

CB3 Financial Group, Inc.

presents:

“Fireside Chat – Autumn 2011”



with Charles Brown, President and CEO

**At CB3 Financial Group,
We don't just manage your assets; we *become one of them*™.**

Tonight's Agenda:

- I. *State of the Economy*
- II. *State of the Market*
- III. *The International Economy and You*

On the State of the Economy:

To summarize where we are at the 2/3 point of 2011:

America is Not Working.

On the State of the Economy:

Americans Workers aren't working.

American Government isn't working.

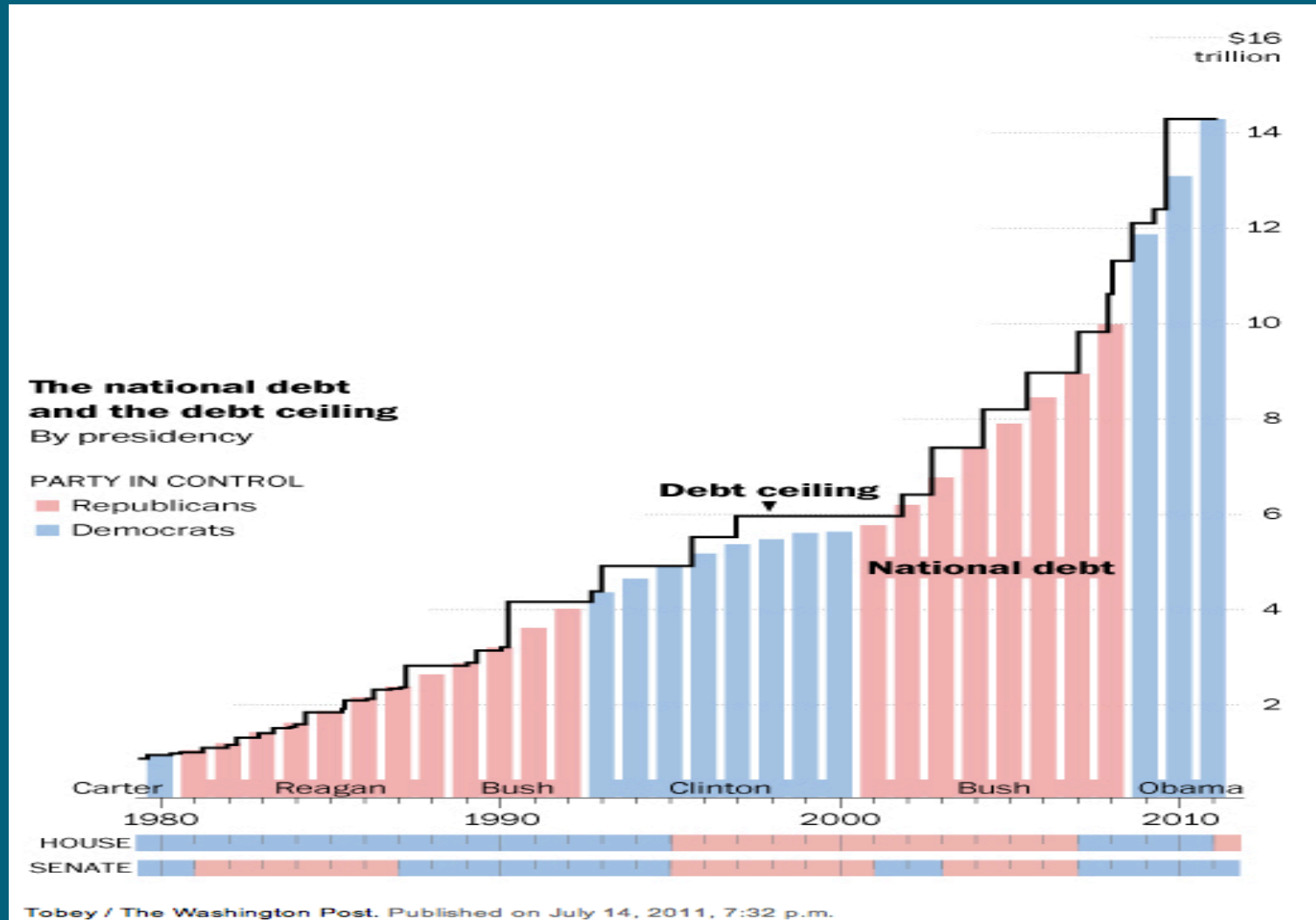
On the State of the Economy:

We are looting future generations ...

... to bribe the present generation's ...

unquenchable thirst to spend taxpayer money.

What is the State of U.S. Debt?



Questions about a “Double Dip”

