Looking back at 2008 our forecasts were right about difficulty in the markets, but I never expected the drop to be this severe and widespread. Let's look ahead into our crystal ball and see what we have coming to us in 2009.

Given the grim picture thus far, we will probably continue to be in recession for the full calendar year and things will continue to decline further with no stabilization in sight until mid to late 2010. There are several major factors that lead me to this conclusion so let's jump right in and explore the issues.

First, consumers are going to save more and spend less. With fears of continued job losses, depletion of wealth and lousy credit conditions consumers will continue to tighten their belts. Consumer spending is a major pillar of our economy and as consumers continue to tighten up, more stores will close, less goods will be produced and volumes will undoubtedly shrink causing the economy to continue to contract.

The current stimulus package is simply a pork-laden, misguided piece of legislation. There aren't enough job creating stimulus that will have a long term effect on the economy and this will be one of maybe two or three packages that will be required going forward. This is of major concern as the deficit is ballooning and at some point interest rates will have to increase dramatically to attract buyers for all of our debt. I am in principle in favor of a deep and large stimulus package. We need one, but what is on tap is not what will stimulate real job growth. All it does is create more debt that will have to be paid by the future generation. Stimulus must include incentives for investors and businesses to take risk.

Giving tax breaks to anyone that profits from the purchase of stocks or bonds purchased in the next 36 months at a dramatically reduced tax rate would give people additional incentive to invest in the markets and would certainly move confidence in the right direction. Fortunately, the Fed is going in the right direction by lowering rates and not pushing the financial institutions to unload everything at once. They are providing ample time to the financial institutions to work through the problems similar to the 1980s when the Fed allowed banks to hold on to their bad foreign debt until they worked through it. Had they all been forced to write down to true levels, most banks would have failed.

Next, Moody's in the last few days downgraded over 2,500 classes of mortgage backed securities in the Alt A segment and predicted that some of the classes will experience actual losses exceeding 25% of the entire class.

Commercial mortgages are now starting to falter as well as auto loans, credit cards etc.. I have seen estimates that the banking system may need an additional $1.50 trillion of capital to stay a float. I think that number is right on target. There is a lot more pain to come for the world financial markets and there is no way the economic conditions will improve until the banks are healthy and ready to lend. Nothing in the economy will move without money. Our credit system has been destroyed and it will take us well into

2010 or 2011 to re-create a credit system that works. Without credit, economic recovery will take much longer and the recession will get a lot deeper and longer to work through.

Also, it's important to keep in mind that the new federal stimulus plans and the increase in federal spending is going to be accompanied by a substantial decrease in state and local spending. The majority of nonfederal entities must balance their budgets and almost all have huge deficits to resolve.

Tax receipts will continue to decline as consumers spend less; property taxes are lower as prices continue to drop; construction and development projects are down dramatically reducing fee and permit income as well. While many state and local governments are pushing tax increases of all types, consumers will revolt by spending even less. In California, for example, state employees will be out of work every other Friday. This will reduce income for many, therefore, negatively impacting consumer spending and ultimately government tax receipts. As you can see this can lead to a vicious cycle.

The U.S. economy over the last eight years would have grown significantly slower had it not been for the trillions of dollars in home equity withdrawals that were spurred by the housing bubble. Financial results for the 4th quarter were dismal at best with many companies writing off everything under the sun in the hopes of starting over. In fact, S&P will be reporting the first negative quarter earnings ever for U.S. Companies with losses nearing $9 a share.

2009 will undoubtedly be difficult. Growth prospects are dim until the credit markets improve significantly, which is unlikely until 2010.