Commercial Corp Finance

www.CommercialCorpFinance.com
566 W. Lake Street, Suite 3-W, Chicago, IL 60661

Gary S. Meyers, President
GMeyers@CommercialCorpFinance.com
Direct: 847-580-4260 Private Fax: 847-557-1260

Commercial Corp Finance,
D/B/A of Gary Meyers Realty, Inc., founded 1977.
Provides Real Estate Consulting and Lending Service.

Issue date: April 16, 2012

THE MEYERS REPORT

by Gary S. Meyers and Robert Genetski, Ph. D.

Exorcise the Keynesian Demon

John Maynard Keynes
5 June 1883 - 21 April 1946

A full 66 years after his death, the spirit of John Maynard Keynes still possesses the minds of many of the world's economists and national policymakers. Keynes economic icon demon instills an irrational fear that cutting government spending will undermine economic activity, while history rationally demonstrates the opposite.

Nobel Laureate Milton Friedman once lamented about how a generation of economists accepted the concept of government stimulus without evidence to support it. Make that three generations and it is being played out now in Europe and here at home.

On blind faith, and seemingly possessed by an irrational demon, many economists and policymakers continue to accept the notion that government spending somehow stimulates economic activity, and that cuts in government spending are destructive. Yet, there is no reliable evidence to support the sound and fury of the rhetoric used in calling for increased government spending.

The idea that government spending automatically stimulates economic activity ignores fundamental economic truths. Classical economists conceptualized these truths in the simple phrase—***"supply creates its own demand."*** Here is how it really works:

Only if you ***"supply"*** something of value can you create the buying power needed to buy what others produce. Buying power created by producing something of value is the only legitimate means of acquiring what others produce. There can be no true demand unless the there is a capacity to pay for it. Hence, ***"supply"*** creates the capacity to buy, ***"demand."***

In the old days, if you wanted a goat, you might have to raise ***(supply)*** five chickens to pay for it. Without the chickens, you weren't getting the goat and there would be no commerce (***demand***). Supply and demand are two sides of the same coin. Today, Dollars, Pounds, Francs or Yen are the usual currency rather than barter, though the principles of barter remain as the basis for all real transactions.

Supply creates its own demand also implies a second, closely-related concept—**when we produce something of value the spending power we earn can only be used once.** To spend again, we must produce again. This is the first practical economic lesson most children learn. Once you use your money to buy one thing, it is not available to buy something else.

The income earned creating goods and services provides us with the spending power necessary to buy the things we want. How we choose to use our spending power directs the flow of resources.

The theory surrounding fiscal stimulus violates these basic economic concepts. To spend for public purposes, politicians must first take the spending power someone earned through creating goods or services. Politicians do so by either taxing or borrowing the funds used for government spending. In either case, those whose efforts created the funds cannot spend them. You cannot spend the same money twice. Hence, federal spending cannot add to private spending. It can only replace private spending.

For government to have a positive impact on the economy its spending must be more productive than if the funds had been spent by those who earned the spending power. Less federal spending shifts the use of those funds back to the private, productive sector. Evidence suggests this shift strengthens the economy's underlying fabric and promotes prosperity.

Not only have periods of rapid growth in federal spending tended to be associated with sluggish growth, high rates of unemployment and disappointing economic conditions, but the opposite has also occurred. Periods when federal spending has either declined or grown slowly have tended to be periods of rapid growth, low unemployment and widespread prosperity.

Policymakers shouldn't fear cuts in federal spending; they should fear not cutting federal spending. It's long past time to exorcise the demon Keynes.

THE MEYERS REPORT Economic Notes

Retail Sales

Retail sales results released today reflect a much stronger than expected March advancing 0.8% following a 1% increase in February.

The gain in autos was the big surprise. Motor vehicle sales gained 0.9%, following a 1.3% increase in February. This contrasts to a sizeable dip in unit new auto sales. With enouragement from the atypical warm March weather the standouts, excluding autos, include building materials, garden equipment, furniture and home furnishings, electronics, appliances, and clothing.

Expansive Monetary Policy Continues

The Fed has just released its reserve numbers for March. Interestingly, bank reserves (after allowance for excess reserves) fell by $10 billion. These numbers bounce around a lot so one month's move isn't all that meaningful. Moreover, even at the latest monthly reading of $130 billion in reserves, the number is up 15% from a year ago...still a fairly expansive monetary policy.

HUMOR

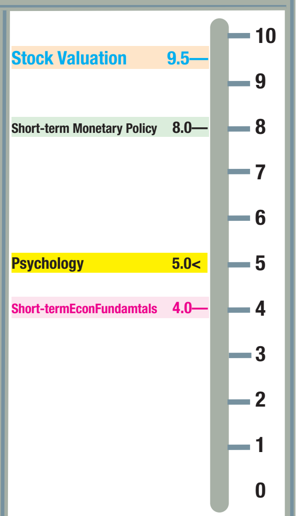
The IRS! We're not happy 'til you're not happy.

I don't need to simplify my life. The IRS already did that for me!

Got the IRS hair cut today. A little off the sides, a little off the back, and *too* much off the top!

Robert Genetski's Weekly Financial Update & Stock Impact Gauge

	Fundamental	Actual	Immediate Outlook
Fixed-income: 10-yr Treas.	5.0	2.03	slightly higher
Equities: S&P 500	2000	1388	neutral
Equities: Dow Jones	16,000	12,987	neutral



Ratings for forces impacting stocks
10 is best
— means no change
> change for better
< the other direction

I'm recommending moving from fully-invested to neutral in stock portfolios. While I expect the market will go higher, technical indicators have weakened. This raises the risks a decline in stocks. Fundamentals remain strong so I suspect any weakness, if it occurs, will be relatively short-lived.

Market Outlook In spite of the market rally, major stock indexes were down this past week. Losses ranged from ½% for the Dow to close to 2% for the overall market.

The recent weakness has brought the 10-day average below the 50-day for the overall stock market, the Dow and the Russell 2000. These indexes are flashing a warning of a further decline in stock prices.

In contrast, S&P 500 and the NASDAQ have avoided the 10/50 negative cross. In a positive sign, the NASDAQ hit its 50-day moving average on Tuesday and immediately moved sharply higher. Trading volume has been generally negative with weakness on up days and higher volume on down days.

Economic fundamentals—faster economic growth and an expansive monetary policy—continue to provide upward pressure on stock prices. However, the deterioration in technical indicators is disturbing.

I have too much respect for the market's warnings to maintain a fully-invested position. While the odds are slightly greater the market will move higher, the risks have increased to the point I am recommending reducing stock portfolios to a neutral position until the technical indicators improve. When they do, I'll move back to fully-invested and accept the potential opportunity cost of having to get back in at higher prices.

Longer-term interest rates moved back down this past week with the yield on 10-year Treasury Notes back to 2.03% Friday morning. Yields on corporate bonds fell less dramatically. The recent upward trend in rates is barely perceptible after the recent decline. Even so, for the moment the upward trend is still intact and the odds of higher rates are slightly greater than those for lower rates.