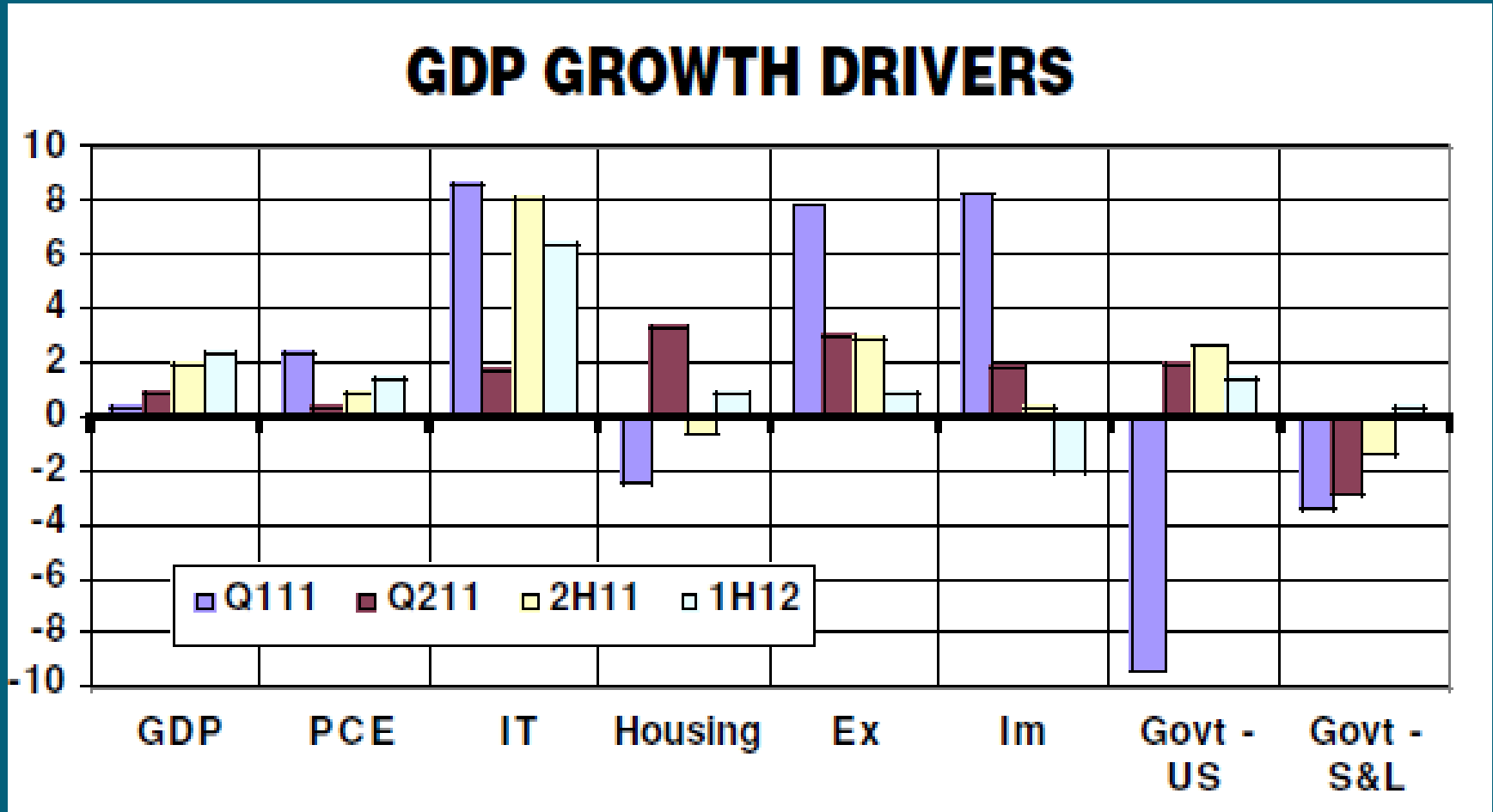
Towards Prosperity questions:

- What is the potential of a double dip recession?
- What are the key contributors to such an occurrence?
- What should be done to protect our investments during such an event?

On the State of the Economy:

- GDP increased in the **first quarter** 2011 by .4%, which is the slowest since 2009.
- GDP only increased in the **second quarter** 2011 by 1.6%.
- This growth rate is indicative of a quarter that is usually followed by a recession.
- About **70% of the time when GDP drops below 2%, a recession follows** within one year.

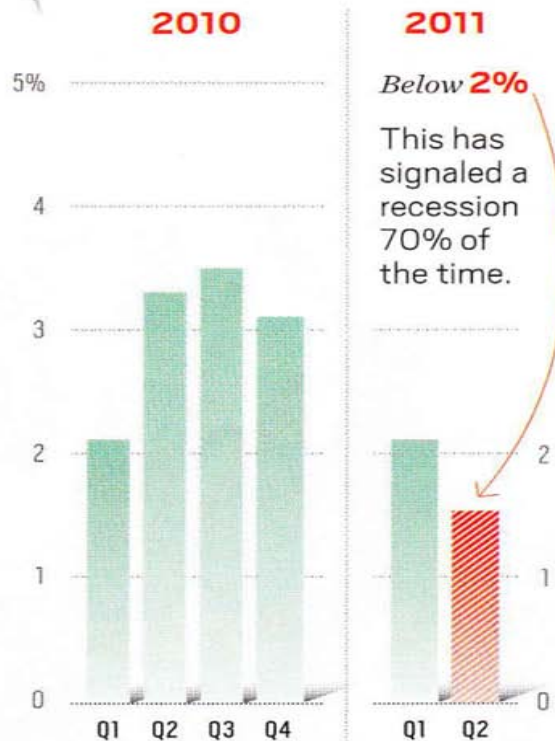
What is the State of G.D.P.?



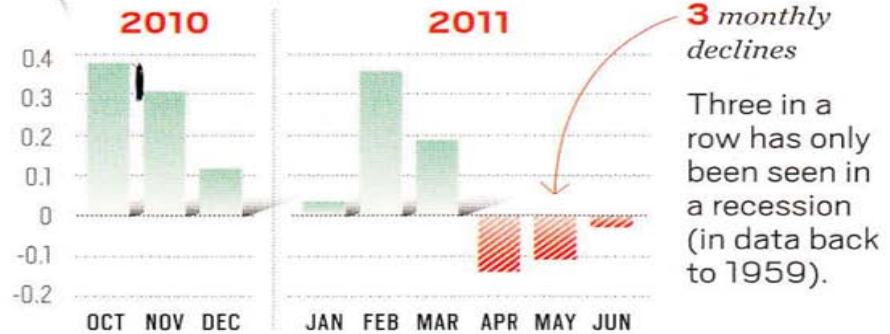
On the State of the Economy:

Recession Red Flags

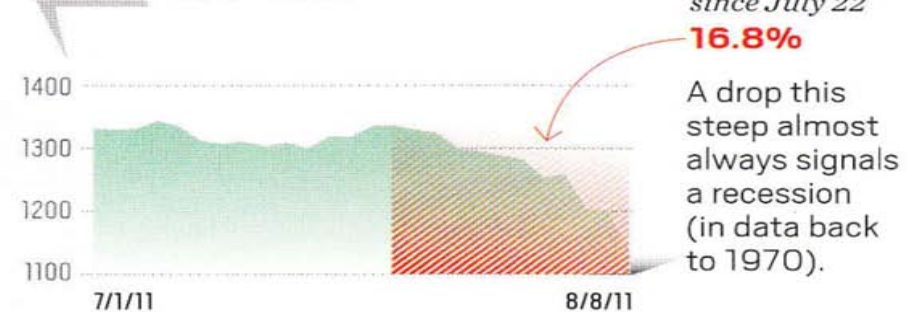
1 U.S. GDP GROWTH



2 U.S. CONSUMER SPENDING



3 S&P 500

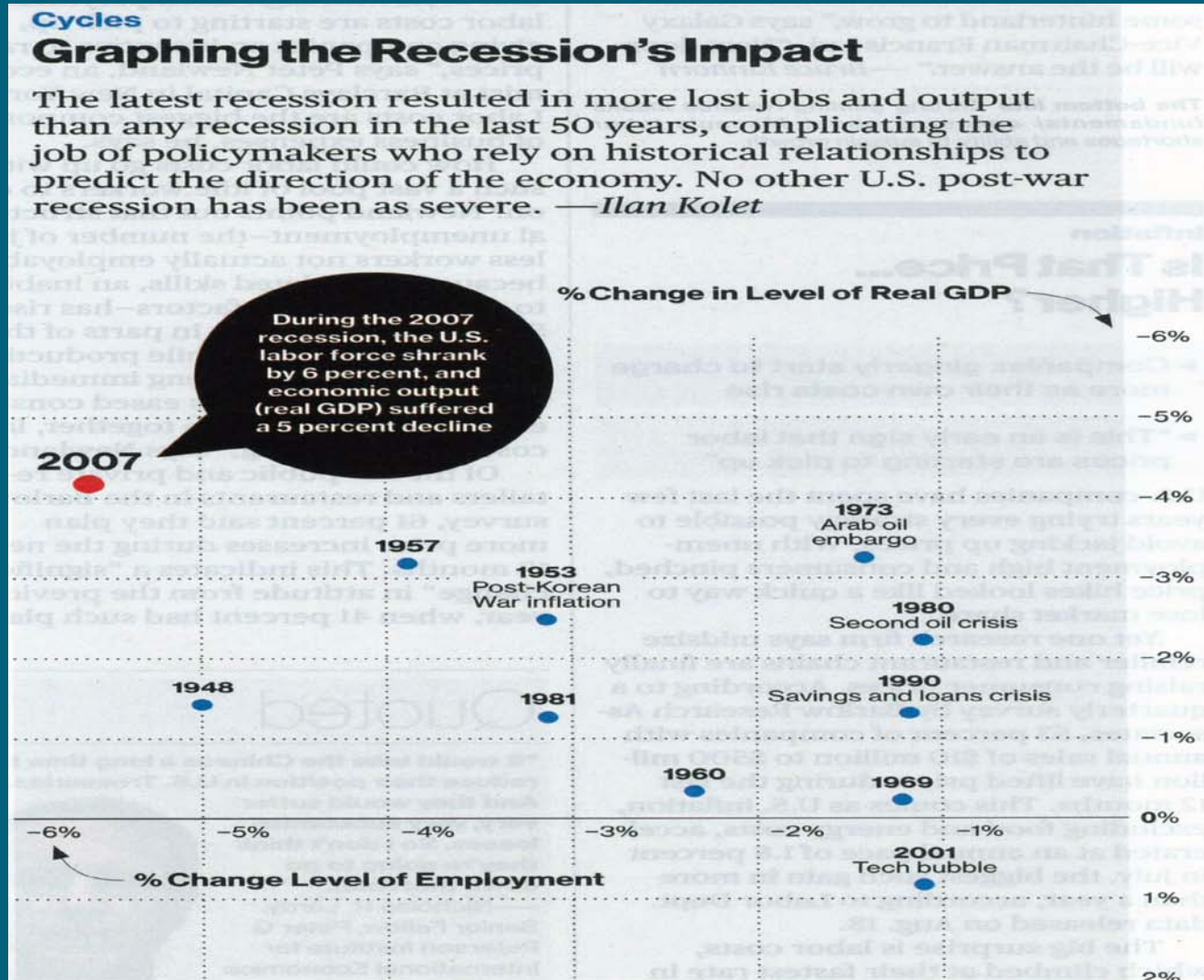


On the State of the Economy:

In the last double dip we had in the 1980s, GDP slowed to 1.2% in the last quarter of 1981 and signaled a double-dip recession for 1982 & 1983.

In 2001, the economy sputtered for two quarters in late 2002 and early 2003, with GDP staying below 2%. **That time, the economy did *not* double dip.**

On the State of the Recovery:



