

Perspectives - On Business

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Knowledge is Power

We've been inundated lately with headlines about the mutual fund industry... adding to the crisis in confidence that came to the forefront with Enron and Arthur Anderson. The more headlines we read, the more questions we have - or should have!

SEC Mutual Fund Probe Announced

NASD Suspends Brokers for Fund Sales

NASD Proposes New Rules for Mutual Fund Disclosure

Brokers Target People Tapping Into Retirement Savings

Watch out for High Fees

Should we be afraid of Mutual Funds, Stocks, or Investment Advisers? Should we fear for our Pension Funds and how they're being handled? Yes and No - we should do what we should have been doing all along.

Educate Ourselves...Knowledge is Power. Question Authority. Look for bias in news reports and consider the motives of those guiding you.

Assess your own needs and expectations. Learn how to fairly, accurately and correctly gauge progress. Keep reality in check.

Ask the experts you trust - and keep asking until you truly understand.

As always, feel welcome to call with any questions you have.

Sandra Heusinkveld

Future Finances' Market Update

By Max Larsen

Monday, August 18, 2003

"Tax relief is just beginning to be felt in the economy. In the next six months as consumers and investors in stocks and bonds get more cash in their hands,' the benefits will become more evident."

-J.T. Battenberg, CEO of Delphi Corp. (DPH)

Despite the largest blackout in American history Wall Street was able to open on Friday with stocks eking out a small gain. For the week the three major indexes finished in positive territory. I am glad to take a slight positive in the market in spite of light volume (this is normal in the month of August).

As I mentioned in my last *Update*, signs of an upbeat economy abound. Unfortunately, that doesn't defer the pain that many people are experiencing over the unemployment scenario. I received an email that made me chuckle but at the same time is quite serious.

"Max,
I just have to be honest. When in the heck is unemployment going to loosen. My son can't find a job although everyone keeps saying, "when we are allowed to hire, we will call you". We are really tired of hearing that, plus he has to live at home until he finds a job and can afford an apartment. What's a mother to do???"

Like TV meteorologists blissfully announcing sunny skies while it's raining (this Friday evening during a dinner party I was having), we find economic forecasters declaring all is well. It has a lot of umbrella-carrying workers and job seekers wondering, .Where's the economic sunshine?. It's a great question I think should be addressed.

There's no doubt unemployment is a problem. Since the start of the economic downturn (which by the way started prior to the Bush administration . so he can't get all the blame in spite of what you hear in the media), 2.6 million jobs have been lost. Every economic downturn has lost jobs and this recession is no different. Business hiring has always been a lagging indicator that doesn't recover until months into the turnaround. Still, the job market in this recovery appears shakier than in the past. Fortunately, it can be explained with the productivity gains.

We are seeing a radically changed economy. Computers, the Internet, wireless phone technology and other innovations have radically altered the economy permanently. These innovations have significantly raised productivity. As I have

previously mentioned, productivity rises when people make more with less, especially less labor, but also less capital, lower inventories and other production costs. The benefit is the standard of living rises since workers are able to produce more goods year after year with less effort. For example, according to *Investors Business Daily* (IBD), at a 3% productivity rate, the real standard-of-living will double every 24 years. At a 1.5% rate, it would take 48 years.

The downside and the problem we are facing now is that while increased productivity raises living standards, it can also mean fewer workers are needed to maintain output at the same level. There are simply fewer jobs available. Fortunately, this is a short-term phenomenon. Look at farming: In 1831, 90% of Americans had farming related jobs. Thanks to productivity gains, it's now less than 2% (IBD). Yes, it displaced workers (short-term) but it also drastically increased our standard of living and has led to new jobs in industries that didn't even exist at the time.

So, the question begs to be asked: When will we start seeing jobs again? According to two new studies from the Federal Reserve Banks of Richmond and San Francisco higher productivity increases employment in the long run. While employment growth may still be slow for a couple of more months, we should start seeing a nice increase by the end of the fall season. Like the meteorologist, I'm predicting sunny skies with only a few clouds.

That's enough for this week my friends. Sorry for the length of the Update but this subject can take an entire semester at college. Next week I want to continue this theme and discuss the overseas job losses and why they may not be the problem many are predicting.

Thanks to friends like you who refer new business to us, our practice continues to grow.

As always, your comments and reactions are welcome. Please feel free to share this newsletter with others you think may find it interesting or useful. We respect your privacy and will not share your address with others. Click [here](#) to send a comment, to subscribe, or unsubscribe.

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