John Dessauer Investments, Inc.

John Dessauer's Outlook

March 2013

"Short Term Bullish, Long Term Catastrophe"

As the Dow Jones Industrial Average and the Standard & Poor's 500 Stock Index headed for record levels, a normally very pessimistic economist, Nouriel Roubini, said he is "Short Term Bullish." Of course, he didn't stop there. He added "Long Term Catastrophe." By long term he means two or three years. His long term pessimism is not a surprise. The question is: what convinced him to become optimistic for the foreseeable future? And, having reversed his view about the short term could he change his long term view?

Roubini's long term view could be right. No one can say a future financial catastrophe is impossible. We suffered a massive financial crisis and recession in 2008. Having happened once, it could happen again, but the evidence says it will take longer than two or three years for the next crisis to materialize. Roubini and most pessimists argue that the next crisis will fall upon us because the U.S. federal government is running huge, unsustainable deficits, and the Federal Reserve is making things worse by printing too much money. Missing from this pessimistic analysis is that both are manmade and reversible. The Fed can sell assets, raise bank reserve requirements and raise interest rates to tighten monetary policy. The federal government can reduce spending or raise taxes. As if that were not enough, there is another huge factor the pessimists are ignoring, namely the massive changes taking place in China. China is fast becoming a major engine of global growth, one that benefits the USA.

Why it is correct to be "Bullish"

World trade, world industrial output and world industrial production have fully recovered from the recession and are at new record highs. If there

is one lesson to be learned from the aftermath of the financial crisis and global recession it is the importance of China. Emerging Asian economies, led by China, are driving global growth. They are offsetting declines in Europe and slow growth in the United States. Everyone benefits from global growth. World trade reduces the recessionary drag in Europe, boosts sales and profits for businesses and creates jobs.

I remember the recession of 1982. China was not a factor in those days. The United States was the leading global economy. Our recession dragged down Europe, South America and even Canada. As we used to say, when the U.S. economy caught a cold the rest of the world got pneumonia. In 1982 we caught more than a cold and the whole world suffered. In the 1980s, after the deep recession, the U.S. economy came roaring back. This time the U.S. economy has been on a very slow path to recovery. We have not been as strong an engine of global growth as we were in the 1980s. This time the strong recovery in the global economy is thanks to emerging markets, especially China. China suffered after the fall of Lehman Brothers because trade finance suddenly dried up. Pessimists warned that the combination of a Chinese domestic real estate bubble and the financial crisis would drive the Chinese economy into a very had landing. They have been wrong. China did not have a hard landing. Quite the opposite, China has pushed back inflation, reduced dependence on exports, and boosted domestic consumption. China's economy is once again growing at a pace fast enough (currently 8.2%) to provide support for trading partners and give the global economy a badly needed lift.

The incredible story of the Chinese economy

There are at least two versions of how Deng Xiaoping's plan to lift China out of poverty began. One says he stood in China looking at the border with Hong Kong and said "If Chinese people can build a strong economy in Hong Kong, they can do it in China as well." Another story says that in 1978 Lew Kuan Yew, former Prime Minister of Singapore, was meeting with Deng Xiaoping. Deng was impressed with Singapore's accomplishments. Lee said they were accomplished by the descendants of landless peasants from South China. Lee went on to say: "Just think of what you can do with the mandarins, writers and thinkers. You can do much better."

Whichever story is the truth, we know that in the late 1970s Deng designated four cities - Xiamen, Shantou, Zhuhai and Shenzhen - as Special Economic Zones. They were allowed to develop their own market economies. That is when China's massive and impressive economic transformation began.

I began traveling in China is the early 1990s. Over the next ten years I visited all major cites and almost all provinces. There was much to be learned by visiting remote areas as well as big cities. For example, by the mid 1990s a huge wealth gap developed. People in the Special Economic Zones and major cities were prospering, but the remote areas were left out and remained backward and poor. The Chinese government did not want hundreds of millions of peasants moving to the cities to make more money. Officials restricted travel. There was some resentment, but not much. Villages were allowed to elect their own leaders and there was the promise of a better future as economic development spread. The government played an active role in providing infrastructure to help remote areas develop. For example, a high speed fiber optic cable was laid through remote villages all the way west to Urumqi. The cable allowed fast and clear communication to arrange everything from hotels for tourists to commercial trade. In 2001, I traveled to Urumqi, visiting towns and villages along the edge of the Gobi desert. I saw firsthand how local Chinese took full advantage of the opportunity provided by the government. They created businesses and did it without government loans or favors. They provided their own financing.

