<p></p> <p> </p> <p>Where does the time go?</p> <p>My son - who I still remember as this little guy who would point out the window into the back yard and say, "Outside Dirt" is now 17 years old, taller than I am, driving a car and looking at film schools for college.</p> <p>I've been at this blog for more than three years now.� What is amazing is that my writing has aged and improved with time ... and my picture to the left hasn't changed (a little blog humor there).</p> <p>I'm not afraid of my previous positions.� You and I can both go back and read everything I wrote: the points that were extremely prescient as well as the predictions that were not.� They're all there for you so you can judge whether or not this blog has added value along the way.</p> <h3>Socionomics</h3> <p>In reading over some of the articles I've posted over the years, I have become more aware of the power of social dynamics to shape the performance of individual portfolios, the stock market in general and even the overall economy.</p> <p>Robert Prechter - the present day guru of the Elliot Wave Theory and founder of a discipline called "Socionomics" - suggests that the stock market doesn't drive the economy in any true cause-and-effect way.� The stock market simply reflects social mood which is the driving force behind the economy.� As such a reflection, it can be a solid predictor of future economic change.</p> <h3>Are We There Yet?
</h3> <p>This past week, one of my favorite economists, John Mauldin, posted a blog entitled "Are We There Yet."� I wrote an article with the same title - more than a year ago.� In that article I suggested that those who hoped we were finished with the downslide in the market would still have to hold on for more bad action.� I didn't feel that the bottom was in completely.� We had not seen capitulation.� We had reverted to the mean ... but not past it.</p> <p>That would seem like a bad call on my part.� After all, the market recovered 60% from that point to the recent April high and we are heading back towards that April high again while the recent sovereign debt scare, flash crash and BP oil rig disaster seem to be subsiding.</p> <h3>Prediction Review
</h3> <p>Back in May when I wrote the article - unemployment was at 9% and we suggested that 11% wasn't out of the question.� Today we're just shy of 10% with new claims still stubbornly high, the census takers (who added to the ranks of the employed) now being let go and are on our third round of unemployment claim extensions.� Here in California, the unemployment rate is above 12%.� Nationally, the unemployment rate among young people entering the job market is a staggering 16% (or more if you include under-employed and those who opt for grad school rather than trying to find a job at this time).</p> <p>Where the prediction missed was in the relative short term time frame and the ability of our government to throw absolutely massive amounts of money at the problem (and how effective doing so was going to be in kicking the can down the road).</p> <h3>Are We There Yet - Revisited?
</h3> <p>15 months ago the question being asked was, "have we hit bottom?"� Now the question applies to whether or not we have hit a top?</p> <p>I don't know the answer to that question.� Certainly the politicians will throw everything they can at keeping things moving in a positive direction.� They all want to be reelected to office in November and will margin the future as much as necessary to make that happen.</p> <p>That could easily have the effect of keeping this Titanic afloat for a few more months - or maybe even quarters.� But when it finally ends (and it will end) it will be fantastic in a very scary and damaging

way.</p> <h3>Some New Predictions
</h3> <p>Before I get into these predictions, please understand that the one variable I cannot predict is time.� I'm pretty certain that eventually every one of the following will happen.� I just don't know when.</p> <p>--- UNEMPLOYMENT - I still believe that 11% unemployment is in the cards before this recession ends ... and it could get worse than that.� It is never good for social mood when your friends, neighbors and family members are all out of work.</p> <p>--- ECONOMY - Whether we ever got out of the last recession or not, growth in the following 18 months will be anemic.� If it stays positive, I will be surprised, but if that does happen it will be at below average levels (less than 2% GDP growth) which will feel absolutely horrible.� This is also not good for social mood.</p> <p>--- EQUITIES - By the most reliable fundamental standards, the stock market today is over valued by about 30%.� If the market really does roll over and revert to the mean, will it be able to stop when it gets to that mean (as it did in 2009) or will it go past the mean into "under-priced" territory?� Who knows, but history would suggest that at some point we will see persistent below average pricing.� Once the stock market starts to reflect the other social mood issues cited above - it will create it's own cascading spiral downwards.</p> <p>--- INTEREST RATES - A few months ago I wouldn't have suggested it, but today the probability has increased substantially that we will see LOWER interest rates in the following months.� Mortgage rates could easily get into the three's which is unprecedented.� For those who qualify, this will be a great opportunity.� For the rest of us who aren't excellent credit risks it will leave us feeling that much more bitter.</p> <p>--- TAXES - This one is baked into the cake already.� Tax rates are going up in 2011.� 60% of small business income is taxed at the highest rate - and that rate is going up almost 3% starting on 1/1/11.� Estate taxes look to be reverting back to 55% with a $1 million exemption.� Capital gains taxes will be at least 25% higher next year than they are today.� The Obama administration seems to think this won't matter to the economy.� I can't see how it will be good for social mood.</p> <h3>Add it All Up
</h3> <p>When you add it all up, there are four data points that are not good for social mood (unemployment, the economy, equities and taxes) and one that is good for some, bad for others (interest rates).� I am ignoring in this analysis any exogenous issues like war, sovereign debt crisis in Europe or a real estate bubble in China (all of which are more than possible).</p> <p>Remember, social mood drives the economy.� As long as these negative factors continue to build and until our leaders change their tune - decide to grow our way out of the problem rather than tax and spend our way out of it - the probability is great that some time in the near future (whether it is weeks, months or quarters I do not know) we will find ourselves in much worse shape than we are today.</p> <p>Are we at the top?� If not, we are close.� There is far more downside than upside risk in this environment.� Plan your finances accordingly.</p> <p><a href="http://www.facebook.com/share.php?u=<url>" target="_blank" onclick="return fbs_click()">Share This Article on Facebook </p> <div id="_mcePaste" style="overflow: hidden; position: absolute; left: -10000px; top: 1399px; width: 1px; height: 1px;"> <p style="margin-bottom: 0in;">sabotaging</p> </div>