Vol. 6, Issue 22
June 29, 2012

Something to Think About

OAKWORTH CAPITAL BANK

COMMON CENTS

Yesterday, I sent a number of bullet points to a reporter friend of mine who had asked the question: "In your own words, tell me what you feel must be done to fix our job market in metro Birmingham and Alabama - despite (the) state trumpeting our big unemployment rate over last year, Alabama ranks near the bottom nationally in job creation - How can we turn thing around?"

So, I sent him back the following:

- Unfortunately, there isn't a magic bullet to this problem. Just as they have on numerous occasions in the past, the local and national economies are going to have to restructure and reinvent themselves to remain competitive. This will take some time.
- We have to quit looking at our economic development as an election cycle issue, and pointing fingers or patting backs. Economic development starts at the birth of a worker and ends at its death. If you want a vibrant economy, have a vibrant workforce. If you want a vibrant workforce, train and educate the heck out of your citizens.
- The United States still has a competitive advantage in its development of and access to technology. However, this doesn't mean a hill of beans if the average worker doesn't know how to use it. To that end, we simply have to devote more time and resources to math, science, and computer technology. Failing to do so means failing our workers.
- Not everyone will get a bachelor's degree. In fact, roughly only 25% of adult Alabamians have one. Why then does our K-12 seem to focus on college prep when the majority of workers in the state need real vocational skills and hands on training?
- You can get 11 guys off the street; put them in pads and a helmet, and call them a football team. However, the best teams are those with the best coaches, the best athletes, and the best training. We understand this when it comes to football. Why then is it so hard to understand when it comes to economics?
- Our business development efforts seem heavily focused on attracting outside businesses to the state, and have had some notable successes. However, what are we doing to create home grown talent and entrepreneurs? What are we doing to foster small business creation?
- We need to depend on ourselves, and work together as a team: black and white, conservatives and liberals. We need to put away egos and personal fiefdoms, and realize we are all in this together, whether we like each other or not. As the old saying goes: it is amazing how much you can get accomplished when you don't care who gets the credit.
- To attract and develop business, you have to think and act like a business. If you want to think or act like a member of a particular political party or group, that's fine, just don't expect great results. You reap what you sow, and if you sow the same old same old, that is what you will get.
- I don't going around quoting Larry Langford very often, but he was famous for saying: "if you always do what you always did, you will always get what you always got." That is true, and it doesn't seem to be working for us right now.

Inside this issue:

Business, more than any other occupation, is a continual dealing with the future; it is a continual calculation, an instinctive exercise in foresight.
Henry R. Luce

Something to Think About, *cont.*

As you can tell from those comments, and previous ones, I don't believe the problem with what ails the US economy, or the local one for that matter, has a short-term fix. You can add as much STP to your fuel tank as you want, but when your transmission is shot, it is shot, if you catch my drift. Most people I know agree with me, or say they do.

However, people don't really want to hear this stuff, particularly out of politicians and others entrusted with power. They want the panacea, the elixir with the magical properties, and the silver bullet. They want to have someone tell them: "hey, we just need to jiggle that knob and flip that switch, and things will come roaring back to life. You just sit back and let me do the work for you. We got it all under control, and you don't need to do a thing there tiger."

Before I started Oakworth, I might have been somewhat inclined to believe the economy was a chess match. Where do you move the pawn to set up your bishop to take their queen in 10 moves? That sort of thing, and the powers behind the curtain were very clever people indeed. If they had just put a little extra oil on some squeaky wheel, the Titanic would have made it to New York in record time; that kind of thing.

After starting this business, I realize that type of thinking is so much garbage. When you push on a string, you push on a string, and little else. When you become so arrogant you start to outthink yourself, well, you get flattened. Business is war, and economies are nothing more than an amalgam of businesses and consumers. As such, trying to be a chess master, outthinking your opponent, when they are mobilizing superior resources on your flank is an exercise in futility. Sure, a supreme tactician can win battles, but they usually can't win a war against a vastly superior opponent. Robert E. Lee and Erwin Rommel are perfect examples of this.

