

Resetting Expectations; Economy, Markets, Policy

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Donald H. Straszheim
Managing Principal
Straszheim Global Advisors, Inc.

don@straszheim.com

(310) 293-1322

Resetting Expectations

Economy, Markets and Policy

- **Ugliest Downturn Since WWII**
- **25 Years Since Major Recession**
- **US Infection Spread Quickly**
- **Unprecedented Wash DC Intrusion**
- **Can't Make Rescue/Reset Painless**
- **US Gvmt(s) Vastly Overcommitted**
- **Global Scramble – Int'l 'Competition'**
- **New Finance Rules, Global in Synch**
- **Fortunes Made at Bottoms, Not Tops**

Finance; Starting Over

1 in 10,000 Years; then 3 More Days

- **Fatal Greed; Incentives Misaligned**
- **Bear -- Lender of Last Resort**
- **Traditional Functions Still Valuable**
- **Still a Patchwork; Confusion in DC**
- **Little Equity Left After Fixes**
- **Brain Drain; Great New Opportunities**
- **Pension Assumptions in the Future**
- **Fed 'Independence' Has Evaporated**
- **US/Int'l Realignment Complicated**

Consumer and Retailing

70% of US Economy (Equilibrium?)

- **Buyers Strike – Nothing Discretionary**
- **People Not Spending -- for a Reason**
- **Now Unprecedented DC Intrusion**
- **Can't Make Rescue/Reset Painless**
- **No Accident, WMT and MCD Strength**
- **US Gvmts Vastly Overcommitted**
- **Credit Cards – for What Purpose?**
- **Luxury Market Damage; Definition?**
- **Will Current Excess Capacity Last?**

Housing and Comm. Real Estate

Home Ownership – Politically Correct, Inaccurate

- **Plenty of Blame; the Villains**
- **Align; Mort Rates, Income and Prices**
- **Overhang Takes Time to Work Thru**
- **House As 'Investment' Mentality**
- **Affordability Already Favorable**
- **Any of These Shortcuts Make Sense?**

Commercial Real Estate

- **Overcapacity Is Widespread (Now)**
- **Financial Risks from Limited Credit**

‘Stimulus’ Plan Coming

How Big? When Hit? Of What Form?

- **Emergency Aid for the Neediest**
- **All Spending Is Not Created Equal**
- **What Will Happen to Tax Cuts?**
- **Will Stimulus Restore Confidence?**
- **Or Is Addressing L/T Issues the Key?**
- **Is ‘Too Big’ Better than ‘Too Small?’**
- **Is Spending with a ‘Tail’ Wrong?**
- **Longer Term Budget Constraints**
- **Treasury Debt Appetite Insatiable?**

Investing in This Environment

Manias Don't Correct By Going Sideways

- **Stocks, ETFs, MFs, HFs, TIPs, Gold**
- **Less Future Leverage; Mkts & Economy**
- **EPS and P/E; Analysts and Guidance**
- **Now? Best of Breed, Safe Dividends,
Low Debt, Capital Preservation**
- **Treasuries, Corporates, Munis**
- **Int'l – Developed, Developing, Flows**
- **Many Lessons from History, Fashion**
- **Great Time to Be Buying Stocks**

International and Globalization

Issues 2008 and Beyond

- **Synchronous Global Recessions – First**
- **All Trying to Rescue Own Economy**
- **Finance Is Truly Global (Transmission)**
- **US - China Are G2. Out of Equilibrium**
- **Energy – Global Significance, Danger**
- **Commodities – Availability, Regionality**
- **State-Owned Enterprises Growing Role**
- **Demography and Aging Divergence**
- **Market ‘Model’ Taken a Big Hit**

China 1

The Fundamentals

- **10% Real GDP Since 1978 'Reforms'**
- **Dilemma -- 'Control' vs 'Globalization'**
- **Building a Different Economy**
- **Trade Key to Everything in China**
- **Currency 'Made in Beijing'. Geithner**
- **Policy – Listen Politely, Go Own Way**
- **Unhappy – Recession Made in USA**
- **Democracy – Never Comes Up**
- **Taiwan Independence – Non-Issue**

China 2

Economy, Policy and Investing

- **2008 First, Global Recession Hits China**
- **Policy Since mid-2008, Growth Focus**
- **Risk, 2009 GDP Far Below Consensus**
- **Shanghai Stock Exchange 1990; SOEs**
- **HKSE – Real Market, HSI China, Legacy**
- **ADRs in US; FXI is SOE ETF. MFs**
- **Chinese Private Listed Outside China**
- **Top Global Firms Operating in China**
- **SWF – CIC. Global, US Targets**

China 3

Sectors to Think About

- **Environment – Best Growth Story**
- **Infrastructure – Still Building**
- **Energy – Fuel for Growth**
- **Commodities – Fuel for Trade Engine**
- **Agribusiness – Prod, Input, Process**
- **Manufacturing – How Much For Exports**
- **Pro Services – Logistics, Transport**
- **Retail, Consumer – Rising Middle Class**
- **Telecom/Tech – Business, Consumer**