Much later, in 2010, when I visited Keren Su's beautiful Inn, the Li-An Lodge, in Southern China, I saw the same entrepreneurial resolve at work. In the Ping An Village the internet was slow and unreliable, but cell phone coverage and clarity were excellent. The villagers made that choice. To them, at that time, the cell phone was a higher priority than the internet.

(The Li-An Lodge has received high honors among travel experts. You can see the Inn and learn more about Keren's tours and photographs at: www.chinaspan.com)

The Chinese have been accused by Americans of using unfair trade practices from low wages to currency manipulation. In the 1980s, as China's Special Economic Zones developed, it was Hong Kong that felt the sting of low wage competition. In those days Hong Kong was still under English law. We didn't hear complaints about low wages and stolen jobs from

politicians in Hong Kong or London. Businesses in Hong Kong moved quickly to take advantage of the lower wages just across the border. Hong Kong became the number one financial conduit for capital heading to China. Hong Kong took an economic blow, but came right back.

Keep in mind that China's suffering under the Mao regime was extreme. The economy was literally destroyed. People lived in abject poverty. There was no hope and no opportunity until Mao died and Deng Xiaoping began applying his economic commonsense. China did not compete unfairly or steal jobs from anyone. The Chinese simply took advantage of whatever they could to start rebuilding their economy. In the 1980s low wages were an advantage. But as one economist said, if low wages were an economic cure-all, then Haiti would be an industrial powerhouse. There was a whole lot more to China's initial success than low wages. The Chinese had suffered more than we can imagine. I invited Keren to come to one of my Swiss seminars and tell his own personal story. He did, and the audience was emotionally stressed out. Several said they had difficulty listening to his description of life as a teenager in a Chinese labor camp. Yet, hundreds of millions of Chinese suffered like that for decades. I learned a great deal talking with Keren and other 40-50 year old Chinese people in the 1990s. We cannot fully comprehend what they went through, but we can understand their resolve to do everything possible to make sure there is no sliding back.

What has all this got to do with current economic and stock market conditions? It is background so we can understand how China has managed to avoid the usual pitfalls of inflation and recession. So we can understand that China is, and will be for many years to come, a powerful force for the global economy and our welfare.

China right now

Last year China passed the United States to become the world's number one trading nation. The total of imports and exports came to $3.87 trillion, besting the United States' $3.82 trillion. China's trade, both imports and exports, is growing faster than the United States'. It is important for Americans to know that, contrary to popular thinking, Chinese imports have been growing faster than exports since 2007. The American impression that China prospers only by exporting cheap goods is completely wrong.

There is another very important aspect to the trade figures. The Chinese economy is much smaller than the United States': $7.3 trillion versus $15 trillion. Trade, at 53% of GDP, is more significant for China than it is for the United States. Trade is 25.5% of our GDP. China is still emerging and needs hundreds of millions more real jobs. It is mind boggling to think back when state owned enterprises, the communist legacy, accounted for most jobs. By 1990 there were almost no state owned enterprises that made anything anyone wanted to buy. Jobs in those enterprises were supported by government loans. I remember pessimists predicting the collapse of the Chinese economy as government loans to essentially bankrupt companies overwhelmed the struggling private sector. The numbers back then were truly staggering. The pessimists were wrong. China has overcome enormous challenges and kept on growing. As an aside, China's success in dealing the transition from Communism, where the State literally owned everything, means that distressed economies in Europe can recover and that the United States' fiscal issues pale in comparison. Pessimism may be popular, but is usually wrong. China defied the pessimists and overcame enormous government debt and high unemployment (government supported phony jobs were another form of unemployment insurance) by opening its economy to world trade, first mostly exports and now growing imports.

The financial crisis and recession of 2008 has changed China for the better. The sudden collapse of trade finance taught the Chinese that they could not count on steady growth in exports. They needed to encourage the development of their domestic economy. Their success can be seen in the fact that last year China became the world's largest car market. In 2004 GM sold one car in China for every ten sold in the United States. Last year it was one-for-one. China has also become the largest market for smartphones with more than one billion subscribers. China accounts for 27% of world smartphone sales versus 18% for the United States. By 2015, two short years from now, for the first time in 300 years, the number of middle class consumers in Asia is expected to be the same as in Europe and North America combined. The main driver of this consumer expansion is China. Before long there will be more middle class consumers in China than in the United States.

