

Contact Us:

4128 Crosshaven Drive
P.O. Box 43828
Birmingham, AL 35243

(205) 298-8480
Birmingham

(256) 237-0000
Anniston

(800) 791-4087

Email Us:

Brooks Clark-
Brooks@
ClarkFinancialAdvisors.com

Elizabeth Levant-
Elizabeth@
ClarkFinancialAdvisors.com

Rusty Corley-
Rusty@
ClarkFinancialAdvisors.com

Karen Caputo-
Karen@
ClarkFinancialAdvisors.com

To Our Valued Clients & Friends:

So much to think about as we start a New Year.

In anticipation of putting together each quarter's letter, I save ideas that I stumble across in my reading and observations. I usually jot these thoughts down on slips of paper or actually cut entire articles from publications, and then I place them in the large folder to the left of my desk. Today, I find myself with the largest stack of ideas and articles that I have ever assembled in preparation for a letter.

I thought this year-end letter would be easy since I had so much ammunition, but as I reviewed the notes and articles, I felt the majority of them simply reported the events of the last year while offering little guidance for the future.

In an effort to not simply repeat what you already know, I ask that you indulge me for a few



Bruce Greenwald and Joseph Stiglitz recently completed a white paper regarding our country's economic condition that was published in part in *Vanity Fair*. They feel, like I do, that we may be in for a very long and very slow economic recovery.

moments as I take you back and we consider the lessons from the Great Depression, over 80 years ago, that might provide a better understanding of where we, as a country, could go from here.

I would like to claim that these presented thoughts are original, but they are built atop some excellent research from Bruce Greenwald and Joseph Stiglitz, who have

recently completed a white paper, a small portion of which appears in this month's issue of *Vanity Fair**. The parallels between that long-ago depression and today are remarkable, and I would like to follow their comments with some observations on deleveraging that might add emphasis to their conclusion, which is that we may be in for a very long and very slow recovery.



By 1932, "agricultural Americans" had seen their incomes fall by approximately 50%, which resulted in a large portion of the population experiencing diminished income and reduced product demand.

At the beginning of the recorded depression in the early 20th Century, 1929 through 1932, more than 1/5th of all Americans still worked in agriculture. But if we look beyond those years, back to the very early 1900s, an even larger portion of the American population was involved in producing the food needed to feed the country. Then came a revolution in agriculture – better seeds, use of fertilizer, and more productive use of the land – which led to an explosive increase in production.

Normally, accelerating production through increased productivity is a good thing, but this revolution resulted in fewer workers being needed to provide the food to the country. By 1932, "agricultural Americans" had seen their incomes fall by approximately 50%, which resulted in a large portion of the population experiencing diminished income and reduced product demand.

This reduced demand began to make its way through the economy until about 1931, when unemployment reached

16%. A year later, unemployment was at 23%.

According to Bruce Greenwald, "The underlying cause was a structural change in the real economy: the widespread decline in agricultural prices and incomes, caused by what is ordinarily a good thing – greater productivity."

During the Great Depression, there were numerous government actions that were directed at trying to lift the country out of recession. We all remember our history lessons about Mr. Roosevelt's New Deal, but the economy did not begin to improve until America began to back its allies through the production of military armaments through the "Lend-Lease Act" of the 1930s. When the country finally entered World War II, America was mobil-

ized, and, thus, the war provided a sweeping and accelerated transformation of the country's economy from agriculture to manufacturing.

Now, let's step back to the present. The financial crisis of 2007-2009 allowed the already shrinking manufacturing portion of our economy to accelerate its downsizing under the cover of the recession and decreased demand. Many jobs are lost forever – some due to increased productivity; others have been exported to lower-cost labor centers around the globe.

It has been five years since the housing and financial crisis began. There are 6.6 million fewer jobs in the United States than there were four years ago. There are 23 million Americans that would like to work full time but cannot find a

"The underlying cause was a structural change in the real economy: the widespread decline in agricultural prices and incomes, caused by what is ordinarily a good thing – greater productivity." – Bruce Greenwald

job. Our country is experiencing the same type of dramatic shift in its employment character as it did before World War II. We are no longer a manufacturing nation but are one that, because of increased productivity and higher labor costs than that available abroad, must now hope that somehow the country can find its way to the next great opportunity. I fear that that is not going to happen quickly.

That thought brings us to the subject of deleveraging, both as citizens and as a nation. As citizens, we are far ahead of the nation, as both chosen and forced actions have resulted in a reduction in consumer and mortgage debt. Total U.S. consumer debt fell to \$866 billion from \$958 billion from late 2008 until March of 2010, a 9.6% drop in debt during a recession.