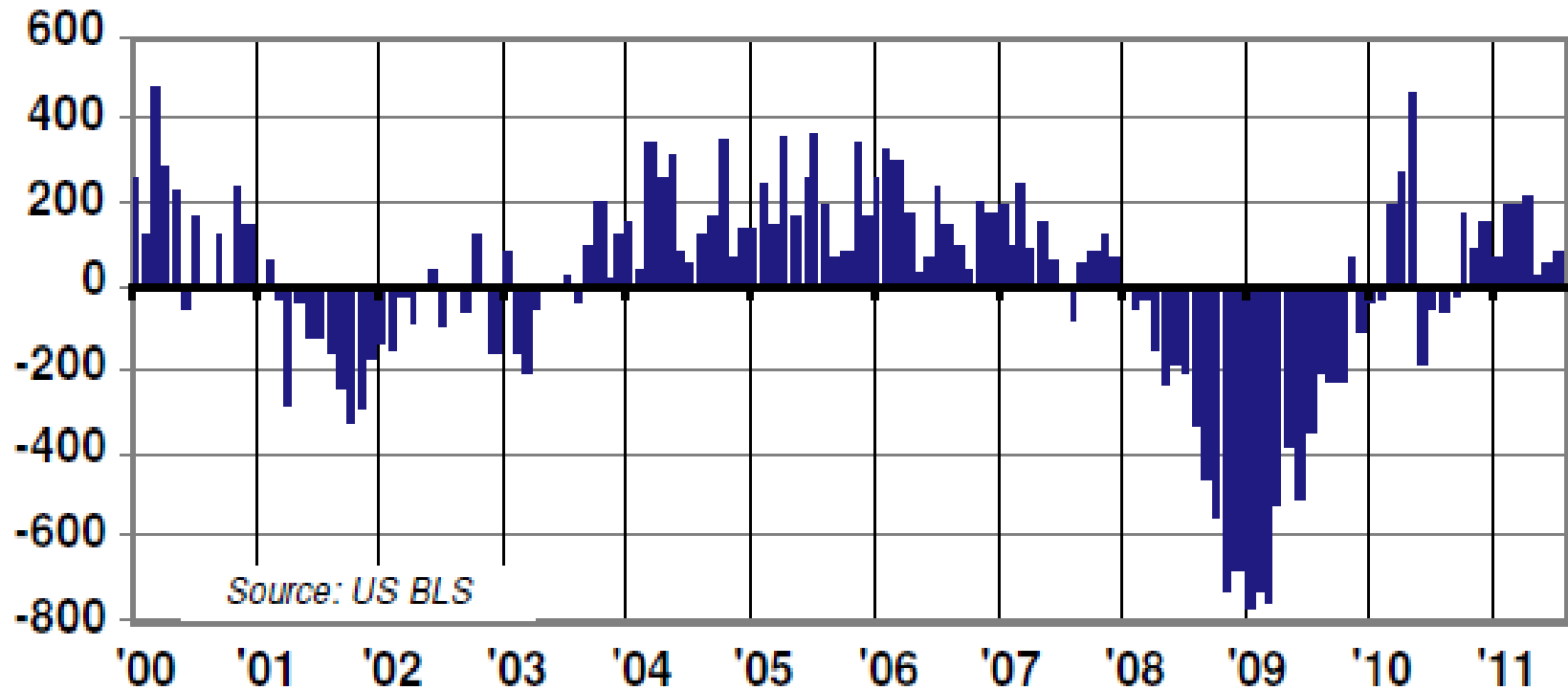
On the State of Employment:

It is all about jobs, jobs, jobs ...

*... and the fact that they are not
being created fast enough.*

What is the State of Employment?

NONFARM PAYROLLS (MONTHLY CHANGE, THOUSANDS OF JOBS)



Source: US BLS

What is the State of Employment?

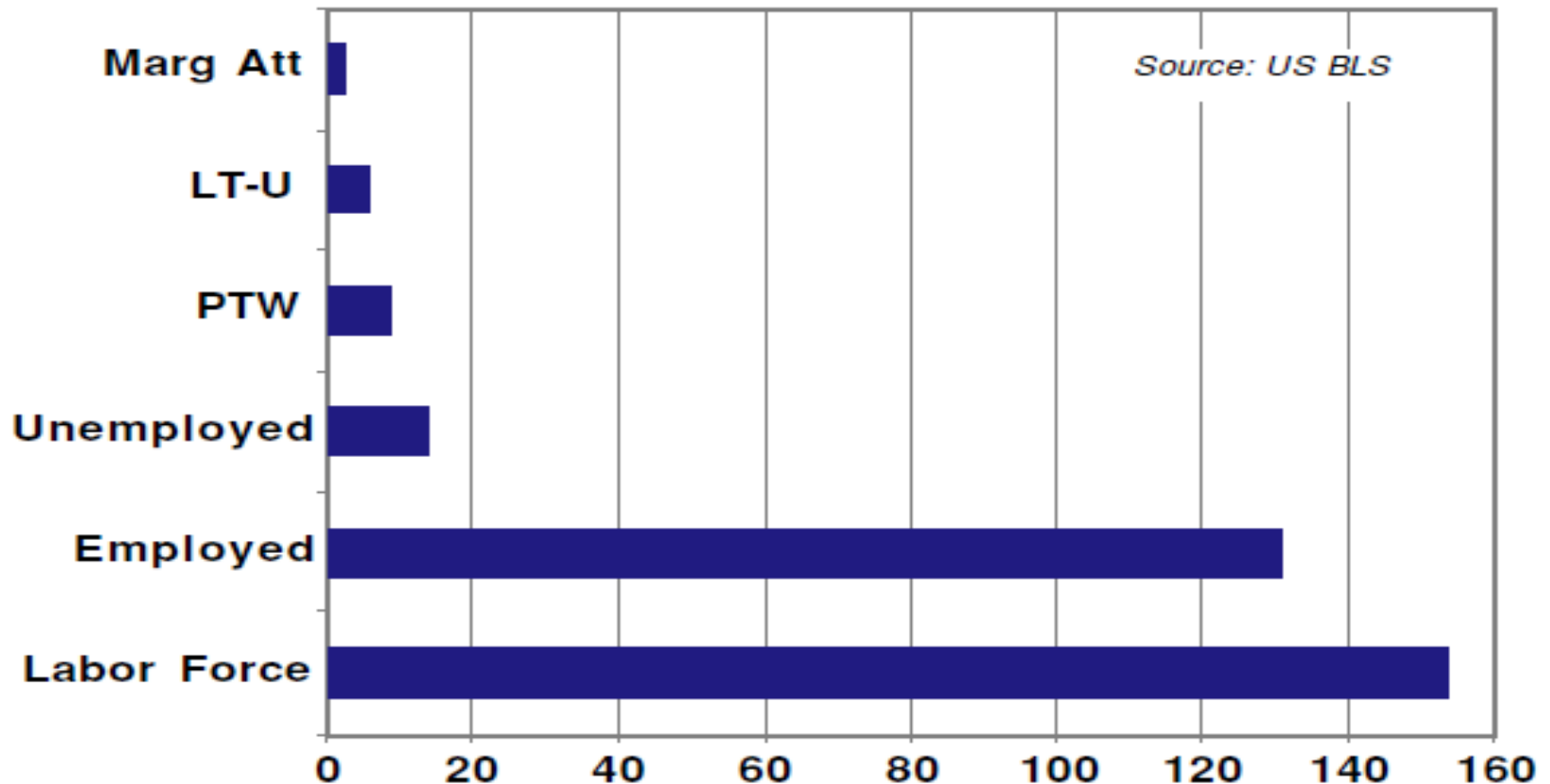
- The unemployment rate remains at 9.1%.
- While private sector employment grew, **government employment contracted for the sixth straight month.**
- **THAT, to me, is good news ... *in the long run.***
- **U.S. businesses are saving the day for the U.S.A.**

What is the State of Employment?

