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Is the Recession Receding?

The pros say, "Yes." But local business owners aren't so sure. And, brother, can you spare a loan?

BY JIM WALTZER PUBLISHED MARCH 28, 2011 AT 12:05 PM

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There are enough crosscurrents in the U.S. economy to sink the sturdiest of financial boats. Stocks are soaring, but job growth is anemic and unemployment remains high. Real estate has bottomed out, but a bull market in foreclosures may just be beginning. Inflation is tame, but prices for gas and groceries are spiking.



Are we being tossed by persistent riptides or finally swimming to shore? Most economists and financial planners forecast brightening skies and safe harbors.

Adam Sherman, CEO of First Trust Financial Resources, predicts "continued, slow, sustained growth" for the economy, plus "some inflation" and "a resurgence in residential real estate" in the second half of the year. He looks for "moderate improvement" in the job market, with unemployment trending downward.

"We're already seeing [inflation] in commodities," says Sherman, a Lower Merion resident whose Philadelphia firm manages assets for 2,000 clients. "In real estate, there should be a netting out of foreclosures, as bottom-feeders snatch up the properties and banks unload those they don't want on their balance sheets."

Many local analysts, however, have a less sanguine view of real estate's potential to rebound. And the specter of depressed home prices and rising inflation could chill economic recovery.

In February, as prices jumped for fuels, metals and agriculture products, inflation watchdogs fretted that the upturn would spread and force the Federal Reserve to raise interest rates sooner and steeper than it wanted. Still, the consensus called for inflation within the bounds of a growing economy: 2-3 percent this year. Mark Zandi, chief economist at Moody's Analytics in West Chester, says global competition should prevent wages from rising too sharply and inflation from becoming "unmanageable."

"Businesses are profitable, household finances are improving, and the economy will begin to climb out of its recessionary hole in earnest this year," wrote Zandi in a recent online article.

Meanwhile, the stock market has already emerged from its foxhole and reclaimed lost territory. Buoyed by the Fed's bond-buying spree and surging corporate profits, the Dow Jones Industrial Average vaulted past 12,000 less than two years after its nadir of 6,547, prompting many strategists to profess that both investors and businesses will loosen their wallets and boost the economy.

Harry Clark, founder of Clark Capital Management, sees a continued upside for the Dow (and other market barometers like the S&P 500) into midsummer, followed by a retrenchment of up to 30 percent for three or four quarters before a rally into the elections of 2012. "The short-term market looks very nice here; factory orders are good and earnings are above expectations," says the Gladwyne resident, who's a frequent guest on CNBC. "That (at or near a top) is when the public starts buying hand over fist."

Similarly, Clark says, small investors tend to "panic and sell at the bottom." It's a perfect recipe for financial disaster. Philadelphia-based Clark Capital is considered one of the industry's best at conserving capital during market downturns via a strategy of buying "put" options (short positions that convey the right to sell at a specified price)—effectively, insurance against a big loss.

Clark anticipates that, though the cyclical bull market will be ending later this year (a "down phase typically into a pre-election year," he says), the *secular* bear market (which began in 2000 with the tech bubble and hit lows during 2009's credit crisis) will be over in 2012 or 2013.

If you're a long-term investor, that bodes well. But if you're on the sidelines or have an itchy trigger finger, you'll likely come up short. Timing in the financial arena is ever-elusive.

"People often rotate out of holdings and sectors when they shouldn't," says Irvin W. Rosenzweig, president of Rosenzweig & Associates Wealth Management Group in Wayne. "They're often late to the game and miss opportunities."

When it comes to his clients, Rosenzweig recommends periodic rebalancing of assets to keep portfolios in proportion. Indeed, winners and losers may exchange places during any given time frame.

Interestingly, a rally in bonds paralleled that of stocks in 2010 until late in the year when Treasury yields spiked, sending bond prices lower and, to some observers, signaling inflation. Bonds continued their decline into this year, but Clark foresees a bounce back—though not a sizable one.

First Trust's Sherman cites improved balance sheets, low interest rates, and the extension of the Bush tax cuts as reasons to stay with equities. But he recommends that the emphasis be shifted from small capitalization stocks (which have had a good run) to lagging large caps that pay healthy dividends.

Until investment income and profits translate to economic gains, however, we're all left wringing their hands. The financial markets have long been seen as forward-looking, but until Main Street catches up to Wall Street, frustration rules. Those gussied-up corporate balance sheets owe much of their shimmer to expense cutting. Companies have made do with reduced inventories and fewer employees.

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