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APRIL MARKET COMMENTARY

By Tom Crow

May 6, 2011

		Gain (Loss) by Period			
Index	**Month End**	**Month**	**Most Recent Quarter**	**Year-to-Date**	**Trailing Twelve Months**
Dow Industrials	12,811	4.0%	7.7%	10.7%	16.4%
S&P 500	1,364	2.9%	6.0%	8.4%	14.9%
Nasdaq	2,874	3.3%	6.4%	8.3%	16.8%

The markets finished April with a flourish. Many of the headlines talked about multi-year highs. All the categories in the table above showed improvement. Following a mid-March spike in the volatility index (VIX) which drove the average value up almost 19%, things have cooled off and the monthly average reversed course, dropping almost 22%. Volatility aside, this is still a very reactive market, capable of producing big moves on just about any headline.

Since mid-February, the S&P 500 dropped 6.4% in one month, corresponding to the volatility spike mentioned earlier. Since then the index has risen 8.5% and sits about 1.5% higher than the February high. We have made it back to the level we fell through in late August of 2008 on the way down. We still need to gain about 15% to reclaim the early October 2007 high, which, by the way was only about 2.5% higher than the previous high of 1,527 from late March of 2000.

Fed Chair Bernanke said the quantitative easing program would not extend into the 3rd quarter due to rising inflation. This was right before the 1st-quarter GDP growth was reported to have fallen from over 3% to 1.8%.

This Friday marks the fourth time in the past few months that the S&P 500 has tried to break above the 1,350 level and stay there. It has been unsuccessful so far and technicians, including me, are seeing that as a sign of weakness, the severity of which is most-definitely tempered by the fact that we're in the middle of earnings reports.

New jobless benefit claims jumped to 474,000 last week, but don't worry…it's all because of temporary layoffs in the auto industry and in states like New York (on the verge of bankruptcy) where public school workers who get the week of Spring Break off are allowed to file for benefits.

The economy added 244,000 jobs in April, well above analysts' expectations of 175,000, and included upward revisions to February and March totaling 46,000. Last month's numbers were a little encouraging. This month's are even more. The jobs were broad-based and easily absorbed the 24,000 layoffs from government jobs. Retail, professional and business service, health care and manufacturing all added jobs last month.

The unemployment rate ticked higher from 8.8% to 9%, as did the underemployed and discouraged worker rate, to 15.9% from 15.7%, but that probably indicates some folks who had given up looking for work have started looking again. A couple minor problem areas in the report were the weak 0.1% increase in hourly earnings and an unchanged average work week, meaning no real increase in disposable or discretionary income. We'll hold our breath for next month's revisions, but again, this is encouraging.

Thank you Navy Seal Team Six! Not only did you rid the world of a cowardly, murderous terrorist, but you also almost completely wiped all stories about the royal wedding, the president's birth certificate and Donald Trump off the television. Unfortunately, bin Laden's extermination also moved the debate over spending and the debt to the back burner as well, which we cannot afford, pun intended.

"America has a debt problem and a failure of leadership. Americans deserve better. I therefore intend to oppose the effort to increase America's debt limit." Senator Barack H. Obama, 2006. White House Press Secretary Jay Carney said the president now regrets that decision, but acknowledged that as a senator, that's the kind of political game you play.

The budget battle in the face of a looming government shutdown in early April was a prime example. Republicans wanted $61 billion in spending cuts. Democrats wanted $38 billion. The president and senate majority leader were on TV almost hourly saying the republican "my way or the highway" attitude wasn't going to cut it, and the speaker was saying they were going to hold the line in the face of tough negotiations. In the end, the bill both houses eventually passed resulted in…drum roll please…$38 billion in cuts. Who in this case made concessions and who's "my way or the highway" position prevailed?

For those of you who think I only pick on democrats, pay attention. The GOP couldn't get a paltry $61 billion in cuts passed while we're facing a national debt over $14 trillion and climbing. If the deal they arrived at was the best they could do, ***neither*** side is serious about getting the spending under control. If you back out the spending increases congress just decided to throttle back on, the actual "cuts" may not even add up to a few hundred million dollars. Pathetic!