- President Obama has announced a \$447 billion program of tax cuts and spending initiatives that could add as many as 2 million jobs to the U.S. economy.
- The current unemployment rate is 9.1%, but if you add in the part-time workers and those who are marginally attached to the workforce, the rate rises to **16.5%**.

What is the State of Employment?

LABOR FORCE BREAKDOWN (MILLIONS OF PEOPLE)



On the State of Employment:

*In my opinion, there is no such thing
as “the American economy.”*

On the State of Employment:

*Rather, there are two Americas with separate economies — one **public**, the other **private**.*

*The economy of the **public** sector — the money it spends and the direct or indirect recipients of its spending — is the economy that seems to matter most for the Washington law makers.*

*The second economy, the one most people think of as the **private** sector, is the one that drives the health of our country.*

On the State of the Economy:

Since we last met in May, the market has pulled back.

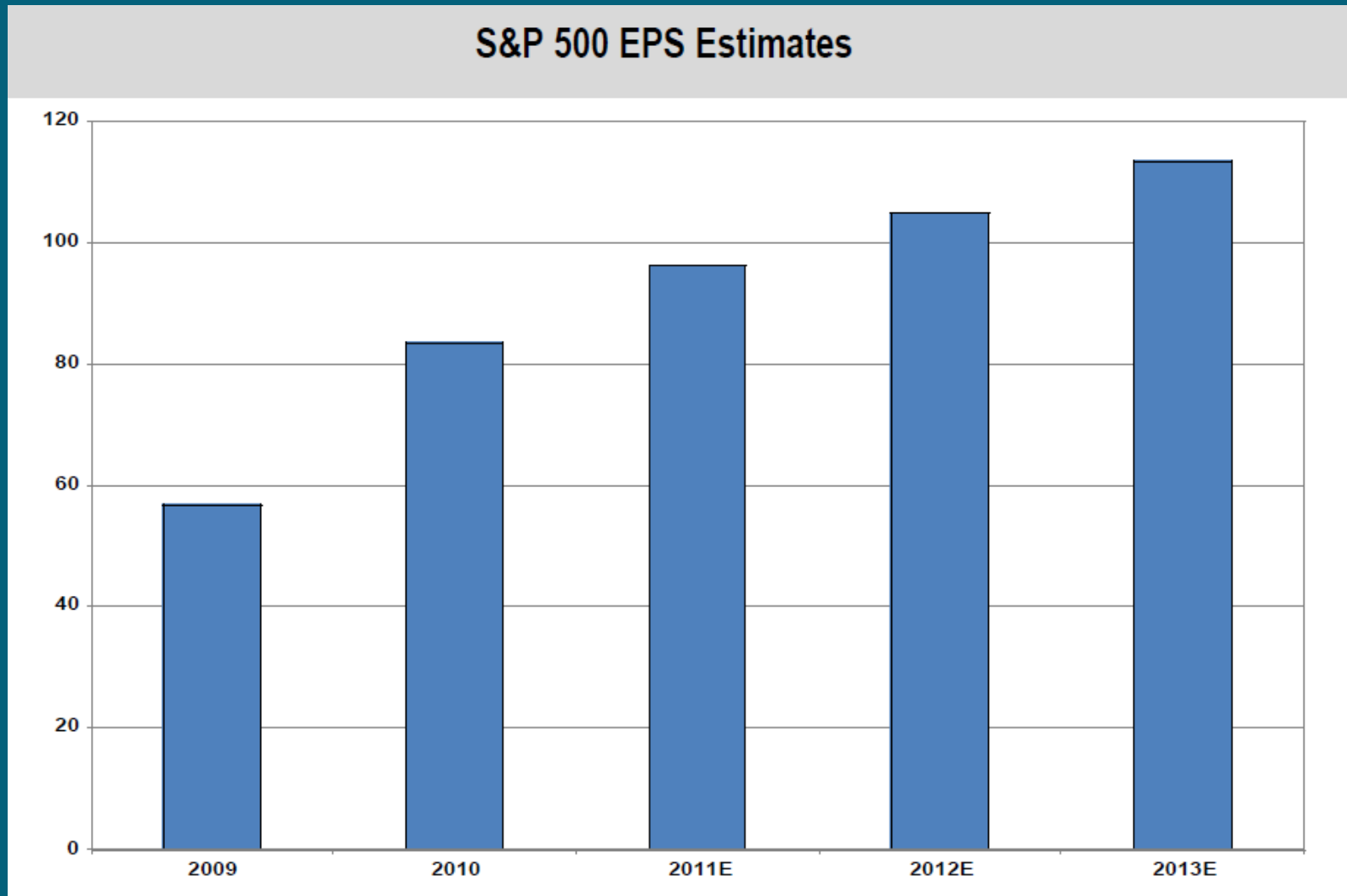
(duh)

However:

It's not a market correction ...

It's a government correction.

