LAUREATE
WEALTH MANAGEMENT

Economic and Market Commentary
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Are we in a bear market rally or a new bull market? When will the economic recession end? These two questions are on the minds of most Americans with means these days. Speaking of America --- I hope you and your family enjoyed a great 4th of July weekend. On a personal note, I was able to play my first round of golf with my two sons Mike and Ian (ages 9 and 7). We had a great time ---- and considering our per stroke cost ----- really got our money's worth!

Back to business… Any sustained economic recovery will require at least two things: rising employment and a substantial real estate market recovery. Those two things will empower our banking system to capitalize on excellent earnings margins, otherwise known as NIM (net interest margin). Those earnings margins are possible due to the extremely accommodative economic policy being postured in Washington. Accordingly, I would like to share some thoughts with you this month about both the employment data and real estate data that we see being publicized in the financial press. Further, I would like to put some perspective on Washington's spending habits. And finally, I would like to share an interesting perspective on gold --- as in bullion.

**Great Unemployment News! (maybe):** May unemployment statistics showed a drop in non-farm payrolls of only 345,000 workers. That was considered encouraging news as the "rate of decline" was slowing. Such data hinted that our economy could be stabilizing. As the rate at which unemployment increases actually slows, the hope is that unemployment could stop increasing all together and start decreasing soon.

Counter-point: 345,000 lost jobs is a larger drop than any month in the 2001 – 2002 recession, including the month after 9/11. Basically, unemployment has been rising so quickly, that a 30%+ slowdown in the rate by which unemployment increases from one month to the next still leaves us with historically alarming unemployment escalation. June unemployment statistics were released last week and showed a drop of 467,000 workers which was larger than most predicted and contrary to the hoped for reversing trend. Nationally, the unemployment average now stands at 9.5%. Even if unemployment stopped rising all together and held steady ---- a 9.5% unemployment rate would make significant economic recovery extremely difficult. *(Statistics taken the Bureau of Labor Statistics)*

**Real Estate – Build, build, build!:** A few weeks ago (June 16th), new housing starts data for the month of May was reported ---- up almost 18% from 454,000 units to 532,000. Again, the economic recovery dialogue gets a boost. After all, the economic recovery is likely to be tied to a real estate rebound, which in turn will allow banks to recover… Certainly, an 18% move on new housing starts must portend a real estate rebound. Right?

Counter-point: At the peak of the housing cycle over the past 5 years, new housing start statistics hovered around 2,000,000 units annually. With current housing starts at less than 25% of that number ---- a 78,000 unit increase might be a sign of economic recovery – OR – it might be just a statistical aberration. Remember, these statistics are released monthly and projected annually. So the actual unit increase observed is actually a fraction of the 78,000 units. Significantly stronger repetitive data is needed to confirm a true real estate recovery is underway. *(Statistics taken from U.S. Census Bureau)*

**Washington Policy:** "Talking heads" in the financial press continually talk about the mountains of debt we are piling up in Washington. Some blame former President Bush. Others blame current President Obama. But how does our spending compare to the rest of the world? Answer: France's deficit is currently running at 8% of GDP. England is running a deficit of more than 12% of GDP. The U.S. is committed to almost 14% for 2009, but has pledged $13 trillion of spending over the next several years ----- roughly equivalent to one year of our GDP! Although similar to other countries, these numbers are massive. Simply put ---- the only way to cover this gap is to increase taxes, cut government spending, or devalue the dollar (create inflation). The first two options do not appear politically feasible in terms of covering the entire gap, although in some measure both will likely occur. The least political option is to weaken the dollar ---- while all the time talking in the press about a strong dollar. Count on it! While many are looking to profit from a violent inflation trade, I believe a slow ebbing and flowing multi-year pattern is more likely to occur. Short term profits will be unlikely, but long term perspective should include a healthy respect for coming inflation. *(Statistics taken from Bureau of Economic Analysis, U.S. Department of Commerce)*

**Give me a Coke, a Snickers, and ---- Gold bullion ??:** Who hasn't bought a Coke or a candy bar from a vending machine at some point or other at some public venue? But did you know that German airports and railway stations are currently being equipped with vending machines that will sell ----- gold coins? The German economy was crushed by hyper-inflation in the 1920s ---- a lesson that they apparently have not forgotten. Providing citizens the opportunity to exchange legal tender for gold in such an accessible fashion is remarkable in my view. It certainly confirms that inflation is not just an American concern, but a global concern.

**BOTTOM LINE:** Our position is to be very cautious in this environment. The stock market is fully valued and has priced in a return to peak cycle profit margins of 2006-2007. Signs of economic recovery in the unemployment picture and real estate markets that would precipitate such a return to high profit margins are suspect at best. Consequently, further correction and deleveraging to our economic system is a distinct possibility. Forward looking opportunities to profit from a near term rise in stocks requires a significant appetite for risk at this point. We, at Laureate Wealth Management, believe that the best course of action now is to patiently hold a conservative allocation. Conservative, in our view, implies high cash balances, modest bond market exposure, and equity exposure only through hedged positions. We are also beginning to add gold to portfolios in this environment as well. Investments on the horizon include distressed real estate and oil. Opportunities will eventually arise. This too shall pass.

It is a privilege to work with and for your family,

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