



OAKWORTH
CAPITAL BANK

COMMON CENTS

Since I will be out of the office next Friday, this is the last issue of Common Cents for 2011. As such, I suppose I should make a few predictions about the upcoming year. This is almost a thankless task.

Consider this: suppose I were to say the Dow is going to be 13,000 by the end of the next December. That might sound like I have made a pretty educated guess, doesn't it? I mean, I have pulled out the old slide rule, and worked the math, right? Or so it would seem; however, the game is shockingly easy, once you know the rules.

Currently, the Dow is around 12,200. So, a move to 13,000 would be a principal increase of 6.56%. The current dividend yield on the index is right at 2.60%, making for a total rate of return of about 9.2%. As such, a sophisticated prediction of Dow 13,000 is nothing more than saying: "I think the Dow is going to return around the accepted historical rate of return plus or minus a few basis points"

In other words, Mr. Dow 13,000 isn't really making a prediction as much as quoting historical rates of return. More? If you really want to hold his feet to the fire, what is the real likelihood the Dow closes 2012 at precisely 13,000? Given the fact we are now using decimal points on the index, there is virtually NO chance his being accurate. To that end, a much better prediction for 2012 would be: "the Dow will NOT close at 13,000!"

In truth, most people read other people's predictions for no other reason than to determine whether their own line of thinking is way off target with everyone else. With this in mind, and with all that off my chest, let me give you a few thoughts about 2012. Here goes nothing:

- Owing to North Korea's announcement about the death of Kim Jong Il, Cuba finally admits Fidel Castro has been dead for 3 years, and that a local farmer named Jose Concepcion has been impersonating him at official functions due to lingering Cold War paranoia.
- The candidate "None of the Above" receives a surprisingly high number of votes in a number of elections this November.
- The Presidential election will be outrageously contentious, and the winner will not enjoy any 'true mandate' due to the fact most people will vote AGAINST the 'other guy' as opposed to voting FOR someone.
- Iraq will implode or run the real risk of imploding, requiring the US to send in some measure of police force.
- The Assad family will lose its grip on power in Syria, and there will be a bloody regime change in Damascus.
- The world learns the new cast of leaders in both Libya and Egypt aren't a huge improvement over the other guys. It is a perfect lesson for the world's idealists and the US State Department: "be careful for what you wish."
- After some improvement in the labor picture, the January and February payroll numbers

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Never make predictions, especially about the future.

Casey Stengel

Predictions for 2012, *cont.*

fail to impress, and even depress, investors. It seems the retail and leisure & hospitality sectors added a whole bunch of temporary workers for the year-end rush, and, while the holiday shopping season was slightly better than anticipated, it wasn't enough to keep the majority of the workers in these industries on the job permanently.

