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THE TIMES…THEY ARE A CHANGIN'
All About the Economy, The Energy Crisis and the Election

That was then…Just a few short months (actually years) ago, the economy was buzzing along and most people aside from a few bankers had ever heard of subprime mortgages. Gasoline was relatively affordable and prices at the pump were not a major hindrance to travel planning. Inside the Beltway (DC), most of the political bickering revolved around Iraq (and not the economy) as the country prepared for Hillary vs. Giuliani in a hard fought Presidential campaign between two of New York's favorite sons (make that…one son and one daughter).

This is now...What started as a mere downturn in housing escalated into a subprime mortgage debacle which turned into a full-fledged credit crisis which prompted some creative actions from Dr. Bernanke and his cohorts at the Federal Reserve. As domestic interest rates moved lower thanks to the Fed attempts to stave off recession, the dollar was devalued against foreign currencies and investors scrambled to hedge portfolios; some turned to commodities, most notably energy. Oil prices surged through the proverbial roof as "expert" after "expert" began making seemingly outrageous prognostications. Gasoline followed in lockstep so that hardly a traveler could afford that well-deserved summer vacation. To add more complications to the equation, these economic and energy dramas were playing out in the midst of a Presidential election year that featured a couple of prior dark-horses touting "experience" vs. "change."

A Time for Change…The Economy (and Credit Crisis)

When the subprime crisis started picking up steam last summer (2007), the water-cooler discussions revolved about prospects for the dreaded "R" (recession) word as the housing slowdown negatively impacted the manufacturing sector and the labor markets as well. The almighty consumer, who accounts for two-thirds of the activity of the economy, went into hibernation as they grew fearful for their jobs and held off on any major (and even minor) purchases, much to the chagrin of the nation's retailers.

Dr. B. and friends jumped into action and lowered the fed funds rate seven times from September 2007 to April 2008 to 2.0%, its lowest level since late 2004. Additionally, the Fed engaged in a few other "creative" actions at a time investors were growing quite nervous about the economy and ever-expanding credit crisis. The Fed even played a crucial role in J.P. Morgan's acquisition of one-time investment giant Bear Stearns. A virtual "who's who" of global players combined to write down over $300 billion in assets with Countrywide, Citigroup, Merrill Lynch, UBS, Morgan Stanley, and Lehman Brothers leading the charge.

Policy-makers walked a fine line between the two seemingly contrasting fears of recession and inflation and became content to sit back and watch, while the prior stimuli took effect. Bernanke believed that the $168 billion fiscal stimulus package as well as the Fed's own rate cuts would positively impact the economy by the second half of the year and into 2009. On that note, consumers took those government rebate checks straight to Wal-Mart and Costco as discounters weathered the slowdown better than department stores and luxury retailers. With inflation taking a higher priority on the radar screen, Fed watchers expect the next move in rates to be higher.

A Time for Change…The Energy Crisis

Initially the weak dollar was blamed for much of the energy woes; however, political turmoil in Nigeria, South America, the Middle East and elsewhere also contributed to the rise in oil prices. Despite the price gains (and President Bush's pleas), OPEC refused to lifts its production targets as ministers blamed the U.S. for failed economic policies. Noted Goldman Sachs analyst Arjun Murti became the first to go on record as saying that crude at $200 per barrel over the next two years was well within the realm of possibilities.

Suddenly, the country became immersed in a great debate over fundamentals vs. speculation. Currently, the world is producing AND consuming approximately 87 million barrels of oil per day, and even the most math-challenged among us can figure out that leaves no excess supply. On the flipside, conspiracy theorists cried wolf that prices were running without any regard to true supply/demand issues. They pointed to escalating trades in commodity (petro) futures indexes and made Internet bubble comparisons as explanations for the wild price swings.

While both arguments have merit, few cared about the main cause of the surge in prices and instead remained most concerned about the prospects for skyrocketing inflation. Drivers watched gasoline prices soar past $4 per gallon just in time for the summer (2008) travel season. In fact, RBC Capital released a survey that showed 90% of Americans are altering their spending patterns to cope with the new price realities, a stat that may impact the retail side of the economic equation.

A Time for Change…The Election

With the economic and energy challenges fresh on the country's collective mind, this campaign season takes on an even more important role; the only surety is a change in the residents of the White House. Who is most capable of leading the country through these current dual challenges? Who can relate best with world leaders on foreign policy issues, while navigating the economy through the inflationary and/or recessionary storms? While both candidates have preached "change" and expressed interest in staying positive throughout, their respective campaigns have engaged in much of the same partisan rhetoric.

With no incumbent President on the ballot, the Congressional elections take on even greater importance as Democrats look to control both the executive and legislative branches. Meanwhile, Republicans hope for split parties leading the two branches so that "gridlock" will remain the norm in the Nation's Capital. Typical themes spark partisan bickering as Congressional incumbents and candidates looked to some traditional culprits/victims (Big Oil, OPEC, Wall Street, unions, environmental lobby, etc.), while pandering to their partisan bases.

A Call to Action…

That was Then…This is Now. The times are definitely changing. During such periods of uncertainties, individuals often look to a calming presence, someone who can ease fears and instill confidence. So, let your financial consultant help guide your paths to achieving your goals and objectives and provide some comfort during these uncertain times.