Delta Financial Advisors

April 2009

Economic Comments

April will mark the 17th month of the current recession, making this downturn the longest of the post-Depression era. The new Obama Administration and the nation's central bankers are taking all possible measures to right the nation's economy.

With the targeted overnight interest rate remaining effectively zero, the Federal Reserve has had to start using other economic tools to stimulate the economy, as we had suggested likely in our last newsletter. To help unfreeze the important securitization markets, which provide critical credit for both households and small businesses, the Fed announced the new Term Asset-Backed Securities Loan Facility to provide up to $1 trillion of new credit to this sector.

Moreover, the central bank also announced its aim of reinvigorating the housing market by sharply lowering mortgage costs (and provide some down-side support to still falling housing prices) by purchasing up to $300 billion of longer-term Treasury securities over the next six months. With 30-year mortgage rates having fallen immediately and subsequently hit record lows of 4.625%, the central bank's measures have had some immediate success. Finally, Chairman Bernanke announced that the Fed will continue to flood the markets with additional liquidity through the purchase of an additional $750 billion of agency mortgage-backed securities.

For its part, the Obama Administration has shown its willingness to spend any amount of money, no matter how inefficiently, in an attempt to stimulate the economy out of its current malaise. To start, the new Administration has rolled out a massive $787 billion stimulus package which will be spent over the next 18 months. Loaded with pork-barrel projects for almost every industry and Congressional district, the stimulus package was readily approved by the Democratic ruled Congress.

Meanwhile, the Obama Administration has announced an extremely ill thought program to address the moribund banking industry, the Public-Private Partnership Investment Program (PPIP). Essentially, the PPIP aims to have private investors purchase illiquid assets from U.S. banks using enormous amounts of government guaranteed debt. While sure to be helpful to both the banks (by ridding them of these poor investments without resorting to further, necessary asset write-downs) and to the private investors (by giving them a near risk-free likelihood of making money), this measure will expose U.S. taxpayers to potentially enormous additional losses. While desperate times can require desperate measures, we are not impressed by this approach to tackling the existing banking problem.

Positive economic hints have appeared with U.S. factory orders actually rising in February, after six straight months of losses. Moreover, consumer spending rose in February for the second month in a row after a half year of declines. Additionally, existing home sales were up 5.1% and new home sales were up by 4.7%. Driving this shift, though, was the average price decline of more than 15% for homes as housing inventory remains elevated at almost twice normal levels. Leavening this modest good sales news was the surge in U.S. foreclosures which are running 30% higher than last year. However the critical U.S. employment news remains grim as sharp declines in payrolls have continued with the nation's unemployment rate having spiked to 8.5% in March, and up from 7.2% in December. Since the recession started in December 2007, the economy has lost 5.1 million jobs with two-thirds of this loss having occurred in the last 5 months. With many companies remaining gun shy about adding employees, unemployment is expected to hit 10 percent by year end.

Critical to initiating a recovery are a stabilizing housing market, renewed faith in the nation's banking industry, free flowing capital markets and a recovery in the nation's payrolls. While the Federal Reserve and the Obama Administration have taken aggressive action to address these deficiencies, we are extremely concerned about the long term ramifications of these moves. Between the profligate spending of taxpayer money and the enormous expansion of the Central Bank and nation's debt, the intermediate to long-term risks to these actions are daunting. Nonetheless, we anticipate that the economy will show increasing signs of stabilization by this winter. Our only hope is that the cure administered by Chairman Bernanke and President Obama does not result in long lasting injury to our national economic prowess.

Market Comments

Unfortunately, the financial markets continued in their wild ways for the year's first quarter. The stock

Performance as of 03/31/09				
	Close	**Month**	**YTD**	**1 Year**
DJIA	7608.92	+7.94%	-12.48%	-35.94%
S & P 500	*797.87*	*+8.76%*	*-11.01%*	*-38.09%*
NASDAQ Comp.	*1528.59*	*+10.94%*	*-3.08%*	*-32.93%*
	Month end yld.	***Prior Yr. end yld.***	***12 mo. prior yld.***	
10 yr. U.S. Treasury	*2.68%*	*2.24%*	*3.43%*	

markets responded badly to the continued poor economic news and ongoing negative comments from the new Obama Administration. As a result, Wall Street declined almost without interruption for the quarter until early March by which stage the markets had shed more than 24% of their New Year's Day value. Once the Administration discontinued its Doomsday proselytizing, announced the ill conceived PPIP, and a few pieces of positive economic data were revealed, the markets staged a sustained several week rally to finish the quarter down a poor, but much improved 11%. Looking at the details of this dismal performance, the only market sector showing gains, modest ones of 3.5%, was the Information Technology sector; the Financial sector provided a negative counter point as it continued to lead the market down with more than a 21% decline for the period.

To be harsh, the markets could be judged as having declined (through March 31) more than 55% from their Fall of 2007 highs. The more charitable would say that from its March 9th lows through early April that the U.S. markets have commenced a new Bull rally as they have surged more than 25% from their recent early March lows. Slicing the data a little more finely, and only looking at exclusively the month of March, the stock markets showed their strongest gains since October 2002.

Unfortunately, we believe that the recent rally owed much of its impetus to enthusiasm associated with the rash of new government and Federal Reserve initiatives rather than any strong data indicating that the economy has seen its worst days. Adding to the fervor of the recent upswing was enthusiasm over the substantial modification of the ill conceived mark-to-market accounting rules that sharply worsened many of the issues that banks have been suffering with their illiquid assets.

Despite the recent market upswing, the fixed income markets have not bought into the recent rally with corporate debt still priced for disaster. Investment grade non-financial bonds have risk premiums more than twice their normal level while corporate defaults, as recorded by Standard & Poors, have more than tripled over first quarter performance from 2008. Yet the capital markets are not totally closed as businesses with better credit ratings issued $200 billion of debt in the first quarter, according to Thomson Reuters, which is an increase of more than 5% over a year ago. Risk premiums for junk bonds remain more than twice historical levels although having declined by more than one-third since December. Clearly, fixed income analysts remain far more wary than their stock market brethren.

As we look forward to the upcoming earnings season, analysts expect S&P 500 companies to post earnings of $13 per share. This performance would represent a 22% decline over 2008 performance and a mammoth 42% decline from 2007. With far more companies preannouncing weaker anticipated results as compared to companies preannouncing stronger than anticipated results, the $13 expectation is most likely more of a hope than a reasonable likelihood.

Despite all of the prior negative conversation, we do believe that at current levels, stocks will provide attractive longer-term returns. The challenge is that we anticipate continued levels of volatility as the current soap opera continues to play out.

Planning Thoughts

The Federal Reserve's recent actions have driven mortgage rates to yet new lows. If your home mortgage is not a fixed rate or your fixed rate mortgage is meaningfully above current mortgage rates of around 4.75% for a 30-year mortgage, it could well make sense to re-finance. We would be happy to help you analyze your situation and aid you in receiving some mortgage proposals. Please let us know if there is anything we can do to help.

Delta Financial Advisors
Suite 1100
228 St. Charles Avenue
New Orleans, LA 70130
(504) 522-9019
info@deltafinad.com