- The banking industry faces a tough year in the court of public opinion. While commercial & industrial loans continue to grow at a measured pace, credit is still almost impossible to come by for speculative endeavors. This engenders shrill cries both sides of the aisle in Washington, and the two parties will likely share a common scapegoat come November...only one side will yell louder than the other.
- Things in Europe will go from bad to worse, but much of it will have been 'built into the markets' before the final shoe falls. By the end of the year, Sarkozy and Merkel will admit the obvious, that Greece is financially a hopeless case, and the wheels will finally be set in motion to allow for an orderly default in Greek debt. This will lead to even more credit belt tightening in Europe, but the remainder of the world will wonder: "we went through the ringer because of this?"
- China continues to increase the effectiveness and sophistication of its armed forces. This causes consternation in Taipei, Tokyo, Seoul, and Washington. While the world turns to the US for an answer or response, the simple fact remains: the US borrows a lot of money from the Chinese, and Beijing will be hesitant to lend out even more IF the US uses it to thwart China's increasingly aggressive foreign policy....particularly in the Spratly Islands.
- If the rest of the world didn't think North Korea was a basket case previously, it will in 2012 as North Korean diplomacy goes from bizarre to insane. Its armed forces lob a few shells into thinly populated areas of South Korea, and its naval border patrols become more aggressive with foreign fishing trawlers. By the end of the year, however, things in Pyongyang stabilize as the new Kim consolidates his powerbase.
- David Cameron's popularity as Great Britain's Prime Minister reaches a new low. However, he doesn't really care, and continues with the necessary austerity measures.
- The ratings for the CBS comedy "Two and a Half Men" plummet, as it becomes increasingly apparent the American viewing public really doesn't like Ashton Kutcher. Further, it strains credulity to continue to refer to the now 18-year old Angus T. Jones as 'half a man.'
- Adam Sandler appears in a movie entitled "I Hate You, Dad" which is both a commercial and critical flop. So much so, Sandler's career is seriously threatened. Many people will consider this a very, very good thing.
- 1500 Crimson Tide fans will break their televisions with beer bottles in reaction to some mildly negative thing CBS announcer Kirk Herbstreit says 'against' Alabama. "Heck, I bet Gary Danielson told him to say that." Smash.
- Stores throughout Alabama will sell a surprising amount of LSU merchandise, just like they sold a surprising amount of Oregon stuff last year.
- Mitt Romney's Mormon beliefs become a factor during the Republican primaries. In May, Herman Cain is seen wearing a t-shirt that says: "I Spent Millions of Dollars to Become President, and All I Got Was This Lousy T-Shirt."
- Sarah Palin hits the media outlets in force by the middle of the year, serving as some kind of expert on Presidential election campaigns. Millions of American women will change the channel; however, millions more middle-aged American men will simply hit the mute button and continue watching.
- The 'authentic' Mexican restaurant closest to Scott Beason's (the co-sponsor of Alabama's illegal immigration bill HB56) home in Gardendale closes down, forcing him to go to the Taco Bell on Fieldstown Road.
- The economy is poised for a repeat of 2011, modest growth. There are some bright elements, but, where the rubber meets the road, the US financial system and the US consumer are still deleveraging. This slows both in-

Predictions for 2012, *cont.*

vestment and consumption more than would be the case otherwise. There is nothing in the immediate crystal ball which suggests this is going to change in the near future. As a result, based on the numbers and what we KNOW, there is nothing to suggest rapid economic growth NOR rapid economic contraction. We will continue to absorb existing capacity at a maddening slow pace which somehow makes the GDP numbers appear more robust than the reality feels.

- In this type of environment, the Federal Reserve will not be in a hurry to dramatically alter current monetary policy. It remains amazingly accommodative, and should remain so until at least 2013. The Fed has already admitted as much. As a result, the monetary authority will keep its foot on the gas pedal, and senior citizens will bemoan continued low interest rates on everything from CDs to short-term securities.
- The only real threats to the term structure of interest rates are: 1) a slowdown in Asian purchases of US Treasury securities, which would cause interest rates to increase, or; 2) a rapid deterioration in Europe, which would cause interest rates to decrease. Either are real possibilities, which means investors will enter 2012 extremely skittish of the US bond market, but still participating nonetheless.
- By the end of the year, the true health of the Chinese economy becomes increasingly apparent. Beijing will have been found to have wallpapered over serious financial 'irregularities and problems' in the provinces, which will lead to a slowdown in available credit in that country. This will cause Chinese economy growth to cool moving into 2013 from the previously reported 10%, or so, to roughly half that. This will have a serious ripple effect on industrial commodities, and the countries of Australia and Chile and Indonesia will be particularly hurt. Canada will also experience some discomfort, but a better diversified economy shields it from the same level of unpleasantness. In any event, look for central banks in Australia and other 'smaller economies' to move to more accommodative monetary policies.
- As a result, global economic numbers prove to be a little more sluggish in 2012, though still positive.
- This should produce a good, relative environment for large cap, dividend paying US equities. The focus will be on companies with little leverage, decent growth rates, decent dividends, and strong brand recognition.
- The world does not end in 2012, and the work of Mayan astrologers goes back in the vault....where it belongs.



Happy Holidays and Happy New Year!



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