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"THE NEW DEAL - AGAIN?"

By Craig T. Callahan, DBA, Founder and President

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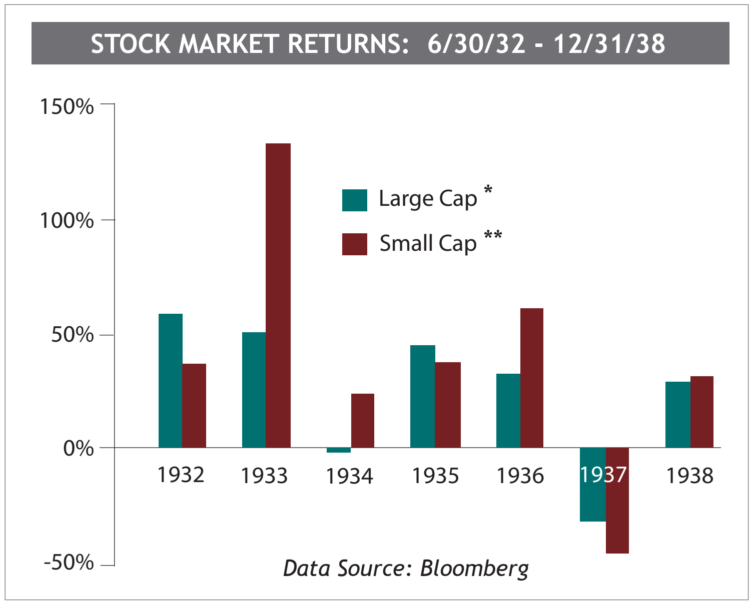
Part of investor skepticism centers around the Government's fiscal stimulus package and the surrounding debate over whether it will jumpstart the economy. Let's look back to another time the Government passed a controversial stimulus package during a troubled economy—the Great Depression and FDR's response with the New Deal. It is important to first point out that economic and financial conditions are not as bad today as they were back then. As the U.S. entered the Depression, the Federal Reserve's (the "FED") failure to respond quickly to the financial crisis was tantamount to tightening U.S. monetary policy. In contrast, the FED has been easing monetary policy since August 2007.

Furthermore, unemployment in the 1930s reached 25%, whereas it is expected to peak around the 10% range in early 2010. Finally, during the Great Depression, unlike today, there was no Federal Deposit Insurance Corp. (FDIC) to insure bank deposits. Fear drove the run on banks during the Depression, and depositors lost their savings when banks failed.

While economic and financial conditions were much worse during the Depression than they are today, the political scene and disagreement surrounding FDR's New Deal and President Obama's stimulus plan are similar. With the 1932 election, there was a shift to a Democrat in the White House and a Democrat-controlled Congress. The stimulus programs under FDR were criticized as "socialism" (just as they are with Obama) with many fearing the Government would take a bigger part of people's lives. The Supreme Court even struck down some portions of the New Deal as unconstitutional. Just as they are today, fiscal conservatives were leery of the budget deficits accompanying FDR's programs. Proposed regulations for investment, securities and banking industries, which we now take for granted, were criticized as extreme and likely to paralyze those industries. Today, however, we hear calls for ever greater regulatory reform for those industries.



Defined as the stocks that make up the S&P 500 Index.

***Defined by Ibbotson as a portfolio of stocks represented by the fifth capitalization quintile of stocks on the NYSE for 1926-1981.*

Past performance does not guarantee future results.

SEPARATION OF PHILOSOPHICAL AND SOCIAL VIEWS FROM INVESTING

We believe the salient question for investors today is "What happened to the stock market during the New Deal?" The graph above shows annual returns for large cap stocks and small cap stocks from the Ibbotson database from 1933 – 1938 and the six month returns for those indexes for the second half of 1932. It appears that aside from the politics and social considerations, the stock market liked the New Deal.

While stock prices normally lead the economy by six months at turning points, in 1932 the lead time was nine months. The low point in economic activity, as measured by a variety of statistics and the end of the economic decline as declared by the National Bureau of Economic Research (NBER), was in March 1933. Leading by nine months, the stock market hit its low at the end of June 1932.

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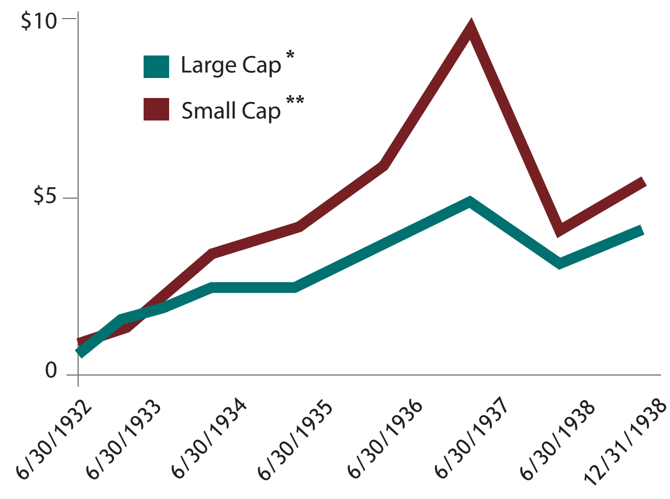
We can only guess that the earlier than normal spurt in stock prices this time around was in anticipation of the November election results. President Roosevelt was inaugurated March 1933 and most of the New Deal legislation was passed in his first 100 days in office. Except for a temporary setback in 1937, the stock market otherwise advanced concurrently with the New Deal stimulus programs.

The chart at right shows that one dollar invested in the large cap or small cap indexes on June 30, 1932 in anticipation of the New Deal, would have grown to $4.14 and $5.43, respectively by the end of 1938.

SUMMARY

We do not believe today's economic and financial problems are as dire as those in the 1930s. The political and philosophical debates surrounding the crises and how to resolve them, however, are quite similar. Nonetheless, we are optimistic the stock market will eventually respond favorably to government intervention today, just as it did under FDR's New Deal.

GROWTH OF $1: 6/30/32 - 12/31/38



Data Source: Bloomberg

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Investing in securities involves risks, including the risk that you can lose the value of your investment.

The unmanaged Standard & Poor's (S&P) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market.

Gross Domestic Product (GDP), also known as Gross National Product (GNP), is the total value of goods and services produced in the national economy in a given year. It is the primary indicator of economic growth.

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