

MaxOut Savings Report

With Ted Geoca

Saturday 11:00AM on KNTH 1070AM

MaxOut Savings Advisors, LLC

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SAVE AGGRESSIVELY AND INVEST CONSERVATIVELY!!!

Jobs & Food

Texas Job Growth #1

Fed Bond Buying

Food, Energy and the Poor

Housing Prices

Solving the Municipal Budget Crisis

Market Outlook

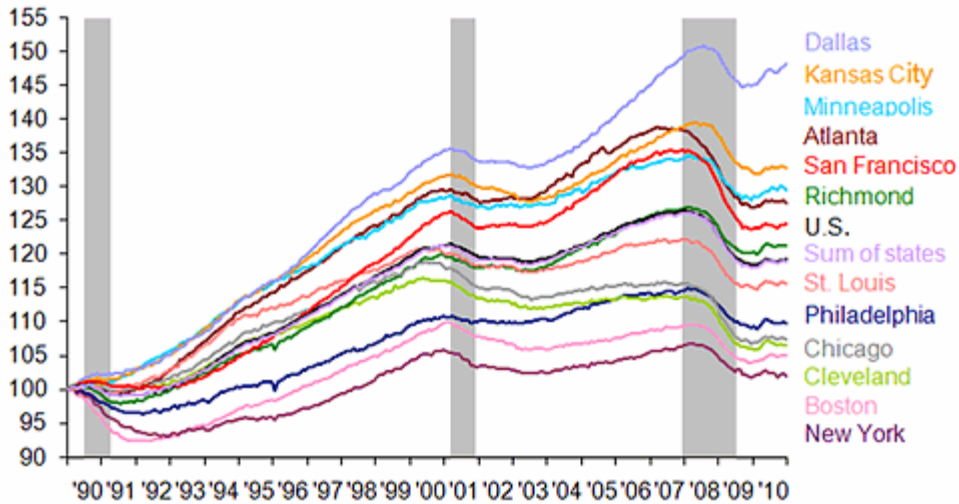
Risk Off!

Texas Job Growth #1!

In a recent speech, Dallas Federal Reserve Governor Richard Fisher pointed out that the best job growth in the United States has been in the Dallas District that includes all of Texas! He pointed out that the reason, in his opinion, had nothing to do with monetary policy or the cost of capital because they are the same throughout the United States. The reason for the differences in job growth from state to state had everything to do with taxation, fiscal and regulatory policies. Federal Reserve Governor Fisher has been a hawk on the Fed and not a supporter of QE2. The Chart below from the Dallas Fed shows job growth over twenty years across the United States by Federal Reserve District. We can see the South and Midwest has done the best, areas with low taxes and less regulation. The Dallas district came in at 150 on the index, New York and Boston districts were 100-105 with little job growth over twenty years. In the chart below, we can see how a low tax, business friendly environment produces job growth over the long term!

Total Nonagricultural Employment by District

Index, January 1990 = 100



SOURCES: Bureau of Labor Statistics; Federal Reserve Bank of Dallas.

Fed Bond Buying

We often hear the refrain if we upset China they will stop funding our deficits and interest rates will rise. The truth is that China has already cut back on funding our deficits, something we have written about in our Reports last year. Recently it was reported that the Federal Reserve has surpassed China as the biggest holder of US Treasury securities. Federal Reserve holdings of Treasuries now amount to \$1,108 billion (\$1.108 trillion). This compares to China, which holds \$896 billion in Treasuries, and Japan, with holdings of \$877 billion. With the QE2 (quantitative easing) program now in place, the Federal Reserve is expected to have accumulated over \$1,600 billion of Treasury securities by June. The \$600 billion QE2 program started in November of last year and is scheduled to be completed by June of this year. This is in addition to an estimated \$30 billion per month reinvestment of current Federal Reserve debt holdings. The Federal Reserve is now a bigger financier of US government deficits than China.

We are already seeing China and Japan pull back from financing our out of control budget deficits. The Federal Reserve has moved into the breach to try to keep long term rates low, which could be an unspoken reason for QE2. Of the QE2 buying, 67% has been devoted to the 4½- to 10-year Treasury securities in a bid to keep longer term interest rates low. As we can see from the chart of the ten year interest rate, the QE2 program is having trouble keeping rates down. We can see that the ten-year bond rate is actually breaking out to the upside and rates are moving higher from the chart below of ten year US note yields.



The drop in yields the last two days is the result of safe haven buying because of the Libyan crisis.

Rising Food and Energy

One thing that QE2 has been very successful at is raising commodity prices. Over the last seven months we have seen huge moves in commodity prices.

