

Ursinus College November 2008 Interview On the Global Economy

UC: What constitutes a U.S. economic recession?

BW: The National Bureau of Economic Research (NBER) defines a recession as when the major business activities of the economy such as employment, industrial production, real income, housing construction, and wholesale-retail sales reach a peak and start to decline until such time when the contraction of business activities bottoms out. At this point when the business activities start to rise again, it is termed the expansionary phase of the business cycle. By NBER's definition, the average length of a recession is about twelve months, but in my opinion this recession will be deemed historically as the *Great Recession*, and will be longer in duration.

UC: When do you expect an economic recovery for the U.S.?

BW: Given the global magnitude of the current financial crisis, the U.S. recession will be deeper and more prolonged than most that have been experienced in the past. In other words, this downturn will be looked back upon as the *Great Recession*. Accordingly, it is my assessment that the U.S. economy will continue to contract throughout all of 2009 and that the expansionary signs of recovery will not manifest until the first half of 2010. As a result, I expect the U.S. and international equity markets to remain volatile and uncertain until the second half of 2009 at which time I anticipate more sustained strengthening of upward movements in investment performance.

UC: With all the turbulence and uncertainty in the equity markets as well as with the banks once considered safe, where can investors put their money?

BW: Global diversification is imperative for establishing a successful investment program which grows to outpace inflation and holds up relatively well during the down periods in order to avoid devastating losses in value. The investment portfolio should be structured to perform in accordance with the investor's predetermined tolerance for risk and thereby avoid emotionally-charged reactionary movements caused by fear or greed. Moreover, the investment program should be managed within the context of a comprehensive financial plan having specifically defined and measurable goals and objectives for such issues as retirement and college funding.

UC: For those who have a stock portfolio and suffered losses, what's the best strategy at this time?

BW: With declines in the equity markets and stock volatility reaching historic levels, we find ourselves in a very challenging environment these days, to say the least. However, it is not appropriate to sell the equity portions of a portfolio when there have been sharp decreases in value and thereby lock in losses. Furthermore, once out of the equity markets, it is impossible to accurately time when to reenter. Investors who bail out with losses miss out on upward advances which typically occur in brief sporadic spurts. Furthermore, investors should keep in mind that although volatility is stressful, it presents investment opportunities which they should stay alert for.

UC: The U.S. is a consumer-driven economy; given the elements of a new President and the economic downturn, what do you think will be the catalyst to boost consumer confidence and get them spending again?

BW: The days of undisciplined consumer spending sustained by easy and ample credit are over. In fact, if there is a silver lining to be derived from the current financial crisis, it is that it will be the catalyst for Americans to wipe out the disease I call "spendicitis". Similar to the generation that experienced the trauma of the *Great Depression*, this generation will begin to save more and spend less. Moreover, out of necessity increased taxation is on the horizon which will also decrease the amount of spendable income. Domestic consumer spending as we have known it will have less of a relative influence on the economy. Instead foreign consumer spending for U.S. goods and services and government spending will have a greater relative impact.

UC: It's a simple question, with a multitude of answers, but how did this crisis happen? Who's to blame? And what steps do people take to protect themselves going forward?

BW: Simple answer, former Federal Reserve Chairman, Alan Greenspan whose economic policies manifested all the financial bubbles and excesses, unreasonable expectations, entitlement mentalities, and greedy outcomes that now must be purged. Economic fundamentals and a swing back to more government regulations will provide increased protection going forward.

UC: Do you still see stocks as a viable long-term investment option when over the last 10 years the S&P 500 has had such lackluster returns on average?

BW: Keep in mind that the S&P 500 does not reflect the potentially superior performance of an actively managed, well-diversified portfolio encompassing a global array of multiple equity and fixed income asset classes, and structured to perform in accordance with the investor's risk tolerance.

UC: What's your advice to those close to retirement and their 401(k)'s having been ravaged?

BW: Work longer if possible in order to avoid withdrawals from downtrodden investments. Perform an informed retirement cash flow analysis within the context of a comprehensive financial plan before retiring. You can't undo past mistakes, but you can move on from the here and now and intelligently plan and act to do better going forward. The reality is that most Americans have not properly managed their finances and will have to work longer than they want to.

UC: Lastly, what happens to the rest of the world if China continues to slow down? What are the "big picture" repercussions beyond our nation's recession?

BW: China is an emerging economic powerhouse as is India, whose economies will continue to grow at a much faster rate than the U.S., which is a developed, more mature economy. China's slowdown will be relatively short and its demand for goods and services will provide a stimulus for the global recovery, filling much of the gap left by the diminished purchasing power of the U.S consumer.

UC: Thank you for your insight.