2009 – THE WAIT IS OVER!

Similar to most people turning the calendar every New Year, U.S. investors tend to have a lot of optimism in early January. This year is certainly no exception. Investors charged into stocks on the first trading day of the New Year and pushed the Dow above 9,000, up 258 points, or 2.94%. The S&P 500 went up 3.16% and the NASDAQ soared 3.50%.

Investors seem more hopeful than usual this January, since 2008 was the worst year since the Great Depression and investors are expecting a massive stimulus plan from President-elect Obama to jump-start the jobs market and consumer confidence. Obama's stimulus package is expected to be in the range of $675 billion to $1trillion. Consumers are also receiving about another $500 billion from falling gasoline prices and the lowest fixed mortgage rates in 50 years.

Nonetheless, troubling times are just beginning for many Americans. Many will lose their jobs in 2009. In fact, Obama's staff is warning that the unemployment rate could hit 10% or higher later this year. But Obama is trying to manage expectations by setting the bar lower than most economists, who collectively believe unemployment will rise to about 8.5%. Obama's tactic is similar to a public company low-balling earnings expectations so it can "beat the Street" and keep it stock price climbing steadily higher. It's a prudent strategy, especially when the public's psychologically is so fragile.

Obama has to keep the masses upbeat. His State of the Union speech later this month will be one of the most important speeches in decades. Details of his economic stimulus package should get the audience excited and a strong closing statement with optimism for the future should trigger a resounding standing ovation. No one questions Obama's skills to inspire an audience. He's the most gifted speaker America has seen in a long time.

ENERGY OUTLOOK

Some of the U.S.'s biggest critics, namely Iran and Venezuela, have had their economies crushed by the lack of demand for the heavy, sour crude that both countries produce. Everyone wants light, sweet crude, and lately there's plenty of it. As a result, Iran and Venezuela have reverted to storing crude on Very Large Crude Carriers (VLCC). This is boosting demand for crude oil shippers, which has naturally helped the oil tanker business and firmed day rates.

Crude prices are still down almost 70% from their July highs, but they will not remain low forever. The United Arab Emirates (UAE) recently cut its February crude shipments by as much as 15% to Asian refiners. This makes the UAE the first OPEC producer to formally reduce February exports since OPEC agreed to a 2.2 million barrel per day cut on December 17. The UAE is the third-largest oil producer in OPEC and its steep cut in output raised the odds that OPEC would more closely comply with the December cut than it did when it agreed to a 1.5 million barrels a day reduction in October. OPEC members are notorious for cheating on their quotas, but the UAE sent a message that the cartel may not be bluffing this time.

President-elect Obama's pledge to make the U.S. more energy independent will be more difficult if energy prices remain low. The real problem with Obama's campaign pledge to spend $150 billion in the next decade on green energy alternatives to reduce the U.S. dependence on foreign oil is not anywhere near enough to start a "green revolution." What the U.S. really needs is a new, much more efficient utility grid that transmits electricity underground via direct current versus the inefficient above ground alternating current transmission lines. In other words, the windmills in Tornado Ally and the solar panels in the deserts of the Southwest are effectively worthless to most of the United States without a new underground utility grid.

JANUARY 2008 — MARKET REPORT

Building a new utility grid in the U.S. would cost about as much as it did to rebuild the freeways in the 1950s. A cheap underground utility grid would cost $1trillion, while a super efficient utility grid, where individuals could sell power back to the grid, would cost upwards of $4 trillion.

AUTOMOTIVE WOES
The Bush Administration provided Chrysler and General Motors with $13.4 billion in loans, with another $4 billion likely available in February, citing the need to avoid "disorderly liquidation" during an already troubled economic period. What the Bush Administration really did was punt the hard automotive decisions to the Obama Administration.

Moreover, a lot of the money that Chrysler and General Motors are getting is really going to help pay union workers to sit around when 30 of Chrysler's factories are getting shut down for at least a month, and General Motors is dramatically curtailing its output as well.

The reason that many autoworkers get paid 95% to do nothing during factory shutdowns is that the United Auto Workers (UAW) negotiated a great contract and has refused to make any significant concessions until 2011, when their current contract expires. Obviously as sales drop, the Big Three's higher labor costs, relative to Honda, Toyota and other foreign automakers with vast manufacturing facilities in the U.S., are now becoming even more of a problem.

So, it is will be interesting when Chrysler and General Motors submit their survival plans to the Obama Administration by the end of March, knowing that the UAW is playing hardball. Since Obama was elected with the help of the UAW and organized labor, it will also be interesting if he tries to protect the UAW, even though higher labor costs is clearly one of the Big Three's main problems.

The entire automotive industry is in the midst of a crisis caused by a lack of financing for the vast majority of buyers. It appears that until vehicle financing is restored for the vast majority of new car buyers, the auto industry will have to adjust to dramatically lower sales.

It would be much easier to save the automotive industry if the bottleneck in automotive financing could be resolved, since the secondary market for car loans and leases collapsed months ago. GMAC may lead the way in fixing the automotive financing business after the Fed recently approved its application to become a bank-holding company, which made it eligible for TARP funds. Additionally, as a bank GMAC can secure access to federal funds and it can sell government-backed debt at a time when it has little in the way of alternative funding sources. If the TARP money can help resurrect automotive lending and leasing via GMAC, the model for resuscitating the industry may be underway.

As January 2009 brings a lot of hope, we hope that consumer confidence will improve with low gasoline prices and mortgage rates. We hope that President-elect Obama's stimulus program will shock the U.S. economy back to growth. Remember that stock prices are in large part a reflection of a company's expected future earnings. In the short term, the stock market is contemplating if the 40% decline in stock prices in 2007 is a true reflection of future earnings. We believe time will prove the significant drop was too harsh and thus the stock market will adjust higher. Longer term, the U.S. Economy will find its footing and begin to flourish once again.

Happy New Year!