

800 POINTS?

“Green shoots seen in the economy.”
 “Economic recovery strengthening.”
 “Recession over.” These are just a few headlines and claims that have been made over the past year through the mainstream media. But should you believe them? It’s interesting to note that in April 2010 the Dow Jones Industrial Average reached a value of 11,200, and today, almost one year later, the index is at a value of 12,000, or a mere 800 points (+7.14%) higher. For all the fanfare and media propaganda it sure seems as though prices should be much higher if everything is as good as being claimed. I, like most everyone I know, wants to believe this to be true, but I continue to reflect on the experiences of Japan to look for similarities to set my expectations.

If you are not familiar with Japan’s story, let me give you a very brief and over-simplified history. They had a booming economy filled with credit growth (similar to China today). That credit growth peaked in 1989 when their main stock index, the Nikkei 225, exceeded a value of 39,000. Since that credit bubble burst, they have tried, albeit unsuccessfully, to reflate it over the past twenty years. They have had one long period of deflation, scattered with short, hopeful bouts of inflation. During this time they bailed out their zombie banking institutions, printed money (aka “Quantitative Easing”), and refused to allow the forces of creative destruction correct all the bad investment decisions of the prior boom (similar to the United States?). Take a look at the following chart from www.decisionpoint.com to see what their stock market has achieved over these past twenty years.



From over 39,000 the Nikkei is now at 9,608 at the time of this writing, or over 75% *lower* than where it was in 1989. So considering the fact that the Federal Reserve and United States Government are following similar paths as Japan regarding how to address this recent crisis, should we expect a different outcome? I don’t know. I surely have my doubts, but I will say one thing. Given that the Japanese are prolific *savers*, and have financed their own deficits for the past twenty years, and Americans are prolific *spenders*, and have to borrow from foreigners to finance their deficits, I doubt the outcome we face will take twenty years to materialize. But this is why other investment strategies in addition to *long stocks* should be considered as I wrote in last month’s article. Every investor should consider all investment options to decide how they are willing to be exposed to risk in the years to come.



Jeffrey D. LINK

800 POINTS?

Disclosure:

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Guardian Capital Advisors, LLC (GCA, LLC) reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the investment recommendations or decisions we make in the future will be profitable.

GCA, LLC is a registered investment advisor. More information about the advisor including its investment strategies and objectives can be obtained by visiting www.guardianca.com or in its Form ADV II which is available upon request.