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The Great Recession of 2008-2009

The Great Recession of 2008-2009 was intensified by the bankruptcy and collapse of Lehman Brothers. As a top tier M&A consultant, equity and bond underwriter, and one of the largest participants in the credit default swap market, Lehman was a leading, and respected, 159 year old American global investment bank. Unfortunately greed was allowed to distort Lehman's management and investment decisions. The excess leverage undertaken on real estate, commercial mortgage-backed securities, and sub-prime mortgage paper, resulted in its collapse the moment the economy slowed. On September 15, 2008 Lehman Brothers became the largest bankruptcy filing in U.S. history. In a number of ways their situation directly corresponded to the state of the U.S economy as a whole. The next year will be critical for the economy as the massive economic stimulus package takes effect.

Although it is too early to call an end to the recession, there is stabilization in a number of indicators, suggesting that the economy may be forming a bottom. Unemployment continues to increase, but at a much lower rate. Factory utilization remains flat with nearly 40% of industrial capacity unused. Imports and exports, down some 20% overall, also appear to have stabilized. Stock prices are up 50% from the lows. Home prices slowed their descent and were reported to be flat for the month. This is very good news, as individual wealth is often created through home ownership.

Should this indeed be the turning point of the recession the question becomes: how long will the recovery take and what are the likely consequences to the economy? It has been suggested, by a few top investment managers, that, for the next 3-5 years, investment returns will remain sub-par and US GDP growth will likely be in the 1%-2%. However, it is unlikely wage inflation and the ensuing price inflation will return until factory capacity utilization is above 80%. Additionally, the resumption of world GDP growth will cause commodity consumption to increase as aggregate world demand increases.

While total economic collapse was avoided in the short-term, by a significant increase in government spending, risks remain on the economic horizon. Perhaps the greatest danger, and risk, to United States investors going forward is monetary inflation. The Fed's drastic increase to the money supply, in order to finance increased government spending, will ultimately have a significant impact on the purchasing power of the American dollar. The dollar will likely continue to decline on a relative basis to stronger currencies, increasing the cost of imports but helping reduce the cost of exports.

With these economic themes in mind, Summa Global Advisors will continue to allocate your capital to mitigate the risks that have been created by the recent financial upheaval.

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