This morning, my favorite commentator on Bloomberg, Caroline Baum, had an excellent, just excellent column which hit on this exact topic. Let me give you a few of the best parts:

> "So here we are, three years and trillions of dollars later, with an economy growing at 2 percent and an unemployment rate exceeding 8 percent for 40 consecutive months. The interest rates on Treasury securities are at or near historic lows. Ditto mortgage rates. The $831 billion fiscal stimulus in 2009 was either too small, poorly designed or ineffective: Take your pick. The Federal Reserve's quantitative easings and curve- twisting operations? Bank credit is growing, albeit slowly -- 5.7 percent in the past year -- but lenders are still sitting on about $1.5 trillion of excess reserves.
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> ...Maybe it's time for something completely different. How about using structural solutions to address what is touted to be cyclical weakness in the economy? And if the elevated unemployment rate turns out to be structural, a result of a skills mismatch between employers and job applicants, so much the better.
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> ...Normal policy tools have been blunted this time around as the need to pay down debt trumps the lure of rock-bottom interest rates. So if President Barack Obama and Congress are intent on doing something to accelerate the healing process, the best thing they could do is put the economy on a sound long-run footing with low, stable tax rates; no loopholes or exemptions; realistic entitlement reform, including a gradual increase in the retirement age for Social Security; containing health-care costs by allowing consumers to evaluate cost versus quality (and quantity) of care; and a budget that recognizes the government's spend-now-pay-later strategy is unsustainable.
>
> Why, small businesses would be so ecstatic to see government do the right thing -- and all the special-interest groups so upset -- their spirits would soar."

Please note the sentence: "So, if President Barack Obama and Congress are intent on doing something to accelerate the healing process…" That is the optimal sentence here, and it underscores the problem in the United States today: that the government can actually pull a lever or flip a switch to make everything better. This isn't new, as our government has meddled time and time again to get things percolating at a more desired rate; however, as is plainly obvious, this meddling, this switch flipping, isn't producing the desired results this go around. Perhaps they ought to be a better way.

Indeed there ought to be.

Most of the truly wealthy people I know, but not all, achieved their success through some form of business ownership. Sure, they might be a cardiologist or an attorney, but they were also the senior partners or owners of their respective

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firms. In short, they didn't get to their levels of wealth by "working for the man," or by not working at all. There was a clear ownership stake of some sort. This forced them to work and act in a particular manner, which engendered the financial success of the firm. They maximized the company's revenue, and minimized the costs. Basically, that is how you get rich: you make more money than you spend. When you are an owner, you have a vested interest to make sure this happens. When you aren't, you don't.

So, if the key to wealth creation at the individual and corporate is to make more than 'you' spend, it would seem the key to wealth creation at the macroeconomic level would be the same thing, wouldn't it? What can the government do to maximize corporate and individual wealth, and minimize expenses? After all, increasing expenses faster than revenue, by definition, eats into wealth. That makes sense, so why aren't we doing this?

I suppose it is because the so-called brain trust behind the United States' economy is largely comprised of bureaucrats, technocrats, and academics, as opposed to business owners and executives. The Council of Economic Advisors? All of them are academics. The National Economic Council? Everyone is currently a bureaucrat, and very few had any prior business experience, and even fewer had any significant business ownership interests. The Federal Reserve? Well, mostly professional economists, and very few actual bankers. Weird that. The Congress? There are a lot of lawyers and lifelong public servants, but very few business owners.

Hey, most of these people are very bright, and I am certainly not trying to be critical of their individual career paths. However, I find it curious the economic levers in the country are pulled by just about everyone else other than business owners. If you accept the notion business owners know how to make money better than the remainder of the population, wouldn't it stand to reason to have a few on some sort of committee or council that has real authority? I think so, and I also think business owners would do something significantly different than what the government is doing now.