On the State of Corporate Profits:



On the State of the Economy:

- **Federal Open Market Committee (FOMC's) revised two day meeting ended today, Wednesday, September 21st with the FOMC Statement.**
- **This meeting was not originally scheduled to last two days but was changed so that members could spend more time debating, deciding, designing what to do with an economy which is simply not getting better.**

On the State of the Economy:

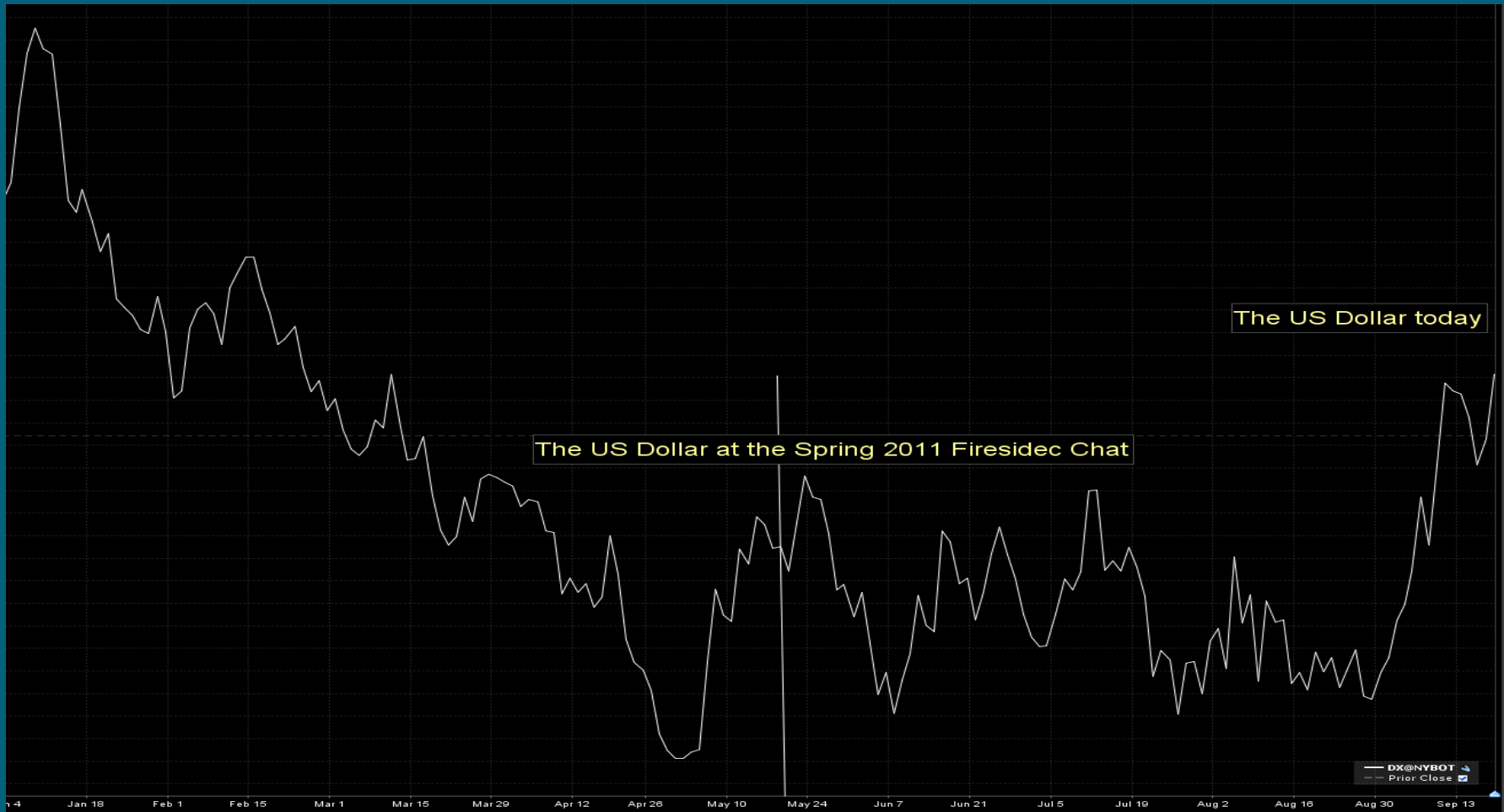
- **Operation Twist**, first used in 1961 and named after the popular dance at the time, is to lengthen the average maturity of the Fed's holdings of Treasury assets.
- They say it can be achieved by purchasing assets at the long end of the yield curve through refinancing of maturing mortgage-backed securities (MBSs) from the Fed's holdings from QE1, and by selling an offsetting amount of the Fed's current holdings of shorter-term bonds.

On the State of the Economy:

- The intended effect will be to lower long-term borrowing costs while leaving the size of the Fed's \$1.65 trillion portfolio unchanged.
- The policy rationale now, as was the case in the 1960s, is that this can stimulate the weaker U.S. economy without stoking inflation and currency debasement fears in the markets.

Are We Concerned about the U.S. Dollar?

The U.S. Dollar is stronger against the Euro than in May.



The Aftermath of the U.S. Debt Downgrade

- The market is now higher than it closed (1119) on Monday, August 8th, the first day after the markets were open to react to and trade on S&P's downgrade.
- So far, the support low from that day has held four bear attempts to break through the price floor set that day.

The Aftermath of the U.S. Debt Downgrade



Source: Reuters Data as of 9/19/11

What is the State of Real Estate?

- The Chicago area recorded a dramatic increase in the number of homes that went into foreclosure in August.
- **Notices of mortgage default**, the first step in the foreclosure process, totaled 6,239 in the seven Chicago-area counties of Cook, DuPage, Kane, Kendall, Lake, McHenry and Will in August, a 30% increase from July.

What is the State of Real Estate?



What is the State of U.S. Politics?

Who is currently the most popular politician in America?

- a) Mitt Romney
- b) Rick Perry
- c) Marco Rubio
- d) Nancy Pelosi
- e) Ronald Reagan
- f) None of the above

What is the State of U.S. Politics?

Who is currently the most popular politician in America? *(Bloomberg Poll of 1130 Americans)*

The answer is Hillary Clinton.



What is the State of U.S. Politics?

