



An Analogy

We all understand the importance of the heart to the human body. All the extremities of the body suffer when there's trouble with the heart. Whether it's a denial of proper blood supply to a finger, or an eye, the human body as a system starts to shut down. And the body doesn't fully recover its health until the heart regains its health.

The "heart" of any country's financial system is its national banks. All the extremities of the financial system start to suffer when there's trouble at the national bank level. Whether it's at the securities exchange trading level, or at the small business financing level, every one suffers. All parts of the system become suspect when we are not able to fully understand all the underlining problems the banks are facing. Until the banks "regain their health", the natural

thing is for all parts of the financial system is to slow down. Pessimism takes over and everyone goes on alert.

Today, the U.S. financial system is unsure of what tomorrow will bring.

Unfortunately, until all the bank related issues are known, you can probably plan on slow growth. We'll stay out of a recession, but until we're absolutely sure all issues are uncovered, such as the size of the unredeemed credit default swap issue, and the home market begins to stabilize, the economy will most likely keep "going sideways". Portfolio returns will be low.

For us in the portfolio advisory business, it's time to "check and double check" all what/if scenarios on the securities we hold.



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