Session: “Economic Update”

In this realistic (if not optimistic) session, experienced economist and strategist Marvin R. Clark predicted an L-shaped economic recovery for the United States and mapped out his 2010 financial predictions.

Presenter:

- *Marvin R. Clark, managing principal, chief economist and strategist, Monsoon Wealth Management*

“Humpty Dumpty Fell off the Wall”

Marvin R. Clark began his career as a buy-side analyst — an important distinction, he contends. “A sales-side analyst shows you why an investment should work, [and] a buy-side analyst attempts to pokes holes in the sales narrative,” he explained to attendees.

Based on this foundation, if Clark is correct, the economic recovery will be L-shaped. Why?

“Because we’re no longer in the twentieth century, but the twenty-first,” he explained. “That’s why so many economists got it wrong in 2008.

“Any data set from the 20th century is obsolete without significant adjustments,” Clark continued. “Linear extrapolation of historical patterns of growth, revenue and consumption — without correctly modifying credit, demand and demographics, plus the impact of technology, domestic tariffs and regulations, and *Realpolitk* — is like placing a compass inside a magnetic field. They called it a ‘black swan’ and said it couldn’t have been predicted. That’s wrong. It was lazy research.”

This, Clark explained, is why he refuses to blindly trust what Wall Street analysts tell him. “I research on my own,” he said, citing Bloomberg.com, *Barron’s*, FT.com, BEA, BLS, CBO, EIA, FDIC, FMS, NBER, NFIB, OMB, QTAX, THE ST. LOUIS FED, THE NY FED, and US CENSUS. “There is a galaxy of raw data out there,” he said. “The market meltdown was basically the last chapter of the 20th century, in my opinion.”

Clark harkened back to July 2008, when he stayed awake for virtually an entire weekend until Monday morning, when it was announced that Bear Sterns was forced by the government to sell itself for US$2 per share. “Weeks later, Fannie Mae and Freddie Mac went under,” he recalled. “And on September 15, our financial system died.” This was when credit markets froze up and the government gave banks US$750 billion of taxpayers' money, in what Clark calls the "greatest heist in history."

"[Banks] basically threatened to kill the economy if they didn't receive ample capital to satisfy liquidity needs," he explained. "That's when Humpty Dumpty fell off the wall. Washington D.C. consciously decided to save individual banks at the expense of the banking system instead of letting individual banks fail and secure the system. We won't put the markets back together like they were, again."

2009 in Retrospect

Clark recalled a 2009 story published in *Market Watch* in which a few thousand people walked away with $149 billion dollars in bonuses or 1 percent of the $14-trillion U.S. GDP. He also predicts that foreclosures will "come back with a vengeance" in 2010 — at least 3 million more, by his estimation. And even if homeowners want to refinance, as he points out, they will have to come up with cash out-of-pocket now that homes are worth 20 percent to 30 percent less.

"Now, go ahead and take a sip of your mimosas," he told attendees.

Clark contended that the "green shoots" some economists talked about in the third and fourth quarter of 2009 were akin to putting lipstick on a pig. "Are they genuine data, or are they inflated?" he asked. "In my opinion, this recovery isn't organic; it's built upon stimulus dollars, which aren't sustainable. That's why I have no faith in it."

The New Normal

In this predicted L-shaped recovery model, Clark says that unemployment will continue to be high in 2010 because U.S. workers must compete with global workers, using an unfair trade policy and NAFTA. "In America, our wage structure — and therefore, our middle class — are in a race to the bottom," he told attendees. "But, around the world, the standard of living will improve."

To support his prediction, he also factored in a predicted multiyear credit contraction, extremely low growth (versus the Post-WWII years), China's emerging dominance and a reduced standard of living in the U.S., especially among the middle class. "It will become much more expensive to be poor in America in the future," he told attendees.

Tax increases are also on Clark's radar. "Besides raising taxes, we also need to cut spending across the board, including defense spending," he contended. "If our government is serious about our deficit, nothing can be off the table."

But all isn't lost; Clark pointed to the computer/Internet revolution of the 1980s and 1990s as an example of American prowess and a bright spot in an otherwise bleak forecast. "That's our innovation potential we need to once more unleash upon the world," he said. "If we can get our groove back, we can get back on top."

Still, time is the only thing that will clear up the financial mess the United States is in, according to Clark. "We dug this hole, and it's deep, and it'll be painful to get out of. So be it."

Q & A

After his session, Clark had time to answer a few attendees' questions.

Q: Given the grim outlook, do you have any advice for the next generation of workers?
Clark: Lower your expectations! [laughs]

Corporations are becoming ruthlessly more efficient, but they'll be eliminating higher-paid people resources in the process because they can. America's sin is that we have the largest middle class in the world. One example is the Punta Colonet Multimodal Project in Baja, California, in Mexico. When it's completed, you can hire local Mexican drivers to transport goods because their wages and fuel are less expensive. And, because of NAFTA, they can go from Mexico to Canada on work permits.

Q: Why are small- and minority-business loans so hard to get right now?
Clark: Because interest rates are *too* low. Banks can earn a higher return while taking less risk. Besides, many banks are repairing their own balance sheets. When market forces push interest rates higher, I'm sure you'll be able to get whatever loan you want.

— Reporting by RaeAnn Slaybaugh