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# Best plan may be to wait for prospects

Investors should be careful not to give too much importance to some illusory economic upswings

FINANCIAL FOCUS

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I saw a bumper sticker (in downtown Portland, of all places) that asked, "How's that hopey changey thing working out for ya?" Brave soul, I thought, flying such a flag here. However, it did bring to mind that folks shouldn't make investments based on hope and empty promises. Those who do are likely to be disappointed.

In the absence of anything more substantive, markets look like they are waiting for more quantitative easing from the Fed and to see what, if anything, politicians will do to avoid the looming "fiscal cliff" ("More Taxes, Less Spending" coming to a theater near you Jan. 1, 2013).

As usual, the decision makers want us to believe what they are saying. However, they are not convincing enough to give long-term investors justified comfort on where we are really going. The ongoing saga of European sovereign debt remains front and center, the U.S. fiscal cliff looms and our modern-day Nero fiddles while Washington burns.

Investors looking for cheap assets should remain patient. As mentioned earlier, investment decisions should not be based on hope and the empty promises of the political class. Next year, or the year after, there will be plenty of once-in-a-lifetime investment opportunities for those investors who have real money immediately available under literally all circumstances.

To hammer this point home, I think investors are putting too much focus on the handful of positive developments that make them feel better in an otherwise dismal economy. They need to stop focusing so much on these unimportant issues so that they can focus on the "make-it-or-break-it" ones.

By way of example, housing and autos may not be all they appear to be.

There is a great deal of attention placed on the housing market now and how this may "lead" the next phase of the recovery. Yes, there has been an uptick in housing starts of late. However, when compared to the "norm" of the last 30 years, what really jumps out is the unprecedented drop since 2008. What little improvement we do see may be more the result of government intervention than actual growth in jobs and income – which is what historically drives housing demand.

Auto sales have been up lately too. But to what extent is this actually an increase in consumer demand vs. automakers "stuffing the dealers channels" to inflate their own sales numbers? Furthermore, there lately has been an ominous increase in subprime auto loans, which have helped boost sales.

These increases, or "green shoots of recovery," bring to mind all the hoopla surrounding the big increase in jobs during the first few months of the year. Where did this go? Will housing starts and auto sales be subject to the same fate?

Fear not. If they are, the professional optimists will find some other positive indicator to focus our attention on. With the end of summer and back-to-school shopping, perhaps it will be an uptick in moribund retail sales.

Or better yet, with the end of driving season in sight, a decline in gas prices is a sure bet. Everyone knows how much more money people have left in their pockets to spend on $3 lattes and $300 sneakers when gas drops 10 cents a gallon.

In conclusion, what all this does is let people focus on the small, temporary things while ignoring the reality of a bubble economy. Thus, they cling to the fantasy that all the "wealth" they've built up in the last few decades is real. After all, if it's real, then it has to come back, doesn't it? Sooner would be better than later. Hope (and change) spring eternal!

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