This does not bode well for our future. Continued weakness in the housing market and high gas prices cutting into consumers' discretionary income could push us right back into another recession very easily at this point.

Thanks largely to this complete lack of leadership from ANYWHERE in Washington D.C., Standard & Poor's has now lowered the US's debt outlook to negative. They have not decreased the AAA debt rating…yet, but if they do, we will find ourselves in a world of hurt. A lower debt rating would completely circumvent the Fed's attempts to keep interest rates low. The government would have no choice but to offer higher rates on US treasuries to continue to attract buyers.

Treasury Secretary Geithner was quick to get on the talk shows and announce his disagreement with the outlook change. Too bad nobody was disagreeing with the ratings agencies when they had Fannie Mae, Freddie Mac and all the Collateralized Mortgage–backed junk rated AAA.

As soon as the interest rate on our debt starts to climb, dealing with the budget crisis takes on a whole new level of urgency. It's fairly obvious neither side is going to reach any meaningful agreement. I'm not sure what they have to lose at this point. You'd think, as bad as things are, both sides would be willing to give each other enough rope with which to hang themselves. Intense negotiations and finger-pointing press conferences aren't doing anybody any good, except the politicians running for re-election.

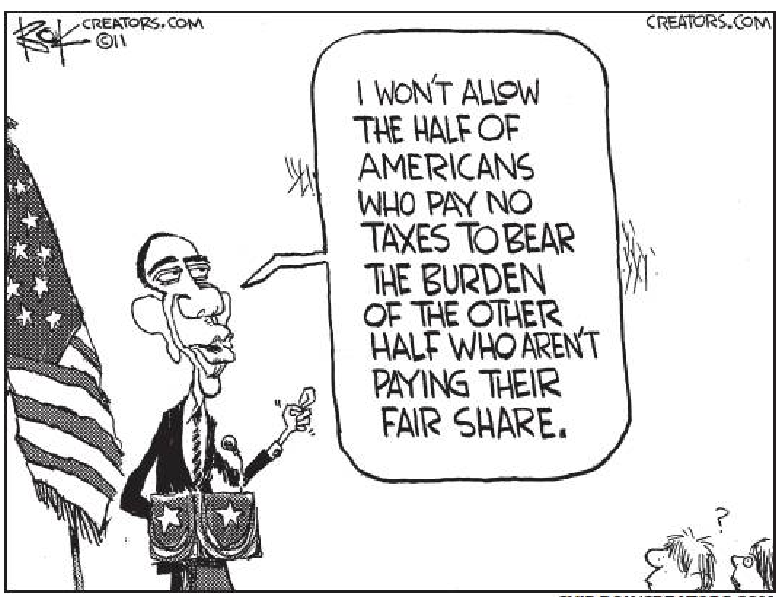
It's past time…maybe too late already, for all our elected officials to quit campaigning and fix this mess. No one who votes for the real fix is likely to be popular enough to get elected dog catcher, because nobody is going to like all that's necessary to clean this up. Everyone, in every socioeconomic strata of society is going to feel the pain. Special perks, loopholes and exemptions simply must be off the table. If they continue, you can expect things to get very ugly, and they may have to before this is all over. If several back-to-back periods of one-term congressmen, senators and presidents is what it takes, I'm all for it. The approach we've been taking up to now certainly hasn't worked.

All economic philosophies aside, common sense says when you have too much debt; you quit borrowing, cut spending and find ways to pay it off. Nonsense says you keep going to the payday loan place and printing worthless IOUs at higher-and-higher interest rates until your interest payments are bigger than your principal and you're forced to file for bankruptcy protection. Care to guess which "sense" our leaders are listening to based on their actions?

And speaking of loopholes…I can't let April have slipped by without taking a swipe at the tax situation. I have not met anyone who doesn't believe the current tax situation could be improved, but it is so complex and convoluted that every time congress tinkers with it, they can't help but make it worse. I'm not even sure anyone knows how many thousands of pages the current tax laws are anymore.