- According to that poll, Secretary of State Hillary Clinton is the most popular figure in American politics.
- Nearly two-thirds of Americans hold a favorable view of Clinton, finds a Bloomberg National poll.
- One-third say the U.S. would be better off now if she had become president in 2008 instead of Obama.

Bottom Line: the State of the Recovery

I am holding to the
“Worst-Is-Over” Theory ...

... unless and until proven otherwise.

And I still hold the belief that
the U.S. will escape a double-dip recession.

What I am Watching in Autumn, 2011:

- **First**, will the new jobs bill pass in any sort of configuration where it will actually do some good for the U.S. job market?
- **Second**, watch for earnings growth: will the 3rd quarter earnings -- beginning in a couple weeks -- continue 2011 the uptrend?
- **Third**, will Germany and the Euro-Nation leaders find a way to save Greece from seceding from the European Union?

Where are we Since the Debt Downgrade?

The Markets after the S&P Debt Downgrade:

The Stock Market fell 16.8% in eleven days ending August 8th. The S&P 500 low was Monday, August 8th, at 1119.16.

Where are we Since the Debt Downgrade?

*Only two times in history has this deep a drop
NOT signaled a recession:*

1. The Crash of October 1987.
2. The Crash of 2002.

The problem: Uncertainty can become self-reinforcing ...

Where are we Since the Debt Downgrade?

Even though the Standard & Poor's 500 has been moving upward over the past two weeks, the S&P benchmark index has been stuck in roughly a 100-point range over the last six weeks.

The DOW has been stuck in a 1000-point range during the same time period.

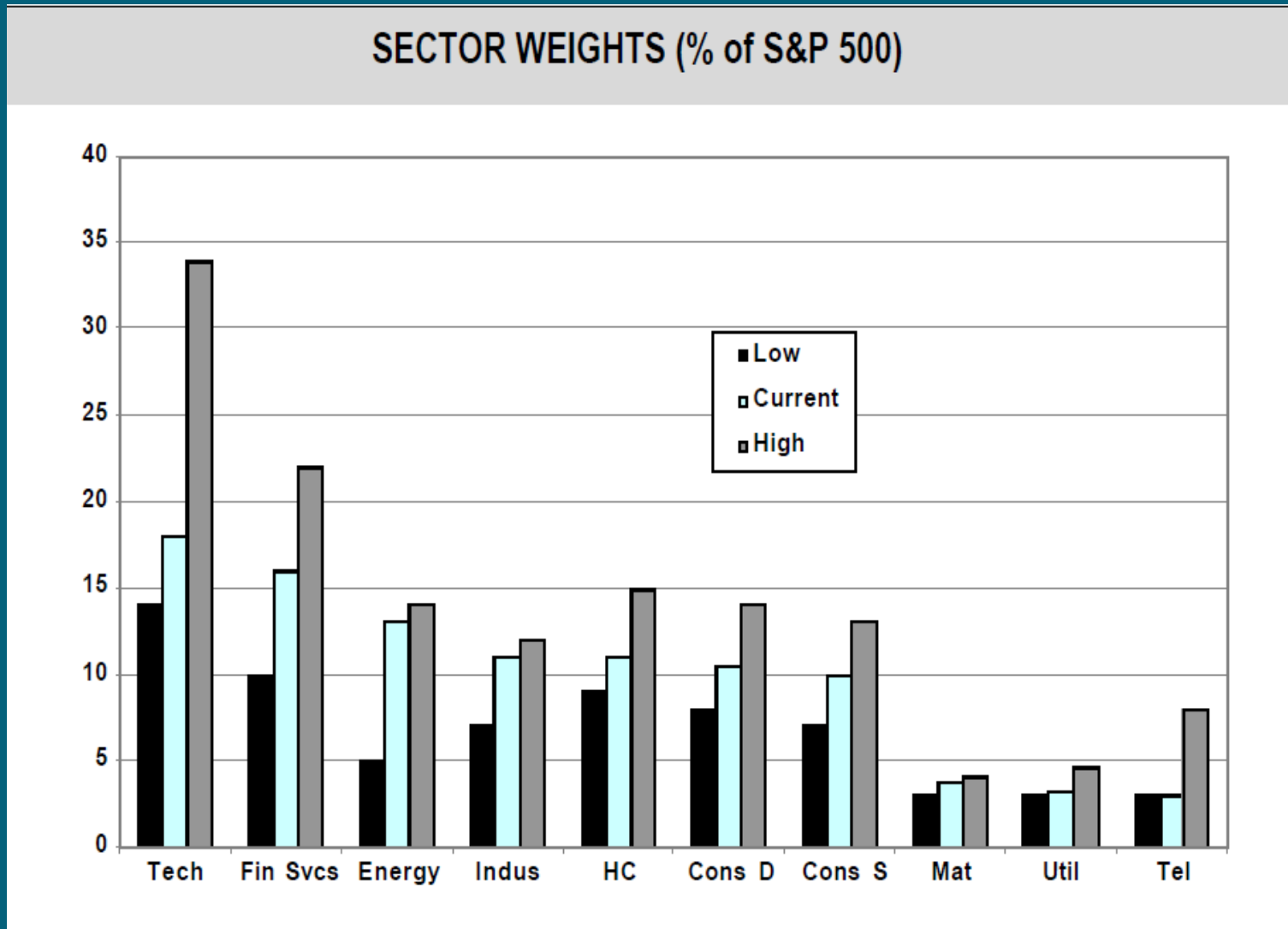
Where are we Since the Debt Downgrade?

Will the August 8th LOW OF THE YEAR hold?



Source: Reuters data as of 9/19/11

What is the State of the Stock Market?



The Commodities Surge? Maybe not ...



Where are we since the Debt Downgrade?

What's the good news?

1. On August 26th, stocks were trading at a 10.9 P/E ratio against forecasted earnings.
2. At the low of the pullback on August 9th, Americans were paying less for stocks than since any recession since Ronald Regan was President. The last time stocks by forward P/E ratio were this cheap was the early 1980s.

Where are we since the Debt Downgrade?

