

giving both talk therapy and medication (anti-depressants). I doubt that a message of hopelessness would serve as well as a message of hope and determination. Who do we want on TV in our homes? Scrooge or Santa? Neither represents reality, but I've never known anyone succeed who did not believe in the possibilities.

There is a fairly new economic discipline known as behavioral economics. It seeks to explain economic decisions and trends by adding effects of human behavior to other data points. I think we need an additional approach, maybe we can call

## Reading the Tea Leaves

The year that has confounded the experts is about to end without the fog lifting. As I write this last piece on December 16, 2008 I am as confused as ever by the mixed signals being sent by various markets here and abroad.

From today's New York Times: "Consumer prices fell at the fastest rate on record in November while home construction plunged nearly 20 percent in a single month, skidding to its lowest levels in 50 years, according to new government data that shows further weakness in the ailing economy." Marketwatch.com reported, "on a non-seasonally adjusted basis, the CPI fell by 1.9%, the biggest decline since January 1932, at the nadir of the Great Depression." Sounds bad to me.

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The S&P 500 Index is an unmanaged group of securities considered to be representative of the stock market in general. The consumer price index (CPI) is a measure of inflation compiled by the US Bureau of Labor Studies. Past performance does not guarantee future results. **MSCI EM (Emerging Markets) Index<sup>SM</sup>** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

is psychoneconomics. This would combine the talk therapy of a reassuring president with economic prescriptions to bring us back to health. Like any medicine that treats severe illness, there are likely to be side effects – many painful. The consequences of ignoring our illness could be crippling, if not fatal. Depressed people do not contribute to solutions, nor do delusional people (or politicians). We need that pep-talk and some medication, not a lecture and a glass of Kool-aid. I believe we can do it, and will celebrate the holidays with joy for what I have.

But, today the S&P 500 Index closed up 5.14% for the day, and up 21.4% since November 21<sup>st</sup> (source: [finance.google.com](http://finance.google.com)). The MSCI/Barras Emerging Markets index is up over 26% during the same period (source: [bloomberg.com](http://bloomberg.com)). This brings both *up* to where they are only *down* year-to-date around 37% and 53% respectively. Are the markets predicting something, or are people just wishing? Time will tell, and with 20/20 hindsight we'll know.

I don't believe in reading tea leaves or predicting markets. As I've said for months, with little visibility comes a lot of volatility, so being properly diversified is a prudent position.

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# Wealth Architecture™ Digest

*Often people do not plan because they see only what is, and they do not have a vision of what can be. Something is always possible. We believe that, with vision, the possibilities are almost unlimited.*

## America at a Crossroad: One Opinion

As we move from one year to the next, and from one administration to the next, America finds itself at a crossroad. We will need to determine what we want our country to look like; whether we will be a reasonably cohesive world leader, or a bickering giant in decline. The crises of two wars and an extraordinary global financial disruption is forcing us to re-think what is really important to us.

The past several years have seen a sizable schism widen in the American polity. From the issues of the war in Iraq and the "war on terror," to the hard fought presidential primaries and the incredibly nasty general election, many Americans have found it difficult to reach common ground.

The world situation makes me think of the old Kingston Trio "Merry Minuet" from 1958:

*"They're rioting in Africa. They're starving in Spain. There's hurricanes in Florida and Texas needs rain. The whole world is festering with unhappy souls. The French hate the Germans. The Germans hate the Poles. Italians hate Yugoslavs. South Africans hate the Dutch, and I don't like anybody very much! But we can be tranquil and thankful and proud for man's been endowed with a mushroom shaped cloud. And we know for certain that some lovely day someone will set the spark off and we will all be blown away. They're rioting in Africa. There's strife in Iran. What nature doesn't do to us will be done by our fellow man.*

Although I don't think they are starving in Spain (though in deep recession), this 50-year-old ballad was quite prescient, including the strife in Iran. Here in the U.S. it looks like there are many people who "don't like anybody very much." We need to change that before it is too late. It is hard to be the United States of America when it seems like every issue is one of us versus them.

Over the past three months we have been faced with the failure of Lehman Brothers and the bailout of AIG, which then led to two weeks of political gridlock and the \$700 billion financial "rescue" package. The lack of unity and a dearth of leadership in the face of the upcoming election spread fear and distrust that crippled global financial markets. Stock markets dropped sharply and credit dried up around the world. It seemed like we could not come together and provide leadership, so the world took notice.

Home foreclosures accelerated and to date continue unabated. Republicans blame Democrats, and the Democrats point fingers back. The United States Senate, locked in partisan bickering, failed to come up with a compromise plan to keep American car companies in business through the credit-locked, fear-driven recession. Democrats want the heads of management, and Republicans want the souls of the union workers. It is well accepted that the failure of the major US auto manufacturers would result in the loss

Looking to the New Year

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of at least three million jobs at the auto companies and thousands of suppliers. The focus of the politicians is leveraging the crisis to gain political advantage for the next election cycle. American workers are just collateral damage in the battle. The concept of a common good is lost.

