

## Will it get worse before it gets better?

After the U.S. economy suffered big losses in 2008, what will the new year bring?

The final opera in Wagner's epic Ring Cycle is called *Götterdämmerung* (Twilight of the Gods). In the final scene of the opera, Wotan, the head god, followed by the lesser gods, ascends into Valhalla; as they do so, the world erupts into flames.



### SUMMING IT UP

William Rutherford

Life imitated art at the end of 2008. As the Bush entourage lifted off for Crawford, Texas (the real America as he once called it), thousands of businesses, large and small were failing. Millions of Americans have lost their jobs and many more have stopped looking. Banks have failed, manufacturing has reached its lowest level in years, and the stock market ended down 37 percent on the year, the largest drop since 1937. Here, in the Portland metro area, a series of powerful snow and ice storms brought business almost to a halt, and one could almost hear the stores closing. And these were just the economic matters.

Will a phoenix rise from these ashes? To be sure, there is plenty more bad news yet to come. And the effects of the bad news, we know, have not yet been felt. Estimates of business failures run very high. Many more workers will lose their jobs. Short-term rescue packages for the auto companies will run out. And yet, the market rallied late in 2008 and early this year. Since the panic selling of Oct. 11, the market has steadily, if erratically, worked its way higher. A steady deluge of bad news has not deterred the market from a measured ascent. What does the market know that we don't?

Well, for one thing, the market is looking forward. Statistics are looking backward as Alan Greenspan and his models found out to their detriment. The market is a predictor of the future; so, what is being predicted, or is this just a head fake designed to catch the unwary?

There are several factors that may be encouraging to the market: the price of commodities (except gold) is generally down, especially oil which has dropped from \$145 to about \$45; this alone can add to our GDP and acts like a giant tax break. Gasoline at the pump has fallen from \$4.50 to \$1.50; this helps the consumer who still comprises about 70 percent of the economy. The government's various bailout packages have largely yet to take effect; these should eventually help. Interest rates near zero should stimulate the economy. However, the effects of low interest rates will be offset by the banks' credit freeze that by itself can cause the economy to plummet. A weak dollar can spur exports.

And one cannot overlook the impact of "Surfer Dude" Barack Obama. One can almost hear the countdown of the last days of George W. Bush and Dick Cheney. The optimism engendered by

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Obama is catching, and cannot be ruled out as one of the factors in the market's rise. Although not much is known about Obama's policies because of his reticence, the common belief is that any change is good. The contrast between the return of Bush to Crawford and "Surfer Dude" frolicking in the Pacific off Hawaiian shores is a powerful image that resonates with people. One can only hope that Obama can live up to his expectations. We need it now more than ever.

My own opinions are that we get a lift through the early part of the year, from optimism due to the change in administration, and from declines of oil prices and interest rates. But before the full effects of the government efforts take hold, and when the aftereffects of the disastrous end-of-year scenario take effect, we will see another drop in the market in late February or March. This downturn could be quite serious and last well into the summer, when we should see some recovery. I still believe that we cannot see an upturn in the economy until housing prices bottom.

The market has an infinite capacity to surprise, but I would not be surprised to see the market off by 10 percent or more by mid-year, and end the year about where it began. This should set the stage for a strong 2010. Should one try to chase these forecasts? No. One should invest for the long term and not be panicked by headlines or talking heads. Keep a diversified portfolio, both in asset classes and individual holdings.

To keep your balance, take a walk, read, enjoy a game. And above all, love your family, your friends and your community. And keep your faith.

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