What's the good news?

3. If U.S. companies meet their profit estimates, the S&P 500 must advance to about 1790 (!) to trade at its average P/E multiple of 16.4. This average has held consistent since 1954 (!).
4. That would be an increase of 33% from where the S&P was trading 9/16/11.

Where are we since the Debt Downgrade?

What's the good news?

5. America is not a stagnant country. We have a relatively youthful population. Our technology and media industries are the envy of the world, and the Internet is most dynamic in those areas.
6. Europe, China and Japan, for all their attempts, have not been able to replicate our success in innovation of technology and media. We are still a great engine of innovation and growth.

What is the State of the Stock Market?

"If it's obvious to everyone,
it's obviously true that
'it,'
obviously, could be wrong."

Here's what I am Watching this Autumn:

Two Key Factors impacting Market success in late 2011:

1. Will the commodities shake-out spill into the stock market, especially into high-beta stocks?
2. Will 1119 in the S&P 500 hold as the low of 2011?

CB3 continues to invest based on corporate earnings more so than fundamental events, but we realize our ability to react with our trading decisions is more important than our ability to predict what might happen in Europe.

Questions about the Euro Union

Questions from Towards Prosperity readers:

- **Is the Euro Union Crumbling?**
- **Are their banks at risk of causing trickle down problems here in the U.S.?**
- **Should we be concerned that “contagion” from this part of the world could weaken our economy?**

Questions about the Euro Union

- As of Tuesday, Sep.20th, Greece will get its \$11bn. The markets gave up almost \$1tn waiting for that...
- World Stocks have become a “mood ring” on Greece.

(sheesh)

Questions about the Euro Union

- The treaties that created the Euro provide for **no 'opt-out' clause** in the event of sovereign default on debt.
- With a return to the drachma, their native currency, the Greek economy would be valued at about 61% of today's value. Businesses would be frozen out of the credit markets. Other countries would raise tariffs to protect themselves against cheap Greek imports.

Questions about the Euro Union

- International lenders told Greece on Monday it must shrink its public sector and improve tax collection to avoid running out of money within three weeks. Athens debt is more than 150 percent of gross national product (GDP).
- Late Monday, S & P's rating agency has downgraded Italy's sovereign debt by one notch, deepening the Euro Zone's economic woes. The agency now lists Italy as A/A-1, down from A+/A-1+ (Unsolicited).

Questions about the Euro Union

- **Greek leaders published a list of 15 austerity measures it said the was demanding the Socialist government implement to receive the next tranche of aid.**
- **They included firing another 80,000 state workers, cutting or freezing state salaries and pensions, increasing heating oil tax, shutting down loss-making state organizations, cutting health spending, and speeding up privatizations.**

May, 2011: What is the State of the PIIGS?

Here's what I said at the Spring Fireside Chat:

- *There is a high probability (80%) Greece could default. It could occur as early as this June, but 2012 is more likely.*
- *Ireland and Portugal “teeter on the edge” of default (60% probability).*
- *Greece is reportedly expected to run out of money by mid October.*

Germany on the Euro Union

“Everything possible must be done to keep the Euro Zone together. There is no other favorable outcome.”

-- Angela Merkel, German Chancellor, September 17, 2011

My Bottom Line on the Euro Union:

- EU governments are not solving things, they are kicking the problem down the road, and the snowball is growing and making the problem bigger and bigger.
- **CB3 continues to invest based on corporate earnings more so than European Events, but we realize our ability to react with our trading decisions is more important than our ability to predict what might happen in Europe.**

Please check out the archives:

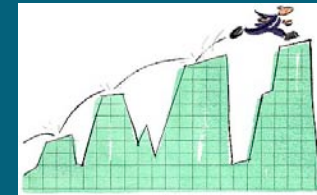
Understanding Investment Strategies

The six major strategies:

Passive



Hedged



Tactical



Non-Correlated



Strategic



Speculative



Each has a very different approach to investing. Each can be successful in different market environments.

CB3 Town Hall Meeting

Thursday, October 20, 2011

Batavia Public Library

10 S. Batavia Avenue, Batavia, IL

7:00 - 8:30 p.m.

Randy Hultgren, Member of the U.S. House of Representatives



Join us to hear from Congressman Hultgren as he delivers his personal insights on the changes occurring on Capitol Hill.

CB3 Financial Group, Inc.

TOWARDS PROSPERITY

ANALYSIS. INSIGHT. WISDOM. GUIDANCE.
IN ONE PLACE. FOR OUR TIME.

The digital commentary of CB3

Authors

While I am the primary author on this blog, I am honored to be able to present fine experts in other related fields.



CB3

Asset Manager, Financial Advisor, and Economist. He comments on the markets, politics and the world economy.



Stephen Paul

Estate Planning Attorney, Tax Law and Trust Specialist. Comments on the legal issues involved in estate planning, as well as the complexities of Tax Law, Wills and Trusts.



Alice Brown

Marketing Director/Investment Advisor Representative. She comments on financial issues relevant to today's consumer.



Diana Denton

Real Estate Broker and Residential Real Estate Commentator. She comments on the local (Chicago) and national real estate markets.



Char Elle En

Transition Coach. She comments on the non-financial aspects of retirement readiness, insuring enjoyable retirements and proud legacies.



Dr. David Gursky

Clinical psychologist and author. He comments on the psychological aspects associated with investing and managing risk.



Linda Strohschein

Estate Planning Attorney and Elder Law Specialist. She comments on the legal issues involved in estate planning as well as the special needs of the Elder Law practice.

What is Prosperity ?

Prosperity (prɒs'pɛrɪtee):

A successful, flourishing, or thriving condition.

It is **the increasing sum of all our blessings**, to include health, friendships, family, charitable efforts, and, yes, financial wealth.

CB3 Financial Group, Inc.

Thank you for attending the:

Fireside Chat – Autumn 2011

We'll see you in January, 2012!

**At CB3 Financial Group,
We don't just manage your assets; we *become one of them*™.**