One final China statistic: 74% of Chinese consumers believe their household income will increase significantly in the next five years. That high level of optimism will support current Chinese policies and provide a

foundation for continued Chinese economic growth. That is an opportunity not just for Chinese companies; it is a major opportunity, thanks to China's open trade, for companies in the United States, Europe and elsewhere.

Looking for a way to profit from China's growth? Chinese stocks may not be the best bet. Financial stocks account for a big piece of the Chinese stock market. It is not easy to find consumer-related Chinese stocks. An even bigger challenge is that Chinese stocks do not always track the economy. There have been long periods where Chinese stocks were flat while the economy grew. Health care stocks could be the best bet. The Chinese government spends $200 per capita on health care. By comparison the U.S. spends $4,000 per capita. China may never reach the U.S. level, but health care is certainly a high priority. Companies like Novartis, Glaxo and Pfizer have already increased their penetration in emerging markets, including China. They look like good China plays.

Why the next financial crisis may be many years away

Nouriel Roubini's long term catastrophe forecast is focused on the United States. He sees no end to federal fiscal deficits and believes the Federal Reserve's bond buying and low interest rate policies will backfire. I can't say that is impossible, but it would require a degree of incompetence we have not seen from either federal government politicians or the Federal Reserve. I know there is a lot of frustration over the stalemate in Washington, but politicians respond to their constituents. The bottom line is that Americans are divided and not sure which is the best course. Meanwhile the economy is growing.

Richard Hoey, chief economist at BNY Mellon, thinks the U.S. economy will grow at a 3% annual rate after the sequester-debt ceiling battles are over. Our labor market continues to slowly improve. Housing is on the mend. Manufacturing is growing. Growth in the private sector, even at the current slow pace, creates jobs and lifts federal government tax revenue. Growth does more than increase revenue; it gives our creditors confidence.

The United States federal government has had no trouble at all financing a growing debt at very low interest rates. There are several reasons other than creditor confidence. Frightened Americans, looking for safety, have been buying U.S. government debt. The Federal Reserve is making

enormous profits, probably more than $90 billion this year. Those profits go straight to the Treasury, reducing the need to borrow. The Federal Reserve is also buying U.S. government securities, and is now the largest single owner of U.S. government debt. Between Fed buying, Fed profits and American buying, the amount of new debt available for others is less than the demand. That is why the bid to cover ratio at Treasury auctions has been steadily rising, even as the government keeps running trillion dollar deficits.

Roubini's catastrophe cannot develop until there is major change in these underlying market fundamentals. The catastrophe is premised on a rise in interest rates that stresses the government's ability to pay. Government debt that is sustainable at 1%-2% interest rates can become unsustainable at 5%-6% interest rates.

There are two popular pessimistic scenarios. One I find hard to believe. The other is possible, but not likely any time soon. The first is based on a stronger economy - strong enough to force the Fed to change course and let interest rates rise. The pessimists argue that in an economy strong enough to drive interest rates on ten year government securities back to 4% (once considered normal), the Federal Reserve will be trapped, unable to unwind the massive buildup in assets in time to prevent inflation from taking interest rates still higher. Under those circumstances creditors could feel threatened and demand still higher interest rates, too high for the good of the economy.

I find this scenario hard to believe because stronger growth is a huge positive for everything that currently ails us: federal deficits, joblessness, health care costs and consumer income. Get our economy growing at a 4%-5% rate, and confidence will rise among consumers, business managers and our creditors. A stronger economy is exactly what the Federal Reserve is trying to achieve. We are a very long way from an inflation threat. There still is lots of slack in our economy. If need be, the Fed could raise bank reserve requirements and stop monetary growth quickly.

The more credible pessimistic scenario is the opposite, namely that the economy slides back into recession because of rising health insurance costs or higher taxes. There are reports claiming that in some states the cost of health insurance will rise dramatically next year. If that turns out to be true, and too many consumers see health insurance costs rise 40% to 80%, the economy will suffer. Likewise, if there is another big increase in taxes

the economy will suffer. Anything that hurts consumers, savings or investment would be bad news.

Of course, an economic downturn in 2014 would most likely have a big effect on the outcome of elections. That could reverse the course on taxes and health insurance, saving the economy from a sustained downturn. It would take more than a short economic dip to result in a Roubini type catastrophe. Confidence would only be lost if the outlook were truly grim and stayed that way. In my view, even under a worst case economic scenario, it will be the next President who would have to deal with a no confidence vote from the bond market. Anything less than the worst case and it will likely be a decade before the U.S. government has to worry about the cost of financing its debt.

