Thinking Positive!

Regarding your investments, history tells us there are reasons for "Optimism"

by Steve Hyers

Historically speaking, the U.S. common stock market goes up and down (as does the U.S. economy) on a fairly consistent basis. We know it goes up more than it goes down and has averaged between 10 and 11 percent since the federal government started consistently tracking statistics on the markets in the 1920's.

After substantial gains experienced since 2003, the markets began to slow at the end of 2007 and have continued to do so in 2008. I would suggest to you that it is impossible to accurately predict what, and when, the markets will do next. Too many unpredictable factors, like petroleum prices and inflation, impact the economy and markets. One thing is certain though- investors pay more attention to their returns when the economy, and markets, begin to decline. That is why it is important to move forward, when considering the current economical slowdown, with an investment perspective that considers the recent past and the remarkable economic development that took place over the last seven to nine years.

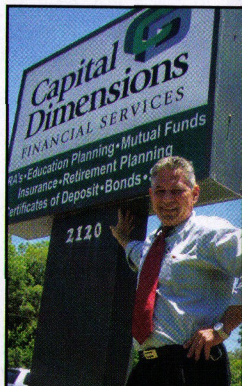
America's manufacturing output is up 700% since 1950 (though manufacturing jobs are down as a percentage of overall jobs), with all U.S. business productivity up an average 2.7% during the decade ending in 2007. During the decade ending in 1997 it averaged 1.7% and 1.4% between 1978 and 1987.

Our economic progress has been significant. Looking at what's happened more recently, over the previous nine years, the markets have come off the floor of the 1999-2000 stock market decline of over 40% (Standard and Poors index)=2 0and 9/11 to set a new all-time high just a few months ago. Real GDP is up 26%, employment increased by 10 million jobs through 2007 and real after-tax income per capita has increased by 17%. Even home prices, down lately, are still up over 40%. Real U.S. household net worth is up 20%.

Even more recently, and amidst the problems with oil prices and the sub-prime lending problems, manufactured-goods orders rose in April and May during a time when all we hear about is the impending recession. Over 94% of Americans have mortgages that are not threatened by the mortgage problems some are experiencing. Unemployment is slightly over 5%, still low by historical standards. Though inflation is at its highest level in recent years (naturally since oil permeates into most manufacturing processes), we are more conscious of that fact because the long-term management of the economy has improved markedly since the early 1980's when Paul Volker and President Reagan "broke" inflation with a painful interest rate increase during that period. And most remarkably, the average American household is worth a third more than in 2000- unmatched in any previous decade o f housing statistics.

Recent statistics show that most forms of pollution are down and declining, medical care is producing declining rates of cancer, heart disease and strokes. Medical progress, though very expensive in America, has made headway in these important areas. More kids are receiving four year degrees from college campuses.

These are remarkable feats not talked about much by the media. It is inevitable that we would experience a slowing of the economy after such a "run". How will it impact your investments? The average bear market has lasted 14 months and has taken stocks down about 31% since 1960 (according to Ned Davis Research). It is a well known fact that the cuts in the capital gains, dividend and income taxes early in the decade produced most of these incredible economic results. If capital-gains and dividend taxes remain low, we should "cycle-out" of this normal slow-down in our economic and stock-market cycles. The advantages of capital-gains assets-like stocks and real-estate are significant. With stocks you aren't taxed (excluding possible dividend taxes that are small relative to the value of the stock) until you sell. With stocks you aren't taxed until you sell, and usually at a rate significantly less than your income tax rate, if you hold those stocks at least 12 months….. At this years Berkshire Hathaway meeting, owned by and hosted by Warren Buffett (known as the world's most successful investor, Buffett stated "If a stock I own goes down 50%, I'd look forward to it. In fact, I would offer you a significant sum of money if you could give me the opportunity for all of my stocks to go down 50% over the next month." The point being that Mr. Buffett owns stocks and bonds in high quality businesses and looks forward to prices going down, not up, so he can buy even more. When they go back up, Mr. Buffet's an even richer man. This is where a good financial planner comes in for the average investor ……..all reasons for optimism.



Steve Hyers and his business Captial Dimensions are now "landmarks" on University Blvd.

You can call Steve Hyers at Capital Dimensions Financial Services if you have any questions. You can reach him at (904) 730-3877 or drop by his office on University Blvd., three blocks off San Jose Blvd. and directly across from Lakewood Presbyterian Church. Capital Dimensions is located right here in the San Marco and San Jose neighborhoods.

Securities offered through LPL Financial. Member FINRA/SIPC