About 45% of Americans say that their unpaid credit card debt is "lower to much lower" during the last 12 months while only 26% say their credit card debt has increased.**

Foreclosures have obviously resulted in a

reduction in aggregate consumer debt, which is viewed as further deleveraging. Consumers have used the reduction in living cost, due to moving into apartments or downsizing, as an opportunity to redirect funds to the reduction of consumer debt or the creation of savings. The bottom line is that consumers may feel better about the economy and themselves, but this doesn't translate into increased consumer spending.

As for the nation and the problems in both Washington and Europe...while I have no faith in the current political mix in Washington, I believe that there will be a point, sometime during the next four to six years, that somehow the logjam will be broken – undoubtedly due to outside pressure and an independent committee that will be created to shoulder the heat and provide those spineless wonders with cover. This will provide major tax reform designed to stimulate worldwide interest in building facilities in the United States.

This action, combined

with major educational initiatives designed to train Americans for the jobs that will be created by foreign investment here in the U.S., will be the turning point to not only lift the country from a prolonged recession but will also act as the tool to redesign and retrain the workforce of America, much in the same way that World War II did for America in the 1940s.

Predictions For 2012

I believe that because of the level of pessimism and the fact that the stock market enjoys making as many people as possible look foolish, the stock market will rise between 8% and 12% in 2012. Wall Street loves to climb a wall of worry, and as a result, I believe the markets may surprise us all. The one caveat to this thinking, however, is an implosion in Europe. If that happens, all bets are off.

I believe that the world will not come to an end in 2012, and that the sun will rise each and every day.

I believe that interest rates will finally start to climb, and the 10-year treasury will yield



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above 3% by the end of the year, which is a 50% increase from their current levels.

I believe that home values will decline by

another 5 to 7%, while Gulf Coast property will have stabilized in value.

Beth and I wish you all a safe and healthy New

Year. I look forward to seeing you soon.

Warmest regards,

M. Brooks Clark CFP

**“A Banking System is Supposed to Serve Society,” Vanity Fair, January 2012, Joseph Stiglitz..

***“Credit Card Statistics Road Map.” Creditcards.com, 12/23/2011.

“The Numbers” & The Rip Van Winkle Syndrome – A Note from Brooks

Most of us can remember the childhood story of Rip Van Winkle, who went up on the hillside and took a nap that lasted for a number of years. As I reviewed the investment index numbers for this year, I couldn't help but think of our old friend Rip and imagine if someone had fallen asleep on January 1, 2011, and slept for the whole year, they certainly would not be able to tell that much had happened based on these numbers. A quick look at the numbers reveals that the S&P 500 remained virtually unchanged for all of 2011. The Dow Jones Industrial Average eked out a modest 5.53% gain, while the NASDAQ lost a modest 1.8%. Nice quiet year right?

Looking beyond the year-end numbers and into the market volatility of the year, we notice that the DOW, S&P 500, and NASDAQ all fluctuated by well over 20% in value when considering the trading range from bottom to top. The Russell 2000, a broader market index, not only finished the year down by more than 7%, but also fluctuated in value by 42% for the year. We are hopeful that 2012 may provide us with not only positive returns, but also reduced volatility. Happy New Year to all!

The Numbers - 2011

	2011 % Change	Year's High	Year's Low	Trading Range - Top-to-Bottom
Dow Jones Industrial	+5.53	12,876	10,404	23.7%
S&P 500	-0-	1,370	1,074	27.5%
NASDAQ	(1.80)	2,887	2,298	20.4%
Russell 2000	(7.06)	865	609	42%
Real Estate Index	+1.5	63	46.7	34.9%

Financial Citations – Barron's (12/31/11) and BigCharts.com Historical Quotes

If you would like to have a copy of your consolidated statement from Clark Financial Advisors listing all your accounts and their current values, please call or email Rusty Corley at Rusty@ClarkFinancialAdvisors.com, and he will provide you with an up-to-the-moment evaluation of all your accounts.

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The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average (DJIA) is a price-weighted index of 30 actively blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Russell 2000 Index is a small-cap stock market index 2,000 stocks in the Russell 3000 Index. Indexes are unmanaged and do not incur management fees, costs, or expenses. It is not possible to invest directly in an index. All information contained herein is derived from sources deemed to be reliable but cannot be guaranteed. All economic and performance data is historical and not indicative of future results.