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# The Recession Is Officially Over?

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In case you missed it, on September 20, 2010, the NBER (National Bureau of Economic Research) declared that the recession which started in December 2007 was officially over in June of 2009. The recession lasted 18 months and was the longest recession since the 1930s.[1] I don't know about you, but on the street level, it doesn't seem things are getting much better in the past 15 months of "post-recession." One blogger called this "hallucinatory news", and another said, "I'll start believing the recession is over when I stop seeing endless numbers of people sleeping in the streets." [2] In defense of the NBER, they are not claiming an end to economic pain, but just that the contractions in macro-indicators such as GDP, retail sales, job losses, etc. have ended.

Robert Hall, chair of the NBER committee, admitted that claiming the recession ended over a year ago could be confusing because "there's no question we're (still) in bad times."[3] A report from the OECD (Organization for Economic Cooperation and Development) in Paris said it doesn't expect the U.S.'s employment rate to recover to prerecession levels until at least 2013.[4]

**Deflation and a Double-Dip?**

Looking back over the first three-fourths of this year, we can see a number of disturbing economic trends that continue. Stock market volatility remains high and unemployment edged higher in September.[5] Real estate and interest rates continue to drop without a bottom clearly in sight. Layoffs, downsizing, lower rents, downward pressure on prices and salaries are all manifest, so if one looks closely, it appears that we may already be in a mildly deflationary cycle. ("Deflation" is defined as a wide-spread general drop in the price level of goods and services.)

Why is deflation dangerous? How can lower prices be a problem? Who doesn't want to wait for that sale to buy what you want more cheaply? The problem with deflation is that it is a **wide-spread and general drop** in the price level of goods and services. This is both a symptom of, and, potentially, a self-reinforcing cause of a general contraction in the economy. When prices drop in a general way, buyers postpone buying to wait for a better price. Merchants have fewer sales so they lay off workers when business is so slow. Manufacturers begin to lose money because they can't sell at a price high enough to make a profit, so they lay off workers, and sometimes go out of business altogether. With higher unemployment there are fewer customers to buy things, so prices have to drop to entice the smaller pool of potential customers. And so goes the potential economic "death spiral" that could tip us back into recession – a "Double Dip." The Fed (Federal Reserve Bank) and the other central banks of the developed world are doing everything in their power to keep deflation from getting out of hand, and we hope they succeed.

**Stock Market Volatility**

For the first nine months of this year stocks have been very volatile. The markets fell during the first quarter from a major scare that Greece might default on their debt, but quickly recovered when the Central Bank of Europe promised to support Greece. The 2nd quarter was dismal with a drop of nearly 10%. After a decline in August, September saw a dramatic rise, but unaccompanied by volume. Finally in mid-September the markets reached positive territory, but what a wild ride!

Meanwhile, in our managed accounts where we have the option of being in bonds, we have benefited from being out of stocks entirely, and have targeted steadier gains by investing in the asset classes of high yield bonds and various types of high-grade bonds. As of September 30, 2010, the S&P 500 was up only 2.34%, whereas high grade bonds were up 7.94%, and high yield bonds were up 11.76% with lower volatility.[6] We have invested your accounts according to your unique goals and suitability, so your returns will differ from these indexes. Past performance is no guarantee of future results. We continue to monitor your accounts daily, and our research continues on alternative asset classes for possible future use.

**Time to Refinance Your Home**

Having touched briefly on some of the dangers we are navigating, I should also comment on one opportunity. Now is the time to consider refinancing your home. Interest rates are at historic lows. In September I refinanced my home, and also helped a client refinance his home, at 4.5% fixed for 30 years with no costs to do the refinancing. This is a "risk-free" loan, because it costs nothing to do, it reduces costs every month, and it leaves open the possibility of refinancing again if the Fed drives rates lower. I can refer you to a loan broker who is both competent and honest for any refinancing in California. Call me if you want to discuss this or any other financial concern I can help you with.



[1] www.WSJ.com, "Recession Over in June 2009", September 20, 2010
[2] ***LA Times***, "Recession is over, say economists," September 21, 2010
[3] www.WSJ.com, "Slump Over, Pain Persists", September 21, 2010
[4] ***Ibid.***
[5] www.BLS.gov Total unemployed up to 9.6%, and U-6 unemployed up to 17.1%.
[6] Morningstar. S&P 500, Barclays Aggregate Bonds, Merrill Lynch Masters II High Yield.