

# Glaze Capital Insight

Quarterly Newsletter for Successful Investors

*Helping Busy Successful People Organize Their Financial Affairs and Plan for the Future*

## *Note to Clients*



Atif Siddiqi, Rebecca Stroth-Pickens, Rick Glaze

The worldwide economic recovery continued as the 4th quarter ended. Stock prices inched higher in the last 3 months of 2009, and our portfolios continued to show good results for the year. Areas of the economy that drive economic activity, like housing and manufacturing, are continuing to show positive signs. For example, reports show inventory of existing homes are low in certain areas due to robust sales. This may lead to new construction activity.

Auto sales have rebounded along with general equipment sales. China and other rapidly developing countries are experiencing stronger economic activity which leads to higher exports for the U.S. and some job creation here. As mentioned last quarter, overall job growth normally lags a recovery and this time will be no exception.

economies is a good support for stock markets around the world and it appears that this trend is currently in place. Bond yields are continuing to stay low. We may see some yields moving higher in the longer term bonds this year, but for the most part it is safe to expect a continuation of low interest rates for awhile.

A recovery in the world

- *Strong Markets in 2009*
- *Driving Economic Growth*

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## *Federal Estate Tax*

“Give me liberty or give me death.” That was the cry of our forefathers demanding independence. It is doubtful they expected death to be a taxable event. But the Federal Estate Tax, better known as the “death tax”, was originally levied on estates of deceased persons as a temporary measure to fund the Spanish-American War. That five month war over Cuba ended one hundred and eleven years ago.

This tax originally affected only a handful of people in

America because it exempted the first \$600,000 of an estate. Thirty years ago when cars cost \$3,000 and houses cost \$40,000, the designated \$600,000 would have excluded most people. Inflation changed all that, but the exemption stayed the same, subjecting millions of estates to the levy. During the Bush Presidency, Congress increased the exemption steadily until it reached \$3.5 million in 2009. But opposition in Congress caused the law to only last 10 years, further stating that

there would be no tax in 2010 and then it would revert back to a \$1 million exemption in 2011. It was assumed that the law would be revised but it wasn't. There are rumblings that a retroactive law will be passed, but nothing is clear. This year some estates may be subject to capital gains in lieu of the estate tax. Planning is very murky in this area right now. Be sure to keep abreast of developments.

**Murky Tax Policy**  
Murky Tax Policy

*“In reading the lives of great men, I found that the first victory they won was over themselves.”*  
 Harry Truman, 33rd U.S. President

### Interesting Quotes

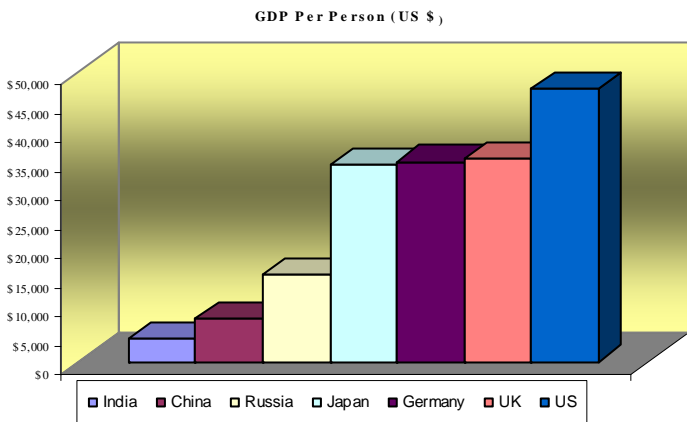
- “Never think that you're not good enough...People will take you very much at your own reckoning.” Anthony Trollope, novelist.
- “The greater danger for most of us lies not in setting our aim too high and falling short, but in setting our aim too low and achieving our mark.” Michelangelo, artist.
- “Courage is rarely reckless or foolish...Courage usually involves a highly realistic estimate of the odds that must be faced.” Margaret Truman, author.

### Economies of Nations

Many pundits commenting on world affairs are sounding the alarm that the Chinese economy is catching up to those of the Western countries—and even the U.S.—in 2010. The

indeed be larger than the U.S. economy in about a generation. On a per-capita level, though, which is perhaps more important to the Chinese government, the Chinese economy lags badly.

There is great anxiety in our country about who will buy the enormous debt that the current Federal Government is determined to pile onto future generations. If the above analysis plays out, it will probably continue to be the Chinese.



Source: Argus Research

arithmetic supports this claim. On an absolute basis, the U.S. economy is approximately 50% larger than the Chinese economy, measured by purchasing power. But if we are to estimate long-term, U.S. economic growth of 3% and long-term China growth of 5%, then the Chinese economy will

Gross Domestic Product (GDP) is the measure of all goods and services of a country, or in other words, all economic activity. According to data from the Economist, GDP per the average U.S. citizen is \$47,000—almost seven-times the \$7,400 level for the Chinese citizen. Many have the view that China’s goal is to narrow that gap. To make that happen, we think Chinese economic policy will continue to favor investments into U.S. securities, even if the absolute China GDP surpasses U.S. GDP—thereby supporting the ability of U.S. consumers to purchase Chinese exports and improve Chinese GDP per capita.

A look at the graph to the left shows that other nations lag the industrialized countries in economic activity. While the United Kingdom, Germany, and Japan all have GDP per person of about \$35,000, Russia clocks in at around \$15,000 and India comes in under \$5,000.

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