1. Corn up 100%
2. Wheat up 85%
3. Soybeans up 47%
4. Cotton up 150%
5. Sugar up 95%
6. Oil up 37%

Food, Energy and the Poor

Food and energy prices are often dismissed by some experts as being too “volatile” and misleading so the Fed sees the core inflation rate, which excludes food and energy prices, as a more useful gauge. The problem with that is two fold; first the core inflation number has been substantially changed and manipulated to minimize inflation. It is harder to disguise food and energy inflation. The other problem with ignoring food and energy inflation is that it disproportionately hits the poor. People earning under \$30,000 a year tend to allocate over 23.5% of their spending on food and energy. This compares to 9.8% for income groups earning \$120k to \$150k. This points out that the food and energy

inflation that is often minimized does huge damage to the lower income groups' standard of living in the United States.

The problem is materially worse overseas. In many countries, the poor make only a couple of dollars a day. In Egypt, poor is defined as making two dollars per day. A family earning two dollars per day could easily be spending well over 50% of their income on food and energy. When you get 20-100% moves up in food and energy prices, you get people rioting. This is one of the problems that led to the revolutions in Egypt and Libya. We believe that skyrocketing food costs have been the catalyst to the revolution sweeping the Arab world. Inflation and crop failure has been a catalyst for revolution for centuries. Many developing countries around the world are now working to control food costs and improving their peoples' standard of living after what happened in Egypt and Tunisia recently. The push to prevent deflation with QE2 has resulted in higher commodity prices worldwide that is having unforeseen consequences of destabilizing developing countries as the poor in those countries suffer disproportionately from food and energy inflation.

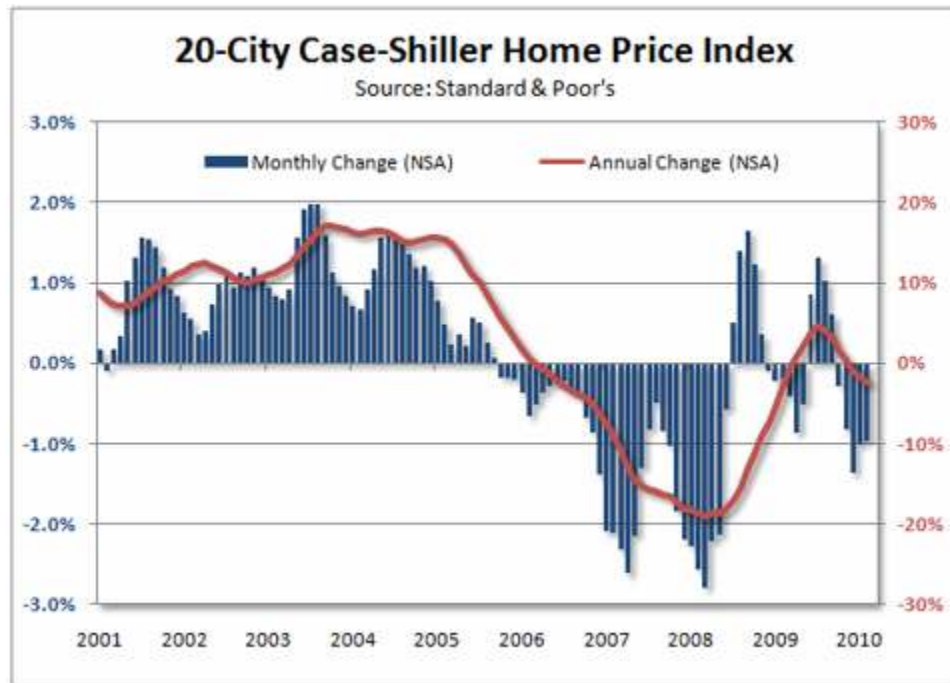


Commodity Research Bureau Index (Commodity Prices)

Housing Prices

In December, according to the S&P/Case-Shiller home price index, housing prices in the twenty largest cities fell 1%. The index had declined for five straight months. The only

city where housing prices rose in December was Washington DC, which most people would not view as a positive! As can be seen from the chart below home prices appear to be entering a new leg down. The higher energy prices will have a negative effect on home prices and we expect home prices to continue to fall in the first and possibly second quarters of 2011.



Monthly Change in Home Prices

Solving the Municipal Budget Crisis

The protests in Madison, Wisconsin have brought to the forefront the difficulty of cutting state budget deficits. At the present time, 44 states are grappling with budget deficits. Most states are required, constitutionally to balance the budgets but, unlike the Federal government, they cannot print money. The past couple of years they have gotten by with emergency funds, accounting tricks, and billions of dollars of Federal help. That has come to an end and they now must make the tough cuts or face bankruptcy. We expect the budget cutting and the protests to spread across the country. Most major states including New Jersey, New York, Ohio, Illinois California and Texas have to make big budget cuts or they will be in trouble. State and local government accounts for 16% of GDP and we expect layoffs to spread across the country in 2011. This will be a drag on economic growth.

