Delta Financial Advisors

January 2009

Economic Comments

The Federal Reserve moved into totally uncharted waters during the month as it reduced overnight interest rates at its mid December meeting by more than ¾ of a percentage point to almost zero percent as the new target rate was set between zero and ¼ percentage point. The move was somewhat anticlimactic as demand for inter-bank loans has been so low that actual rates had already declined to these levels several weeks earlier.

Driving the Fed's sharp rate cut was the heightened concern by its staff that the economy will continue to sharply contract in the year's first half and show only modest growth in the second half. Additional concerns were driven by the perception that even this poor scenario could be overly optimistic given the continued credit market strains, sharp stock and housing market losses and the global economic slowdown. Interestingly, the Fed's monetary concerns were exclusively focused on deflation, from which the economy has suffered for the last 2 months, rather than the more normal monetary bugaboo of inflation.

Having used up its biggest economic tool of overnight interest rates, the Federal Reserve will now have to reach deeper into its bag of tricks to stimulate the economy back towards a growth mode. Moving forward, the Fed's goal will be to drive down borrowing costs wherever it finds credit markets to be frozen. The Fed indicated that its most likely action would be to pursue quantitative easing – this is where the central bank floods the economy with money through lending programs and the purchase of mortgage backed and U.S. Treasury securities. If the easing works as envisioned, a modest level of inflation returns and the economy recommences its historical growth trajectory. The challenge is that these are uncharted waters for the Fed and the possible unintended consequences of the bank's actions could lead to rapidly accelerating inflation or the creation of another speculative bubble. In just the most recent three months since the Fed started ramping up this new easing strategy, the central bank has created in excess of $1 trillion in new money.

Unfortunately, this new money has not made its way through the economy as jobless claims continued to deteriorate in December with almost 525,000 jobs disappearing. For the month, the national unemployment rate spiked to 7.2% - its highest level in more than 15 years. Adding insult to injury, estimates for the prior two months were updated reflecting an additional 154,000 jobs being lost, thereby bringing the total positions lost for 2008 to 2.6 million – the greatest decline since the post World War 2 recession.

Highlighting the recent slowdown has been the sharp decline in retail sales as consumer spending declined by 1.2% during the Holiday season. If recent consumer spending is a sign of things to come, it could represent a drastic change in American behavior. In the low growth period of the 1970s and 1980s, the U.S. personal savings rate exceeded 10%. However, by the late 1990s, rising stock prices made Americans feel richer which resulted in a decline in the national savings rate to 2%. The housing bubble of the early part of this decade only heightened this wealth effect with the effective personal savings rate declining to just over ½ percentage point by 2007.

As a result of this substantial decrease in savings, and corresponding increase in consumption, personal consumption in the United States went from 64% in 1985 to almost 71% of economic activity in early 2008. The great unknown, at this stage, is whether holiday retail spending represents one-time behavioral changes OR a reversion to more thrifty behavior of decades gone by.

Looking forward, the incoming Obama Administration is planning to further augment the Federal Reserve's efforts by implementing a substantial tax cut of as much as $300+ billion as part of a $700+ billion economic stimulus package. The question remains whether these actions will be enough to rouse the economy from its current torpor. Given the record low interest rates, the massive cash infusion and the large stimulus packages, we are holding to our cautious belief that the economy will start showing signs of growth in the latter part of the year. Nonetheless, we believe that the nation will likely achieve inconsistent growth over the next several years as the after-shocks of the recent bubble continue to be felt.

Market Comments

To summarize our feelings on the just departed year, we would say "good riddance!" With the best performing stock sector, consumer staples, suffering a yearly decline of almost 18%, it was truly an awful year for the equity markets. The worst performing sector, financials, produced a shocking 56% decline in 2008. The unique situation during 2008 was that while different assets usually provide some safe

Delta Financial Advisors, L.L.C.

Performance as of 12/31/08			
	Close	***Month***	***1 Year***
DJIA	8776.39	-0.39%	-31.93%
S & P 500	903.25	+1.06%	-36.99%
NASDAQ Comp.	1577.03	+2.70%	-40.53%
	Month end yld.	***Prior Yr. end yld.***	
10 yr. U.S. Treasury	2.24%	4.03%	

haven during market turmoil, this past year the only place of security was found in U.S. Treasury securities.

Amidst the continued economic disruptions, interest rates on 10-year U.S. Treasuries declined by a staggering ¾ percentage point in December to an intra month low of 2.04% before ending the period at an extraordinary 2.24%. On very short U.S. Treasury obligations, investors yet again were willing to accept negative rates of return, just to insure that they received their money back at the debt's maturity several weeks later.

In the fallout from the global financial meltdown, Americans are definitely feeling poorer as the Federal Reserve estimates that our net worth has declined by a staggering $7 trillion over the past year, or more than 15%. The decline in value of the nation's housing has contributed to more than 25% of this enormous decline. The lost wealth dwarfs the capital destroyed in the dot-com bust and the vicious mid 1970s bear market. Interestingly, and for the first time in modern history, Americans reduced their outstanding debt during the 3rd quarter, albeit by a relatively modest $117 billion. Even with this modest level of debt pay down, the ratio of total national debt to economic activity remains extremely high at almost 229% of GDP, as estimated by International Strategy and Investment.

Clearly, these are challenging times to be an investor. However, like Benjamin Graham, we believe that sooner or later, the market will return to reflect underlying corporate values. While clearly there were meaningful areas of excess in the economy, we believe that those investors with a longer term perspective will profit from the current turmoil.

Analyst Corner

We have recently started buying stock of Genuine Parts (*NYSE: GPC*), a major distributor of automotive parts. The company is best known for its Napa Auto Parts brand. We feel that the company is a well kept secret for this investing environment in that it has both extremely conservative management and an extremely conservative balance sheet.

Having owned this stock previously for clients, we feel that in the current environment GPC's strong balance sheet, robust cash flows and conservative management make it an attractive holding. Moreover, with new U.S. auto purchases declining, auto owners will have more need to buy Napa parts for their ageing vehicles. While not appropriate for all accounts, this stock holding should be an attractive addition to many investment portfolios.

Planning Thoughts

Starting the year that an individual turns age 70 ½, the Internal Revenue Service requires that individuals remove a minimum amount, known as the required minimum distribution (RMD), from their IRA account. The amount is re-calculated every year based upon the IRA owner's actuarially expected remaining lifespan. Due to the sharp decline in the financial markets, the IRS has suspended the rules mandating these distributions exclusively for 2009.

In many cases, but not all, it can make sense to hold off on making these distributions for the near-term. If you are impacted by this one-year exemption, we would like to help you determine the most appropriate action so please give us a call.

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