Stocks remain attractive

With 90% having reported, two-thirds of the companies in the S&P 500 Index beat expectations. Earnings expectations have been trimmed - perhaps too much - but there still is respectable growth, and with China and emerging markets growing nicely, profit growth is likely to pick up later this year.

Dividend payout ratios are low. They are running at an average of 35.9%, well below the 47.6% average of the 1990s. Companies have plenty of room to raise dividends. Companies are also carrying 2-3 times the amount of cash they did in the 1990s.

Individuals started to come back to equities in January. There was a record monthly inflow. However, it is too soon to know if this is a trend or a monthly flash. In addition it would take a year or more of strong inflows to equities before we would have to start worrying about stock buying becoming exhausted. The best strategy is to stay invested in quality stocks.

NEWS AND VIEWS ON COMPANIES

BP, NYSE, BP, $43.17, reported fourth quarter earnings - excluding items - of $1.27, better than the $1.09 analysts expected. For all of 2012, earnings were $5.54 per share. For this year estimates are for a decline to $5.27 a share. BP is struggling to recover from the costs of the Macando oil spill disaster. BP has agreed to a $4.5 billion fine and settled criminal

charges. However, BP was not able to settle a civil suit claiming negligence. That has gone to trial. Unless settled, the case could go through appeals and not be resolved for a year or more. The threat of a possible huge damage award will hang over the stock until finally resolved. Meanwhile, BP made progress last year raising cash through asset sales. Trading at just over 8 times this year's depressed earnings estimate, BP is undervalued. The dividend yield - at 5% - is attractive and provides a reward while we wait for the company to fully recover. BP is a buy.

CareFusion, NYSE, CFN, $31.85, reported solid second fiscal quarter results. Earnings, excluding special items, rose 10% to $0.54 a share. Revenues rose 2%. For the full fiscal year ending in June, earnings are on track to match current estimates of $2.15 a share. CareFusion is a leading company in making infusion systems, and respiratory and infection - prevention products. Aging populations require more health care. CareFusion is a growth company. Earnings for the fiscal year beginning on July first are currently estimated at $2.45 a share. The stock is currently trading at 13 times that estimate. In my opinion that is too low. CareFusion is a buy. My stock price target is $38.

Cisco Systems, NASDAQ, CSCO, $20.99, did it again. Second fiscal quarter earnings were better than analysts expected. Earnings per share, adjusted for special items, were $0.51 up 8.5% from last year. Revenue was up 5%. Free cash flow rose 10.7% to $3.1 billion. Net cash on the balance sheet increased $1.4 billion to $30.1 billion ($5.69 per share). For the full fiscal year, Argus Research estimates adjusted earnings per share will be $1.99. Argus has a $26 target price. Standard & Poor's has a $25 target price. Both rate the stock a buy. Cisco has delivered a series of quarterly results that have shown consistent growth and have been better than expected. This has been accomplished in a difficult macroeconomic environment. As the environment improves, Cisco said European demand is stabilizing, the U.S. growth rate is improving, and China is growing faster. Cisco can be expected to deliver stronger growth in revenues, cash flows and earnings. I expect the dividend to be raised this fiscal year. In my view a 13 P/E is undervaluing Cisco's strengths. Cisco is increasing market share in key business segments. I rate Cisco a buy and expect a stock price of $30 in twelve months or less.

Walt Disney, NYSE, DIS, $54.66, reported fiscal first quarter profits that were down from last year. Earnings per share were $0.77 - better than

analysts expected, but $0.03 lower than the opening quarter of fiscal 2012. There was lots of good news in the report. Most impressive was that attendance at U.S. theme parks rose 4% and spending per visitor rose 6%. Overall theme park sales were up 6.7% (9.1% in the U.S. and up 1.1% internationally). These numbers tell us that Europe really is a drag, while the U.S. looks better than the media headlines indicate. Standard & Poor's rates the stock a strong buy and has a $63 stock price target, based on a $3.42 estimate for earnings this fiscal year. Argus Research also says buy, has a $60 target, and estimates this fiscal year earnings at $3.44. There is a modest dividend and the yield is 1.4%. I rate the stock as a buy and agree with Standard & Poor's $63 stock price target.

