

# LEADER CAPITAL NEWS

October 2008

## The Bouncing Ball

Volatility will continue within a range of 7,800 to 10,900 for the DOW Jones; approximately the same percentage move for the comp and S & P. We will outline what we see going forward in this newsletter.

The DOW is approaching retracements not seen since 1973 and 2001... approximately 44% (down). Our opinion is there will be a trading range between 7,800 and 10,900 into 2009... each bounce will have lower highs and higher lows until it basically flat lines (like a bouncing ball). So we believe a major up move is at hand.



(Hypothetical not guaranteed)

Interest rates over the next two years will go up in the short end (between 7% - 8%) and flat to down in the long end of the curve (approximately 5% on the 10 year and 4% on the 30 year). Hence an inverted curve, which is appropriate for a recessionary environment. Equity markets (other than traders) will offer little value as earnings and dividends will continue to come under pressure. We believe this is the reason Warren Buffet is locking in 10% fixed income plays from GE & Goldman Sachs, rather than buying equities.

Manufacturing will get a big push in the next four years under the new president...Big!!! We believe a secretary of manufacturing will be created. So, this is positive and will generate real GDP vs. what I refer to as artificial GDP which comes from lowering interest rates and giving everyone "free" money. The problem with artificial GDP is that the inflation generated is greater than the GDP and hence you get negative GDP (we just did that) Greenspan lowered rates from 6.5% to 1% starting in 2000 and figured he could pick up GDP on exports due to a weak dollar. He picked up huge trade deficits and now says he doesn't get it. So, be prepared in 2009 for a DOW that resembles Biloxi, Mississippi in the summer (slow and uncomfortable). The great depression "2" will probably be avoided because the greenback is still the only game in town...but if it wasn't for some reason we would all be meeting at the bread line. The capitalist system relies heavily on the flow of money...if it's interrupted it can be fragile.

The deleveraging process also has some unforeseen events such as much lower but steadier growth. If you put more down on a house, need more down on a car etc. you'll consume less. If wall street is paying more attention to your balance sheet than your income statement you'll fix your quick ratio etc. Acquisitions with marginal accretion (most of which is good will) is over.

So our hypothetical allocation for the next two years would be:

- 30% short term fixed income
- 20% cash
- 30% Intermediate fixed
- 20% equities

## Looking Back

In August of 2007 we suggested a sell on floating rate funds for the simple reason that these were being used as money markets and had low quality, highly illiquid securities.

In December of 2007 we published a newsletter entitled “Hooverville”. Due to the highly leveraged economy and the lack of wage growth it looked very risky in the equity and the credit markets our technical indicators pointed to a retracement back to 2002. We had no idea it would get as bad as it has gotten. Preceding the crash of 1929 was a five year “free money” can’t stop the economy attitude. It was the last time people were evicted in mass, hence the title “Hooverville”

The final macro prediction that “munis should be sold” was based on the same deleveraging philosophy... credit spread expansion...no real GDP and flat wages. Since municipalities are highly leveraged and rely heavily on public finances (and mask their incompetence with funds accounting) we see significant problems. This one has yet to unfold.

Municipalities will probably be forced onto GAAP accounting by way of legislation and consequently the federal monies they receive will be matched on efficiency...instead of zero based budgeting. We will probably see a 50% reduction in the municipal work force...helping improve GDP.

All our “conference calls” are available on our website ([www.leadercapital.com](http://www.leadercapital.com)) in summary format. We are different in our market calls in that we are forward looking and put time lines on our predictions as well as our thought process. We will continue to do so, in an effort to be transparent as well as help in other parts of your business.

## Summary

- Fed Funds 7% – 8%, next 24 months (reward savers, curb speculation, stop inflation)
- Unemployment 11% , next 12 months
- Municipal debt restructuring, next 12 months
- Banks stabilize, next 6 months
- Home prices drop 20% more, next 16 months (already in the stock market)

- Flat 2009 for equities/to down
- No depression, but a mini Hooverville

### LCCMX

- \*Current yield 8.678%
- Credit Rating AA-

### Our Mistakes

We never thought we would put money in fixed income to avoid a stock market shake out and “get hit” 6% so we have done the following to improve our process going forward:

- Treasury only money market
- 1% max per position/issuer except ETFs
- 10% max on foreign position (prospectus says 20%)
- 10% max on high yield issues (prospectus says 30%)

This will stay in place thru 2009. Create less volatility and better returns. Also, we have launched an I share to reduce management fees by almost 100 basis points (LCCIX).

Thank you for your business.



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- Gross Yield

LCCMX - LCCIX

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