There also appears to be an impenetrable sound wall that keeps the two sides from hearing each other. The mortgage meltdown, the most serious crisis in a generation is blamed by some on “stupid, greedy people who bought homes they couldn’t afford.” Others call it predatory lending by “greedy mortgage brokers and Wall Street financiers” who marketed loans that were certain to fail, but created massive up-front profits. As Congress and the public debate what to do to help the economy avoid total collapse, one side wants more corporate tax cuts, while the other wants to give money directly to individual families, even those who currently pay no taxes. There are undoubtedly advantages and disadvantages to each approach, and it is sheer folly to assume that any is The Right One.

There is a great debate that puts us at another crossroad. It is a severe, yet sincere, disagreement between taking the road of common good or the road of individual freedom of choice. The question is whether or not, within the context of a pluralistic society, government can support the idea that the common good does not restrict any given individual's freedom of action. One of my favorite examples is that of the debate that took place when the California legislature was debating a bill requiring all people riding motorcycles to wear a helmet. It was hard-fought with many enthusiastic riders complaining that the law abridged their freedom to feel the air in their hair. On the other side were those who looked to the human and economic costs of those unnecessarily injured by being unprotected in the event of a major accident. Individual choices have societal consequences.

I maintain that the social contract we accept in being Americans demands that we consider our fellow countrymen and women as well as ourselves. That does not mean that we need put others first, but simply that we remember we are not alone. Some talk about what is "fair." Well, the problem with fair is that it depends on which side you are on of the gain-loss paradigm. From my perspective, fairness is not definable, as the very choice determines the winners and losers. What feels more achievable to me is a negotiation that leaves all sides feeling they lost and gained. Accepting the imperfection of any decision acknowledges that no one side has all the answers, but that whatever is decided will affect us all.

In a column in the November 21, 2008 the San Diego Union-Tribune conservative writer Morton Kondracke indirectly addressed overcoming the

“How can the Republican Party rebound? The first step would be to quit letting Rush Limbaugh, Sean Hannity and Laura Ingraham set its agenda. A second step would be for congressional Republicans to actually try to help President-elect Barack Obama succeed in addressing the country's dire problems – offering better ideas where appropriate and opposing just when necessary, not reflexively.”

Hannity and Limbaugh routinely accuse left-of-center people of being liberals who “hate America,” and want “America to fail.” To these beacon of the right, global warming is a lie being put forth to destroy capitalism. They tell their listeners they should be “afraid” of Obama and the Democratic-controlled legislative branch.

Rush Limbaugh’s attitude that he shares with his loyal “ditto-heads” is that politics cannot be bipartisan or post-partisan. Politics is war. It has winners and losers -- period. Although not as well-known, there are a few left-wing bloviators as well, and the fringe people on both sides are determined to keep us from taking the road toward consensus. American history has been one of tension

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between the varied interests and views of different people within the society. It has not just been right versus left, but rural versus city, rich versus poor, labor versus management, and religious versus secular. As we have become more diverse, especially through immigration, many of our differences have made for exception rather than acceptance.

Now we find ourselves in a time of great crisis, due in part to the fact that we were able to avoid

facing the tough problems while we experienced a generation of increased material possessions (many heavily financed), strong employment, and American leadership around the world. The tide has turned and we have the opportunity to redefine who we are as a people, and whether we can define and act towards an acceptable common good.

I believe we can. I believe we must.

## The Witch Doctor Versus the Psychiatrist

In the 1980 Republican primary George H. W. Bush used the slanderous term “voodoo economics” in reference to President Reagan's economic policies, later known as Reaganomics. Inflation, according to Bureau of Labor Statistics records show a peak annual inflation rate of 14.8% in March, 1980 and there was a great debate about how to bring the economy under control. After winning the primary, and the general election, Reagan went on to start a “revolution” largely because he could connect with people.

A month after his inauguration, on February 18, 1981 a New York Times article stated “*Again and again people say that President Reagan is a great communicator. On the television screen five Washington pundits who agree on nothing else agree that Mr. Reagan is a great communicator. Editorialists say it in print: a great communicator. Persons who disapprove of him trap you in crowded rooms and conclude by saying, 'But one thing I've got to admit - he's a great communicator.'*”

Regardless of one’s politics, I think it is well-accepted that President Reagan was about to inspire Americans at a time we were not feeling very good about our country. We’d experienced very high inflation. In November, 1979 we had had hostages taken during the seizure of our em-

bassy in Iran, and eight servicemen died in a hapless rescue attempt in late April, 1980. Reagan communicated a sense of confidence and competence, and the American people felt better, even after a sharp recession that began in July, 1981. Regardless of the long-term results of what his opponents called voodoo economics, Reagan changed the minds by his charismatic personality – his ability to communicate.

Over the past 27 years we have had expansion and contraction. We’ve had booms, and busts. Booms were fueled by greed, and busts largely by fear. Each is a strong emotion, and each, if not controlled leads to a kind of national bi-polar disorder; manic on the up side, and depressed on the down side. We are currently in the down side, and we need a psychiatrist. We need medication, and we need it now.

Enter President-elect Barack Obama. No one can doubt that he can give a great speech. With a message of “Hope,” “Change,” and “Yes We Can,” Obama inspired tens of millions of people. Now, with nothing but bad news for months, he faces the challenge of getting people to believe that We The People (not just Joe The Plumber) can get through the difficult times and rebuild the American Dream. It starts with a psychiatrist

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