GlaxoSmithKline, NYSE, GSK, $45.48, reported fourth quarter results that were in line with expectations. Earnings from operations were 5% better than a year ago. Management says results this year will be up 3%-4%, which is better than the 1% growth analysts are expecting. Glaxo is buying back shares. Management says the stock buy back this year will be between 1 billion and 2 billion pounds. Glaxo's pipeline of potentially profitable drugs is growing. Several new launches are expected this year. Estimates for this year are $3.50 per ADS. (Each ADS is equal to two British shares.) Both Argus and Standard & Poor's rate the stock as hold. Neither expects much in the way of capital gain this year. However, the generous dividend provides a yield of 5.3%, which by itself, in my opinion, makes the stock attractive. In addition, Glaxo is well positioned to profit from renewed growth in emerging markets such as China. Glaxo is a buy.

Halliburton, NYSE, HAL, $41.40, has also increased its dividend. The hike is 39% to $0.125 per share, per quarter. Management says future dividends will be 15% to 20% of net income. The last dividend hike was in 2007. With future dividends linked to net income, there will likely be more dividend hikes in coming years. Analysts expect next year's dividend to be 30%-35% higher than this year's. The current dividend yield is 1.2%. I have regarded Halliburton as attractive for capital gains. Now the stock has an added attraction as a source of rising dividends. Halliburton is a buy.

Home Depot, NYSE, HD, $67.25, reported fourth quarter earnings that beat expectations, raised the dividend and increased the stock repurchase program. Excluding a favorable charge from closing stores in China, Home Depot earned $0.67 a share in the final quarter. Analysts

expected $0.64 a share. The dividend has been raised to $0.39 per share, per quarter, for an annual total of $1.56 and a yield of 2.3%. Management plans on buying $17 billion worth of common stock by 2015. For this year management says earnings will be $3.37 a share. That is slightly below analysts' expectations of $3.49 a share. Based on management's estimate the stock is trading at a P/E of 20. That doesn't bother the research team at Argus. They rate the stock a buy with a $72 stock price target. I am a little more cautious. My rating is buy below $65.

Lowe's, NYSE, LOW, $36.48. Like Home Depot, Lowe's reported fourth quarter results that beat expectations. Net income was $0.26 a share. Analysts were looking for $0.23. Comparable store sales rose 1.9%, far better than the 0.8% expected. Lowe's initiated a stock repurchase program with a $5 billion two year allocation. For this year management expects earnings to be $2.05 a share. Argus also rates Lowe's a buy with a $44 stock price target. Management expects earnings this year to be $2.05 a share. Argus is looking for $2.10. As with Home Depot, I am a little more cautious. My twelve month stock price target is $40. I would buy Lowe's below $35.

Pepsico, NYSE, PEP, $73.68, is back on a growth track. Earnings in 2012 fell to $4.10 from $4.40 in 2011. The decline was the consequence of Pepsico's restructuring to reduce head count and improve marketing results. The price has been paid and now Pepsico is enjoying the results. In the fourth quarter both operating revenue and profit came in ahead of expectations. Profits increased to $1.06 a share, up sharply from last year's $0.89 a share. Excluding special items, earnings were $1.09 a share, better than the $1.05 analysts expected. Management says Pepsico will grow revenues and earnings this year. Growth in emerging markets is expected to be in high single digits. Earnings this year are expected to be $4.40-$4.45 a share. Argus rates the stock a buy, with a stock price target of $82. Standard & Poor's also says buy, but has a lower, $79 stock price target. Morningstar is more conservative, applying a P/E of 17 to $4.40 earnings estimate for a stock price target of $75. Pepsico plans on buying back $3 billion worth of common stock this year. The dividend is likely to be raised from $2.15 a share to $2.25. Pepsico could beat current expectations as economic conditions in emerging markets and the global economy improve. I rate the stock a buy. My twelve month stock price target is $80.

Texas Instruments, NYSE, TXN, $34.18, was up nicely last week. The reason is that the company increased the dividend by 33% and

announced a large increase in its stock repurchase program. The dividend will now be $0.28 per share, per quarter for an annual total of $1.12 and a yield of 3.3%. The stock repurchase program has been increased by $5 billion for a total of $8.4 billion, or more than 20% of shares outstanding. Management went on to say that they can consistently convert 20%-25% of revenue to free cash flow. After covering debt repayments, they intend to return 100% of the balance to shareholders. They can do this because the planned transition to higher margin analog chips has gained traction. Texas Instruments still faces revenue headwinds because of the declining mobile chip business. However, as the wind-down in mobile progresses, analog will rise as a percent of overall revenue. At that point Texas Instruments will enjoy strong revenue and profit growth. I regard Texas Instruments as an attractive long term investment. The stock's recent run up may be followed by a modest correction. Any pullback will be a buying opportunity.

