

Why the Long Face?

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Back in early 2009, the University of Chicago Booth School of Business and the Northwestern University Kellogg School of Business teamed up to create the [Financial Trust Index](#). The latest readings from July 2012 show that just 21% of Americans trust the financial system and only 15% trust the stock market.

For many, this negativity is understandable. The stock market is still below levels it reached in 2000, housing prices are still down and many people just cannot shake off the fear that was created in the 2008/09 Panic.

But, the lack of trust *must* be about more than this. Since the bottom for equities on 3/9/2009, when the Booth/Kellogg survey found just 13% trust in the stock market, the S&P 500 is up 120%, with dividends included. More importantly, the S&P 500 index is up more than 1100% in the past 30 years.

In addition, real GDP has been growing now for 12 consecutive quarters, private payrolls have climbed for 29 consecutive months and housing has clearly turned a corner. Yes, there have been slow patches (in 2010, 2011 and 2012), but in each case, even this year, the economy picked up again without falling into recession.

In other words, the negativity (the lack of trust) seems excessive. It is ignoring the good parts of the past and focusing on the bad parts.

Or, maybe there is another explanation. Right now the political fog is so thick that you can cut it with a knife. And, because politicians find it effective to scare people into voting for them over the other guy, our political leaders and their spokesmen and women are very busy trying to find things to make us worry about.

For example, last Friday, it was reported that payroll employment rose 163,000 in July, which was much better than expected and a sign that a recession is still unlikely.

Nonetheless, the political spinmiesters focused on every negative piece of the jobs data they could find. The unemployment rate rose to 8.3% and if we add discouraged

workers, it was 15%. The labor force participation rate, which the bears ignored in the past few months, fell in July. The sky is falling they said.

And when the right side of the political equation says all these negative things, the left side says another Great Depression is coming unless the US government spends more money or the Fed prints more money.

So, the average investor reacts with fear when leaders everywhere are bashing the economy and telling everyone that will listen that the world is about to come to an end if their plans aren't followed immediately.

Don't get us wrong, our models clearly show that the economy could, and would, do better if government spending were reduced as a share of the economy. Moreover, uncertainty over regulations, new healthcare laws and the potential of future tax hikes are also holding growth down and unemployment up. But that doesn't mean that the economy is about to fall into recession or the stock market is about to collapse.

We expect the economy will continue to expand, earnings will continue to grow and stock prices will continue to rise.

The reason for our optimism is relatively simple. Technology, driven forward by the relentless spirit of entrepreneurs that don't let political fears stop them, continues to raise productivity. This is happening despite what we think is wrong-headed fiscal policy.

In addition, the Fed is not tight, which is the number one cause of recession. We do not expect the Fed to pull the trigger on QE3, but quantitative easing was never necessary for growth. The Fed's near 0% federal funds rate is enough and always has been.

In the end, the way for investors to avoid mistakes in this environment is to watch the data and avoid the political spin. The economy is not great, but with so few people trusting the market and financial system, opportunities abound. If the market can hang in there with so little support, imagine what happens if fiscal policies turn for the better.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-7 / 2:00 pm	Consumer Credit– Jun	\$10.5 Bil	\$12.0 Bil		\$17.1 Bil
8-8 / 7:30 am	Q2 Non-Fram Productivity	+1.3%	+1.1%		-0.9%
7:30 am	Q2 Unit Labor Costs	+0.4%	+1.2%		+1.3%
8-9 / 7:30 am	Initial Claims – Aug 4	370K	365K		365K
7:30 am	Int'l Trade Balance - Jun	-47.8 Bil	-\$48.1 Bil		-\$48.7 Bil
8-10 / 7:30 am	Import Prices – Jul	+0.2%	+0.2%		-2.7%
7:30 am	Export Prices – Jul	-0.1%	+0.0%		-1.7%