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UNCERTAINTY

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Let's imagine that you have decided to purchase something that you want and feel you need. Perhaps a new car, a home, a vacation, or even an education for your child. You look around, comparison shop, and eventually find just the right thing. You then approach the owner and say that you would like to make the purchase but can't find the price tag. He says, "Oh, that's because we haven't made our final decision on that issue. You just go ahead and put it on your credit card, and by the time you get your bill next month, or maybe a month or two after that, we'll have determined the price."

Taken aback, you enquire what would happen if you decide you don't like the price. Could you return the item? The owner says, "Well, we haven't decided that either, but most likely not. There will almost certainly be some cost to you. It's just that we haven't decided how much. But we would encourage you to make the purchase anyway, because it will help the economy if you do."

Would you make the purchase?

But that is the situation every person and every business in this country faces right now.

See if you can answer these questions. They *should* be pretty simple.

1. What will your tax rate be for this year? What items will be deductible? How about next year?
2. What will the estate tax rate be in this year and in next year?
3. How about capital gains and dividends? At what rate will they be taxed?
4. Will there be minimum distribution requirements from retirement accounts this year?
5. What will it cost you to purchase health care coverage next year? What will be covered? Who?
6. Who will regulate your business next year? What new rules will be in effect? Which rules gone?
7. Who will determine or approve your compensation agreements and wage structure next year?
8. What powers belong to the President, to Congress, to the Courts, and to the states?

If you could answer ANY of these questions with certainty, then you are doing better than everyone else. All but the last item presently have bills on the floor proposing changes. That last item may surprise some of you, but when were the rules changed to allow the President, rather than Congress or the courts, to demand payment for *anything* from a private citizen or company? So, on what authority did Obama demand billions of dollars for reparations from BP?

Collectively, our largest companies are sitting on nearly \$1.8 trillion dollars in cash. That's a staggering amount of funds sitting idle on their balance sheets. Spending some of that would certainly help the economy. Every unemployed person wants them to hire and every supplier wants them to buy. The economy depends on it.

But, from their point of view, why would anyone hire a new employee when they don't know how much that employee will cost them or what commitments they might unknowingly be making to that employee? Why invest in equipment that you might not be allowed to use? When there is no confidence that the rules are clear, understood, and equally applied, then people will not act.

The questions above are so basic to the decision making process that it becomes impossible to draw conclusions or take action before you have answers. Collectively, they add up to, "How much will it cost me to do this? What is the price?" Until you know the answer to that question, you will not spend.

But we will have answers soon, and the force of our economy will be unleashed. The markets will not wait for the answers to be clear before it responds. It never waits. It always anticipates. Everything you know, you think you know, and that you "know" but isn't true is already factored into your thinking and your decisions. Only new information or opinions will alter your thinking. This is true for every single person who is or who is not invested in every market that exists.

In 1999, we all "knew" that Y2K would or could pose a problem. We responded by spending everything we could afford on the effort to protect ourselves from this catastrophe, consuming years worth of tech budgets in the process. When 2000 rolled into existence---nothing happened. We stopped all technology spending that instant. After all, we had already done everything we possibly could to ensure the safety and security of our systems. What was left to *do*? It was like turning off a light switch.

But investors had priced these companies as though this level of spending would continue forever. So the tech boom turned into the tech bust. Prices fell and kept on falling to accurately reflect this reality.

Investors ran to real estate. The tax benefits and the "fact" that real estate only goes up fueled this next boom. As with Y2k, it only took a moment's reflection to see that this new bubble was going to burst, and it did. Like all bubbles and busts, the necessary information was right in front of us. It is always in plain sight, not hidden in any way. It is our emotions that cause us to believe in the creation of a "new reality" rather than seeing the facts for what they are.

This, too, is a time to set aside the emotions and see the reality behind the hype. The country is deleveraging as quickly as possible. You can't spend when everything is going to pay down debt. But those with cash and no debt *are* spending. They are quietly accumulating the bargains all around us. That includes the technologies, the homes, the businesses, and the people. They are positioning themselves now for the time debt is paid down to reasonable levels and people can spend again. They are waiting for the clear, consistent rules to be put in place. They are preparing themselves for the next boom, not the next bubble.

We are, too. It may surprise you how fast it comes.

Cindi Showalter

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