The protests in Madison and across the country protesting budget cuts are good news because it means we are making the tough choices to solve our economic problems! The Republicans won in November and they are making the tough choices. The cuts are painful but necessary to get municipal governments on sound footing. When you see the

union protests, remember this means we are making good progress toward solving the deficit problems in state governments!

Over the last five years we have written about the dangers of low savings and the debt bubble and runaway government spending. We said it would result in an economic crisis and it did. We then said that after the crisis the debt bubble would take years to fix. For the first time we are now seeing real progress being made to fix our spending and debt problems. It all started with the Tea Party Republican wins in November. Before that it was “kick the can down the road”. All across the country people are rising up to fight government spending and make the tough cuts. We are now winning budget battles and making progress toward winning the war on runaway government spending.

Market Outlook

The destabilization of the Middle East and the fiscal battles in Washington and municipal governments has created a very uncertain investment environment. The US stock market has moved slowly higher for almost six months and is overbought and overvalued. Over the last six to eight months, we have seen substantial commodity inflation that is now starting to pressure profit margins. We believe the stock markets are in the process of a substantial correction.

We continue to favor blue chip multinational companies with good dividends, stable demand, energy and short term bonds. We would avoid emerging markets, small, mid cap stocks, tech and manufacturing as they have become overvalued. The bull market in precious metals should continue, its case strengthened by the unrest in the Middle East. Given the unrest in the Middle East and Republican budget cutting, the dollar should move higher in the short term as it is viewed as a safe haven. This should also cap the rise in US bond yields over the near term. As the year progresses, the municipal bond market will offer great value as the municipal deficit crisis continues to unfold.

Energy stocks are poised to move higher if the Middle East destabilizes further. The one drag on energy is natural gas priced under four dollars in February. After a very cold winter, natural gas looks poised to move toward three dollars in the spring and that could be a drag on energy company profits. Libya currently produces about 1.8 million barrels of oil per day. At the present time about 55-60% of Libya’s production appears to have been shut in. Over the weekend our work suggested Libyan problems could add \$20 per barrel to the price of oil (WTI crude). That could be somewhat conservative if much more production is shut in over time. If Libya destabilizes further into civil war and if the problems spread to Algeria (2.1 million barrels per day) we could see oil prices move toward \$150. If oil moves much above \$100 dollars it could cause a decline in the US economy and a decline in company earnings.

Risk Off

Care should now be taken to closely monitor risk in your 401-k plan or retirement account. This is also known as Risk-Off; take a look to see if you are over-invested in the markets or in any one sector. If you are not comfortable with your risk levels, reduce the risk. This can be done in several ways; you could raise cash or sell stock and increase

bond holdings. By increasing cash positions you can lock in a profit and afford to wait for a better buying opportunity, while at the same time avoiding a stock market selloff. Another method is to sell the more volatile sectors such as small cap, high yield, tech, emerging or developing markets. If you still want market exposure look at large cap stocks, stable demand and shorter term bonds. Now is the time to be cautious with your retirement savings plan and manage risk. As Will Rogers once said: "It is not the return on my money I am interested in, it is the return of my money!"

Do you have an account at Fidelity?

Do you already have an account at Fidelity Investments? The MaxOut Savings Advisors Team can actively manage the assets for you at Fidelity. We will make the investment decisions for you and you can monitor your account from Fidelity's website. We use the same value based investment strategies we talk about on the MaxOut Savings Show. In most cases, you can sign a simple form to add us as the advisor on your account and we can use your existing Fidelity account number.

Considering an IRA Rollover?

If you are retiring soon or considering an IRA rollover, let the MaxOut Savings Advisors Team handle your IRA rollover. We can help you take advantage of the NUA tax break if you have low cost basis stock in your company plan. We will sit down with you, discuss your financial situation and needs, and develop a plan tailored specifically for you. We will show you how we manage our accounts using our value analysis strategy to grow the investments and reduce risk.

MaxOut Savings Advisors: Actively Managing Risk

In these volatile times, investing your retirement funds can be difficult and time consuming. Is your advisor looking at risk and actively managing your retirement? Hiring the MaxOut Savings Advisors team to manage your money or IRA rollover is a great first step toward a successful retirement. MaxOut Savings Advisors is an SEC registered, fee-only investment advisor based in Houston, Texas. Ted Geoca has over twenty years of investment experience managing clients' retirement assets. We invest in stocks, bonds and mutual funds for our clients using a value analysis strategy that we have developed over the last couple decades. **We look at risk as well as return to actively manage your investments and maximize your returns through today's changing markets.** We use Fidelity Investments as the custodian for our clients' assets. If you would like MaxOut Savings Advisors to manage your retirement investments using our value methodology, I would be happy to meet with you. To schedule an appointment please give us a call at 713-627-0400 or email me at ted@maxoutsavings.com.

Remember Save Aggressively and Invest Conservatively!

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Remember to catch:

The *MaxOut Savings Show with Ted Geoca* on Saturday at 11:00am on KNTH 1070AM!

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