary interest begins and ends with what's best for the client. That is the ruling principle, right now, on the Adviser side of the business. My business runs by my making the best decisions I can for you. I do not make more money for myself by purchasing one thing versus another in your accounts. I am paid a fee to manage the money. Commission brokers get paid 1% to buy one product and 4, 5, or 6% to buy another. Sometimes there is a special deal and extra reward for, let's say, Merrill Lynch brokers who put money into certain Merrill Lynch mutual fund products. This 'pay incentive', understood by brokers but seldom disclosed to clients, is one of the targets of current legislation and I am all for it. The entire pay process at commission brokerage houses sustains a giant conflict of interest between the employee and the customer. It has never been right. Fixing it is worth the additional regulations.

Down from the soap box – where are we and what's ahead? The drumbeat announcing the impending end of the recession is getting louder by the day. We have had some very good corporate earnings reports goosing the market over the last two weeks, and some not so good reports both on the state of the economy and other company results. A mixed bag but at least it's a mix, meaning there are some positives, welcome as a sunny day in New England this summer. My view: Fed Chairman Bernanke continues to do an impressive job under terrible circumstances. The next 12 months will probably not see a lot of growth in the US economy, but some growth is better than some decline. September and October may test us, as has the entire year of unprecedented government financing. Still, the reports of our demise were, as usual, greatly overdone.

“And that's the way it is for this Monday, August 3rd, 2009”. R.I.P., Uncle Walter.