

# **MARKETS HAVE NOT DISCOUNTED THE FUTURE**

## **WEB BUZZ 2008.04.14**

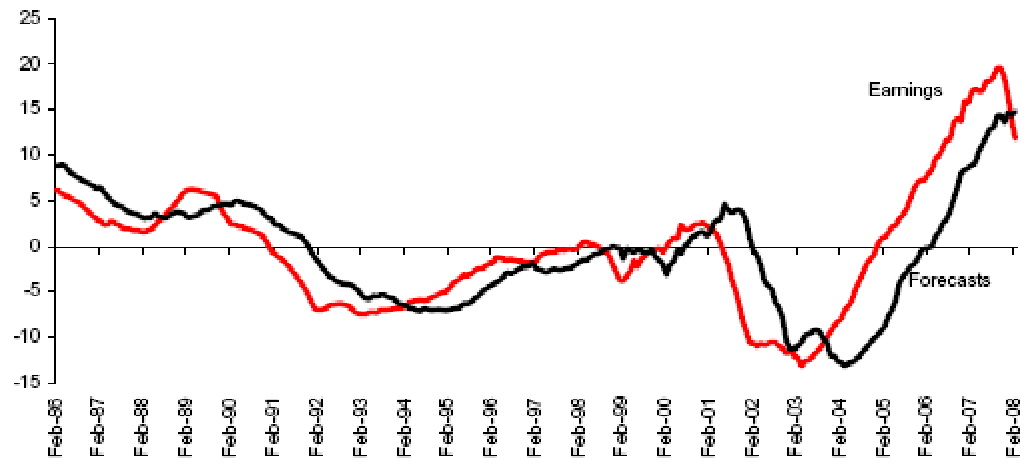
**While the daily economic news seems to revolve around the liquidity and solvency issues facing the financial community and others, the real long-lasting problem is the plight of the U.S. Consumer. According to the Census Bureau, the median household earned \$48,201 in 2006, down from \$49,244 in 1999.**

**Households have been spending well beyond their means for many years; however, during much of the time, there has been at least some increase in earned income that would be of help. Not so for the last seven years. Obviously, the way one can spend more than his income is to sell assets and/or borrow money. Households have done exactly that—and with a vengeance, as we have illustrated in prior Web Buzzes.**

**The question for the future course of the economy is: *what will allow the consumer to get back in the game?* Our answer: *time and lower prices.* Neither of these solutions is going to be pleasant, at least in the short run. Thus, our contention that the recession we are in is destined to be rather long lasting (at least the next several years), as compared to other downturns.**

**We do not believe the financial markets have come anywhere close to discounting the outlook for earnings and possible deflation. At some point before the end of 2008, it may become apparent to the “equity cult” that has dominated the investment scene over the last 10 to 15 years. Please note the following chart of earnings for the S&P 500 since 1986. If one believes in the investment axiom of recession to the mean (and we do), common stocks remain extremely unattractive.**

**Analysts lag reality (S&P500 earnings, deviations from trend, \$ per share)**



Source: SG Equity Research

**Adapted from John Mauldin's Outside the Box E-Letter**