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A Challenging Environment

BY DENNIS C. ROGINSKI

The author of a recent *Wall Street Journal* article mentioned that a certain wealthy banker bought a case of wine for $120 in 1962. Today that same case of wine sells for $117,000. Are some of you wishing you would have bought 10 cases of this wine in 1962 for $120 each? If you had, your investment would be worth $1,170,000 today. Not a bad investment! But a more revealing question is: would you have had the discipline to hold your investment for 45 years during both up and down markets in the wine industry (not to mention resist temptation to uncork a bottle)?

We learn from this "liquid" asset investor that it was wise not to sell his wine during a down wine market but to hold onto it for continued appreciation.

I will admit in today's market it's a little harder to keep a long-term perspective. We are constantly bombarded with media sound bites about what the market is doing minute by minute. We have access to hundreds of internet sites that will give us investment advice during a bear market. We can subscribe to all kinds of newsletters that give us lists of the best stocks to buy—with promises of wealth.

I think there are only two ***basic*** choices when it comes to your money: If you think the U.S. economy is going to totally crash then the best place for your money would be in your mattress. If you think the economy will eventually recover from this bear market then most of your money should be invested.

I fall in the latter camp, but I do think we are in a very challenging environment. Here's why. High oil and food prices are contributing not only to domestic inflation but to global inflation on the premise of weaker growth. This forces global central banks to walk a fine line when it comes to interest rates. Raising rates in order to ward off inflation during slack growth might bring inflation into the central bank's comfort zone, but it may also make an already weak economy even weaker. Raising rates increases borrowing costs for corporations at a time when corporations are cutting costs by closing factories and laying off workers. And with inflation, corporate earnings can be misleading, due to higher reevaluation of inventories, but contributes nothing to operating results.

Then there's the consumer. Despite an increase in consumer spending in the three months ending in May (due to the economic stimulus checks), a combination of tighter credit, tapped out home equity loans, slumping housing values, a shaky stock market, and layoffs that first started in the housing industry but have seeped into other sectors, I don't see anything except a pullback in consumer spending—even though the consumer has been fairly resilient up to this point.

I think all this points to anemic growth for the second half of the year and continuing into the first half of 2009. Inflation should start to abate during the third and fourth quarters of this year, and eventually, housing prices will bottom out and banks will ease up on credit. This should bring home buyers back to the market.

I wish I could pick the absolute tops and bottoms. But studies have proven that this is impossible to do consistently. That is why most of my money is invested.