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The following discussion invokes the 4 core principles of our AARP wealth management model—*Accumulate, Allocate, React and Protect*. Please take the time to absorb our thoughts and then peer into your financial mirror and understand what you truly see.

TURNING THE TABLES

Each day, week and month, investors have the option of going through hundreds of data tables to discern new information and trends that might influence their investment outlooks and more importantly, their investment returns.

Over time, we have learned to take the most widely-disseminated information with a great deal of skepticism. The reason is that through the years, beginning with President Clinton's first administration, much of this data has been stretched, twisted and concealed to the point where it not only is highly misleading but clearly intended to support official policymaking agendas. The primary victims of this data manipulation pertain mainly to money supply, economic growth, employment, productivity and living costs.

However, there is one obscure table in the Federal diner that we consider to be as revealing about our nation's health as anything that is published. This is the Bureau of Labor Statistics Table A-12; Alternative Measures of Labor Underutilization. Once you get past the bureaucratic lingo, this table tells us in "unadjusted" terms what total percentage of the country's eligible workforce is unemployed, less than fully employed or working less than desired. In short, it speaks volumes about the true state of the national economy not to mention the pressures facing Washington. In December 2008, Table A-12 indicated that the true national unemployment/under-employment rate was a disturbing 13.5%. In January 2009, this rate had climbed to a shocking 15.4%. Call Table A-12 what you want, but it is telegraphing a signal that our politicians and policymakers would rather keep under the table. In some form or fashion, we are about to revisit and redefine the decade of the 1930s. That is not an appetizing thought.

Now is an opportune time to become a realist about what is taking place. Hope is always a good thing but it should not anchor spending and investment decisions. We have been beating the drum that the US economic growth miracle during the past 40 years and certainly the past 20 years was based on a "debt consumption" model that enabled Americans to borrow and immediately spend rather than save for their desired purchases. As a result, many tens of millions of lifestyles became detached from the conventional economic norm and gave rise to growth miracles in countries like China and India that emerged as the low-cost producers of the massively-financed consumption items. A global growth industry based initially on expanding credit and subsequently on expanding "low quality" credit became a primary economic driver. This entire development was interpreted and welcomed as a progression toward financial stability and prosperity.

This growth industry is now gone and we have to emotionally and financially detach from it. We aren't going back to the last 20 years anytime soon. The American consumer is being forced to abandon the "debt consumption" model and will spend much more time thinking and dreaming about spending than actually setting foot in the stores. In the medium term, this will be an unmitigated

disaster for the world economy and will put many political regimes on very shaky ground. Severely compounding the problem is the ongoing disintegration of the "5 Pillars of Trust": (1) trust among national governments, (2) trust among citizens and their governments, (3) trust among citizens and big business, (4) trust among big business and governments and (5) trust among big businesses.

In the long run, America's return to a "savings consumption" model will serve our children and grandchildren well but it will be a difficult journey for those who spend too much time hoping for a return to the past. In its attempt to rescue the economy, the US Government will be prone to preserving most of the broken plates and saucers on its economic and political tables. In doing so, it will channel trillions and trillions of dollars into reconstructive efforts and create what amounts to a junk currency. Our traditional trading partners will be less inclined to accept rapidly-debasing US Dollars so trade opportunities can be expected to diminish. As a result, the US will be forced to produce more of what it truly needs and forego many items that it cannot acquire in exchange for its surpluses (e.g., food). Global hostilities are certain to arise from a severe contraction in trade but it is a painful but essential part of the economic rationalization and recovery process. In terms of our own lifestyles, we are destined to have fewer choices and must learn to be content with less. The new mantra will be "save for retirement." It will replace "invest for retirement." The point is that a long life has a much steeper price handle than what we have been led to believe.

The investment side of this puzzle has 3 key pieces: (1) identify opportunities that produce reliable income streams; (2) prepare for periods of modest to severe deflation and (3) prepare for periods of modest to severe inflation. It is well documented in the annals of economic history that junk currencies are at the root of both severe deflation and severe inflation, which is why we need to anticipate cycles of falling incomes/falling prices and rising incomes/rising prices. At certain junctures, we will experience falling incomes/rising prices, i.e., the worst of both worlds. This is known as "stagflation". We must be very alert to this potential outcome and hold investments that protect against a destruction of purchasing power from "stagflation." The timing and sequence of these cycles cannot be accurately forecast. Just in the past 2 years, we have experienced dramatic shifts from rising incomes/rising prices to falling incomes/rising prices to falling incomes/falling prices.

In terms of your personal wealth management plan, the following table settings should be in place:

1. For reliable income streams, a combination of annuities, low-risk fixed income investments and conservative dividend-paying securities. Annuities are a source of lifetime income streams and provide asset protection. These features could represent most welcome servings of food on your table.

2. For protection against falling prices in a deflation, a bland mix of cash-equivalents (e.g., insured money market funds) supplemented by indexed annuities that safeguard principal and provide a guaranteed return.

3. For protection against rising prices in an inflation, a mix of asset sectors that are characterized in some form or fashion by relative scarcity. First on the list is precious metals, which also can play the role of "currency substitutes" if the debasement of ordinary money gets out of hand. Next on the list is a mix of agricultural commodities, industrial metals and energy resources. Next on the list are foreign currencies that are likely to increase in value as the US Dollar descends to junk status. Many of these investments can be made via Exchange Traded Funds.

4. For "blue streak" rallies that are prone to occur during extended bear markets, a small representative sampling of conservative large-cap and mid-cap stocks, both domestic and international.

We shall continue to return to Table A-12. It is published once a month. Fortunately, the mainstream pays no attention to Table A-12 so the Government *maitre d'* has little incentive to take it off the menu.