Again, our wise friend common sense says, "simple is better." Both the flat tax and the fair tax have their strengths and weaknesses, but the biggest advantage they both have over the current system is simplicity.

The current tax code contains an estimated $1.1 trillion in credits, deductions and exemptions…an average of $8,000 per taxpayer. This year, 45% of all households in the US will pay zero income taxes. At the other end, 44% of tax revenues were paid by the top 5% of income earners. Adding in the contributions from the next 5% of earners only increase that percentage to 50%. Still, at an April 15th fundraiser in Chicago, President Obama suggested a number of ways in which he would increase taxes on the "millionaires and billionaires" to fix our national debt problem.



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In a CNBC interview a few months ago, the host baited one of President Carter's former economic advisors; asking why taxing the rich wasn't a viable strategy. Somewhat exasperated, she finally admitted there aren't enough rich people, and they don't have enough combined wealth to get us out of this mess.

In 2009 (the latest year for which the IRS has published statistics,) a 100% tax on those earning $500,000 or more would have resulted in revenues of $1.03 trillion. That would still have left us with an $839 billion deficit and not made a dent in the national debt. Let’s just assume this IS the solution. We’ll tax the richest among us to achieve national prosperity. Since we’ve proved taking 100% of what those earning $500,000 and above doesn’t even begin to turn the ship around, how far down do we have to go in income? And, for how many years do you think they’ll be willing to work for free? Are Atlas’ shoulders getting a little stiff?

Yet another way to look at it…in order NOT to keep his promise not to raise taxes on those making under $250,000, the president will have to propose a top tax rate (currently 35%) of 142%. And again, that just covers deficit spending. The debt continues to accrue interest and grow.

Real quick…let’s step way back…beyond deficits and debt to the really big picture. Total national assets, including small and large corporations and all households are about $77 trillion. That’s the total estimated net worth of everything we own in this country. Total unfunded liabilities, including social security, prescription drug benefits and medicare are over $113 trillion. This is what congress has already committed to spending. The fat lady may be warming up backstage and all these clowns are doing is cranking up their re-election campaigns.

Both sides are talking about automatic measures that kick in and restrict spending if certain milestones or percentages aren’t met. The republican plan wants federal spending to return to somewhere on the order of 20% of GDP. We’re currently at about 24%. At this time in 2000, we were at 18.5% and the national debt was less than half of what it is now.

The republican plan says if you’re making more money, you can spend more. The democrats are being told by the white house not to vote for anything that restricts spending or ties it to GDP. They want a deficit spending cap. The democrat plan says if you can borrow or tax more you can spend more. You can always cut into a projected budget deficit by raising taxes. As long as there is deficit spending, we’re still heading the wrong direction.

Neither plan acknowledges the debt except that interest payments on it are part of federal spending. I think we need to start by making every elected official take something like a Fiscal Hippocratic Oath. First, do no harm. Do whatever you have to do, but the deficit and debt do not increase by one penny from this point forward. You’re welcome to try raising taxes to pay for more spending and ever-expanding programs, but good luck getting that by in this economy. A surefire way to increase available spending cash is to quit paying interest on debt.

I’d love to see Common Sense and his or her partner Fiscal Responsibility as running mates for 2012, but I don’t think we’re going to find them among the field of career politicians. Think about it. Year after year the politicians argue, attack, posture, whine, and even cry while wringing their hands about the deficit and the debt, but what is their incentive to really do anything about it? Why should they? They haven’t fixed anything and we keep sending them back.

Amazon.com can be a great place to find interesting items on a whim. I recently found, and purchased for about $10 some uncirculated currency from Zimbabwe’s period of hyperinflation in the denominations of $10 trillion, $50 trillion and $100 trillion dollars. When I have a matching set of US dollars in the same denominations, I’ll frame them, side by side…and the frame will be worth more than the currency.

Sorry…this one went a little long, but you got several nice cartoons to look at…I’ll let you know what I really think next month.