

BEACON INVESTMENT MANAGEMENT

THE FRIDAY BRIEF

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“The More Things Change the More They Remain the Same”

The nineteenth century French writer Alphonse Karr is credited for our title. Perhaps a better way to express the sentiment comes from Ecclesiastes; “***what has been done will be done again; there is nothing new under the sun.***” As Democrats bask in the afterglow of an Olympian-like celebration of their hero and his landmark speech, and Republicans get ready for their similar week of bashing and promising things sound the same to this writer. If this country was truly interested in alternative energy we would have found a way to harness the wasted, endlessly renewable, gas from political conventions long ago.

On the economic front, there is still some growth. The government revised its estimate of gross domestic product to reflect an increase of 3.3% annually, compared with an initial estimate of 1.9%. Trade contributed the most to US growth in almost three decades. The expansion was the fastest since the third quarter of 2007. The trade gap narrowed to a \$376.6 billion annual pace and added 3.1% points to growth, the most since 1980. But, excluding trade, the economy would have expanded at a 0.2% pace after growing 0.1% in the first quarter.

On Wednesday the government announced that US durable goods unexpectedly increased in July by 1.3%, coming primarily from demand from abroad. The gain matched June’s gain. However, demand may fall off as global economies slow. Federal Reserve officials certainly think so as evidenced in the release of their August 5th minutes.

Consumer spending slowed in July as the government stimulus payments were largely spent. Personal consumption rose by only 0.2% in July compared to the month June’s increase of 0.6%. As the consumer represents the majority of the economy, this is perhaps the single most important economic measure to gauge its present and future strength. The trend has been down for months and will not likely turn until certain confidence factors improve such as housing prices, mortgage rates, personal income and job security. Trends for each of these measures remain down, but some are showing signs of slowing.

Home prices in the U.S. fell at a slower pace in the second quarter, signaling the worst housing slump in more than 25 years may be starting to stabilize. Home values declined 2.3% in the second quarter from the previous three months, compared with a 6.8% drop in the first quarter. On an annualized basis, values dropped 15.4%, the most since record keeping started 20 years ago. Experts say that while we may continue to see prices drop for the rest of the year, the rate of decline is likely slowing.

Oil has been a bright spot on the economic landscape until lately as hurricanes threaten Gulf Coast oil rigs and refineries. Royal Dutch Shell and ConocoPhillips started pulling workers from Gulf of Mexico platforms in a region that pumps 26% of US oil and 14% of the nation's natural gas. Crude oil currently stands at 117.70 at 11:30am on the New York

Mercantile Exchange. Oil is up 5.5% from its recent low of \$111.50 reached on August 17th. However, it remains 61% percent higher than this time a year ago.

Gasoline prices at the pump rose for the first time since July 19th, according to AAA. Regular gasoline, averaged nationwide, increased 0.9 cents to \$3.669 a gallon, according to AAA's Web site. Prices reached a record \$4.14 a gallon on July 17th. But the good news is that while the refineries were operating full-out at 97% of capacity before Katrina they are now only at 87% of capacity. If some are damaged, there is available capacity to pick up the slack helping to keep gasoline prices down. We don't expect oil or gasoline to be greater tugs on the economy going forward.

The race for president is now in full swing and is grabbing much attention. Given that we are in the information age, more outsiders are taking their best shots at influencing how Americans will vote. In my view, their opinions offer some objective perspectives that should not be ignored. Perhaps the most audacious comments so far come from Russia's Vladimir Putin. In an interview on CNN yesterday, some of which was broadcast to the Russian people Putin makes it very clear who he does not want for the next president:

"It is not just that the American side could not restrain the Georgian leadership from this criminal act. The American side in effect armed and trained the Georgian army. Why ... seek a difficult compromise solution in the peacekeeping process? It is easier to arm one of the sides and provoke it into killing another side. And the job is done. ... The suspicion arises that someone in the United States especially created this conflict with the aim of making the situation more tense and creating a competitive advantage for one of the candidates fighting for the post of US president."

Mr. Putin you sound just as paranoid as your KGB was and is; or are you perhaps trying to influence the American voter into thinking that John McCain actually started your war? It's clear that any change the west hoped for in you is clearly dashed once and for all.

There's nothing new under the sun.

Have a happy and safe Labor Day weekend