Wal-Mart, NYSE, WMT, $71.15, delivered a strong final quarter, but the stock initially pulled back after management expressed concerns about future quarters. They are worried about higher gas prices, late tax refunds and the payroll tax hike. However, in the face of all the fiscal cliff uncertainty during the final quarter, profits rose 8.6% to $1.67 a share. Management is most likely trying to keep expectations subdued. This was the sixth straight quarter of same-store U.S. sales increases. This reverses the nine-quarter decline in U.S. same-store sales that ended in the third quarter of 2011. This is impressive. Wal-Mart accounts for 10% of U.S. non-automotive retail spending. It is not easy for big companies to change direction successfully. The strong recovery in U.S. sales says that Wal-Mart's management structure is efficient and effective. Sales at Wal-Mart International grew an impressive 7.4%. Free cash flow rose 18.1%, to $12.7 billion. The dividend has been increased by 18% to $1.88 a share for a yield of 2.6%. Earnings for the fiscal year ending January 31, 2013 were $5.02 a share. For this fiscal year management says earnings will be $5.20-$5.40 a share. The stock at 13.4 times this year's expected earnings is moderately undervalued. My twelve month stock price target is $80. Wal-Mart is a buy.

Wyndham Worldwide, NYSE, WYN, $59.89, reported fourth quarter results that were better than expected, and up 34% over a year ago. Revenue in the fourth quarter was up 9.3%. RevPar (Revenue per available room) - a key measure of the lodging business - was up 6%. Wyndham is on a growth track. The lodging business here at home and abroad has recovered

from the financial crisis and is growing again. Standard & Poor's has a 2013 earnings estimate of $3.69 and a stock price target of $63. I agree. The board has raised the quarterly dividend by 26% to $0.29 a share for an annual yield of 1.9%. I am keeping a buy rating on the stock.

CLOSING THOUGHTS

Japan and Italy

There is another development brewing that would be positive for the global economy: Japan. After two decades of political and monetary mismanagement, Japan's new Prime Minister Abe is making big changes. He wants increased fiscal spending. Keep in mind that Japan has an enormous government debt (more than 200% of GDP) and is running a fiscal deficit at 1.6% of GDP. Abe also wants the central bank to raise its inflation target. Japan is now suffering mild -0.5% deflation. In January the central bank agreed to an inflation target of 2% and proposed a U.S. type Quantitative Easing (QE) program. And, as if that is not enough change, Abe wants the yen to come down.

Japan has tried to stimulate economic growth many times over the last decades. The results have been disappointing. Last year Japan's economy grew 1.9%, and recently has been growing at a 0.3% annual rate. However, this is the first time Japan has pulled out all the stops and begun acting like the United States.

It remains to be seen how effective these new policies will be. However, they have already raised confidence in Japan's economic outlook. Japan's large exporting companies will be major beneficiaries of the new policies. One way to profit from these developments is to buy the ETF (Exchange Traded Fund), EWJ, which is linked to the MSCI Japanese stock index. (**EWJ, NYSE, $10.31, Yield 1.89%)** This stock has started to appreciate based on the new Japanese policies. If they are at all successful this ETF could double over the next two years.

One day late last month the Dow Jones Industrial Average fell more than 200 points, rattled not by the looming U.S. federal sequestration spending cuts but by elections in Italy. Italians elected a divided government, one that most likely will not last very long. There could be more elections this summer. Voters were divided on the familiar issues of

government spending cuts and tax increases. While the investor anxiety is understandable it is also misplaced. Italy's government is running a core surplus, not a deficit. (Core means excluding interest on the national debt.) There has not been a big housing bubble like those in Spain or the United States. The economy is stagnant, but Italy is a wealthy country. The challenge for Italy, like Japan, is to adopt policies that favor increased economic growth. The voters probably are right. Under present circumstances further big cuts in government spending might make things worse rather than better.

The challenges for the euro region economies are many, but elections in Italy are not a reason to sell stocks.

Next weekly hotline: Wednesday March 13, 2013

All the best,

John Dessauer

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