So, where the rubber meets the road: "if you always do what you always did, you will always get what you always got." We can continue these tweaks and twists on the economy, but we shouldn't hold our breath waiting for a silver or magic bullet. We can continue to backbite each other and trying to find differences as opposed to common ground, and not expect to get to far. We can continue to leave macroeconomic decision making to committees of bureaucrats and technocrats as opposed to business people, and shouldn't be too surprised at the results. We can continue teaching and training our workers in the same old manner, and expect the mismatch between opportunities and abilities to grow.

In essence, we can continue down the same path, but, as I pointed out a few weeks ago, the definition of insanity is: doing the same thing over and over, and expecting different results. With that in mind, it is high time we got business owners and executives back in the macroeconomic decision making process. Failure to do so means failure to have the people who actually know how to make money at the helm.

Important Economic Releases

Release	Survey	Actual	Prior	Comments
New Home Sales (May)	347K	369K	343K	The data this week was all in all pretty okay...no complaints. However, the big news was the European Summit and how the Spanish banking system has a backstop of sorts for now….in truth, we will soon find out the massive rally on Friday probably had more to do with short-covering in financials that spread into other sectors….sort of like a spiral. Hey, no complaints….I will take a strong rally any day of the week. However, the EU Summit provided another bandage, a better one, but a bandage nonetheless. We will revisit Spain and Greece soon enough, but have fun over the 4th.
Consumer Confidence (June)	63.0	62.0	64.4	
Durable goods Orders (May)	0.5%	1.1%	-0.2%	
GDP 1Q T	1.9%	1.9%	1.9%	
Initial Jobless Claims	385K	386K	392K	
Personal Income (May)	0.2%	0.2%	0.2%	
Chicago Purchasing Managers (June)	52.3	52.9	52.7	
U of Michigan Confidence (June)	74.1	73.2	74.1	

Tables & Data Points

STOCKS	Dow Industrials	S&P 500	NASDAQ	Russell 2000	Nikkei 225 (¥)	DJ STOXX 50 (€) Price
12/31/10	11,577.51	1,257.64	2,652.87	783.65	10,228.92	2,792.82
12/31/11	12,217.56	1,257.60	2,605.15	740.92	8,455.35	2,216.55
6/7/12	12,460.96	1,314.99	2,831.02	760.34	8,639.72	2,143.08
6/14/12	12,651.91	1,329.10	2,836.33	762.34	8,568.89	2,148.21
6/21/12	12,573.57	1,325.51	2,859.09	764.83	8,824.07	2,199.42
6/21/12	12,602.26	1,329.04	2,849.49	775.89	8,874.11	2,157.62

BONDS	3-Mo UST	6-Mo UST	2-Yr. UST	5-Yr. UST	10-Yr. UST	30-Year UST
12/31/10	0.13	0.19	0.60	2.01	3.30	4.34
12/31/11	0.01	0.06	0.24	0.83	1.88	2.90
6/7/12	0.08	0.13	0.27	0.71	1.64	2.74
6/14/12	0.10	0.15	0.30	0.74	1.64	2.74
6/21/12	0.08	0.15	0.30	0.72	1.62	2.69
6/28/12	0.08	0.16	0.30	0.69	1.58	2.68

OTHER	Prime	Fed Funds	3-Month LIBOR	Gold/troy oz.	Oil—WIT/brl.	$/Euro	JPY/$	$/GBP	CAD/$
12/31/10	3.25	0.25	0.30	1,421.40	91.38	1.337	81.19	1.559	0.994
12/31/11	3.25	0.25	0.58	1,566.80	98.83	1.296	76.99	1.551	1.017
6/7/12	3.25	0.25	0.47	1,586.60	84.82	1.256	79.63	1.553	1.028
6/14/12	3.25	0.25	0.47	1,618.40	83.91	1.263	79.35	1.556	1.023
6/21/12	3.25	0.25	0.47	1,564.50	78.20	1.254	80.28	1.559	1.030
6/28/12	3.25	0.25	0.46	1,550.40	77.69	1.244	79.45	1.552	1.033

Disclosure