

## Even France Has Recoveries

In the past year, equity values have soared and a wide array of economic data has turned upward. But pessimism is still rampant. While different people worry about different things, conservatives focus on jobs and government policy.

Don't get us wrong. There is nothing "good" about a 10% unemployment rate. And, in our view, the health care bills being discussed in Congress would undermine the dynamism of the US economy and hurt health care. Yes, in their desire to "change" America, many politicians want the US to look more like France.

But none of this will derail the V-shaped recovery. Nor are they a good reason to run for the hills, with your gold, guns and canned goods. It is times like these when it's important for *politically* conservative investors not to let their view of the way things *ought* to be cloud their view of what investment returns are *going* to be.

Even France has economic recoveries and even French companies make profits. While French stocks have trailed US stocks this year, they are still up significantly from their lows. There is less dynamism in France, with far fewer entrepreneurs and less potential for success, but an economy still exists.

In a certain way, the US is about to find out what the 1980s economy would have been like without the tax cuts enacted by President Reagan. The last time the jobless rate spiked to 10%+ was in the brutal recessions of 1981-82. If high unemployment is a reason not to invest today, it was an even bigger reason not to invest back then. But doing so – remaining

pessimistic because of high unemployment – meant you missed out on at least a part of the bull market.

Back in the early 1980s, President Reagan cut marginal tax rates across the board and, at least for a few years, restrained the growth of government social spending. Now we have similar 10% unemployment and public policy is moving in the exact opposite direction, with higher taxes and bigger government.

But the recovery in 1983-84 was enormously powerful, with real GDP growing at a 6.6% annual rate. We are not going to experience such rapid growth. Instead, we're more likely to get about 4.5% over the next couple of years. So the shift in policy will have an impact, but it doesn't mean a recovery won't take hold at all. It also doesn't mean stocks that are undervalued relative to profits won't keep heading toward fair value.

If you're looking for the effect on the economy of the shift in policy, look in the long term. During every recovery in the 1970s, the unemployment rate fell, but its low point was higher than in the previous recovery. This is happening again now. The unemployment rate fell to 3.9% in 1999, but just to 4.4% in 2007. Given the growth in government we have already seen, we'll be lucky to see 6% during the current recovery.

That's the price we will pay: not continued unemployment at 10% for as far as the eye can see, but good times ahead that never get quite as good as they ought to be. We don't expect clear sailing forever, but the seas look calm enough to enjoy for the time being.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-12 / 7:30 am	Int'l Trade Balance - Nov	-\$34.5 Bil	<b>-\$31.2 Bil</b>		-\$32.9 Bil
1-13 / 1:00 pm	Treasury Budget - Dec	-\$90.0 Bil	<b>-\$92.0 Bil</b>		-\$120.3 Bil
1-14 / 7:30 am	Retail Sales - Dec	+0.5%	<b>+0.6%</b>		+1.3%
7:30 am	Retail Sales Ex-Autos - Dec	+0.3%	<b>+0.2%</b>		+1.2%
7:30 am	Import Prices - Dec	-0.1%	<b>-0.2%</b>		+1.7%
7:30 am	Export Prices - Dec	+0.5%	<b>+0.1%</b>		+0.8%
7:30 am	Initial Claims - Jan 9	436K	<b>437K</b>		434K
7:30 am	Business Inventories - Nov	+0.3%	<b>+0.6%</b>		+0.2%
1-15 / 7:30 am	CPI - Dec	+0.2%	<b>+0.2%</b>		+0.4%
7:30 am	"Core" CPI - Dec	+0.1%	<b>+0.1%</b>		0.0%
7:30 am	Empire State Mfg Index - Jan	12.0	<b>10.0</b>		2.6
8:15 am	Industrial Production - Dec	+0.5%	<b>+0.7%</b>		+0.8%
8:15 am	Capacity Utilization - Dec	71.7%	<b>71.9%</b>		72.5%
8:45 am	U. Mich. Consumer Sentiment	74.0	<b>74.0</b>		72.5