

# BEALL

Financial Planning • Wealth Management

2009 Spring Special Report

## “What If? Analysis”

I mention the “What if? Analysis” in the *Two Years ago...* article in our Newsletter. This is our top down analysis of the present situation and what the future holds. To update the “he can’t see the forest for all the trees analogy” We look not only at the trees and forest but the socio-economic ecosystem as a whole. Much like any ecosystem if one part gets out of balance it can throw the whole ecosystem out of whack. The financial markets have thrown the system out of balance.

Instead of letting market forces (capitalism) fix the ecosystem the government is trying to fix it. All the while not knowing if the fix will work or even if they will do more harm than good. For example, it is only now after a few decades and much research that we know that FDR’s policies actually prolonged the great depression by 7 years. We will not know how well the current government intervention works out for a few decades.

Since a client’s portfolio must last for several decades at a minimum; our planning must take into account trends and issues that will play out over decades.



### *Our Ecosystem*

Here are a few of the larger known trends for the next couple of decades: Biotechnology, Nanotechnology, Genetics, Quantum technologies, Energy, Infrastructure, Education, Open versus Closed Systems, Data Management, and Environmentalism. These and other trends are all interconnected in the same way your body’s systems all work together. They all will impact each other on some level.

I am going to outline very simple top down analysis of one trend that will have a large impact. Biotechnology is undergoing a revolution as the price of computing power and information storage plummets. We can already grow new ears, skin, livers,

and stem cells and even new life forms. We have machines that can operate on a beating heart. We can take incredibly detailed pictures of our insides. We are in effect moving from a system set up to pay for the treatment of a disease or a condition to a system that diagnoses and prevents the disease or condition alongside the ability to treat and cure a disease or condition.

Implications: Longer healthier lives that will further strain entitlement programs like Social Security, pensions and Medicare. Portfolios will need to last longer and be more dynamic in reacting to changing lifestyles and socio-economic conditions. Initial costs are high and will fall with demand. Friction occurs between beneficiaries of the old system and the new developing system.

Drilling further down, the longer you live the more you will be able to enjoy the benefits of the new biotechnology research. AIDS and many cancers are no longer a death sentence due to better biotechnology. Today, you can have your DNA genotyped for \$399 in 10 weeks and the price is falling and the time shrinking between taking the test and getting the results.

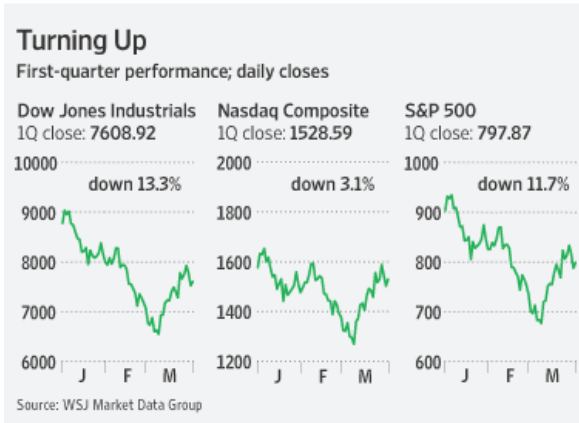
Portfolio implications: Short-term is like throwing darts at the stock pages. Just look at the number of biotech companies from the 90s that are no longer around. The best bet here is an biotechnology ETF or index fund. You do not want to be in this sector if the USA makes a significant move toward socialized medicine.

Now move back out to the top level mix in the Nanotechnology, Quantum technologies, Genetics, infrastructure, Educations Systems, and Political systems. Events in one trend will either speed up or slow down progress in another trend. The Global Recession probably delayed many scientific advancements by several years as research budgets have cut and struggling startups have closed. You cannot ignore these trends as they will affect not only your lives on a personal level but also your portfolio. I know that just as the internet has completely changed the way my job is performed that there are trends on the horizon that will totally change my job in about ten to 15 years. That would be about age 50-55 for me or what used to be considered your prime earning years. It both excites and scares me.

Some of the practical implications are that we start with the assumption every client over age 25 will live to at least 100 whether they want to or not. Everyone under age 25 will live to 150 or longer in relatively good health. This has far reaching implications for portfolios and for years spent working.

## The Markets:

The year started off rough with two straight monthly declines and then March took off with a bang rising the most in any 4 week period since 1933. The stock markets are still down for the quarter. Only IBM, Home Depot, and Intel had a



positive return of the thirty stocks in the Dow Jones Industrial Average. Many investors expect the markets to retest their lows for the year as the fundamentals are not there to support the March rally.

## Inflation:

There are many widely divergent opinions on where inflation is headed. Below are the leading views and our more blended take on Optimist-Realist inflation view. The Optimists believe that lowered demand and the loss of jobs will offset the money being leveraged into the global financial system by governments worldwide to inflate our way out of the Global Recession like Japan did in the 80s and 90s.

The Realists believe that all of the money being dumped on world markets to inflate our way out the Global Recession will lead to much higher levels of inflation. They do not believe the Federal Reserve or the governments of other countries will be able to shrink their balance sheets to prevent rapid inflation. The Realists also point out that the production capacity for energy and other commodities is being rapidly shut down and will not be able to ramp up to meet demand if it should materialize next year or in 2011. Thus leading to rapid inflation since demand will outstrip supply.

Our take is that after a period of low inflation we will have a burst of rapid price inflation in energy and commodities much like 2008 when gasoline price spiked over \$4.00 a gallon. This will potentially send us back into recession just as we are getting out of it. This is mainly due to both OPEC and others shutting down production and delaying capital intensive projects. Another possibility is that the Federal Reserve may need to raise interest rates before we have begun to fully recover to stave off rapid inflationary pressures. This would also have the effect of slowing economic growth and possibly pushing us back into recession.