

# **LOOK FOR A SQUARE ROOT RECOVERY**

## **WEB BUZZ 2008.04.01**

**We have a very strong suspicion that the marketplace does not understand the headwinds that are facing this economy for a long time to come.**

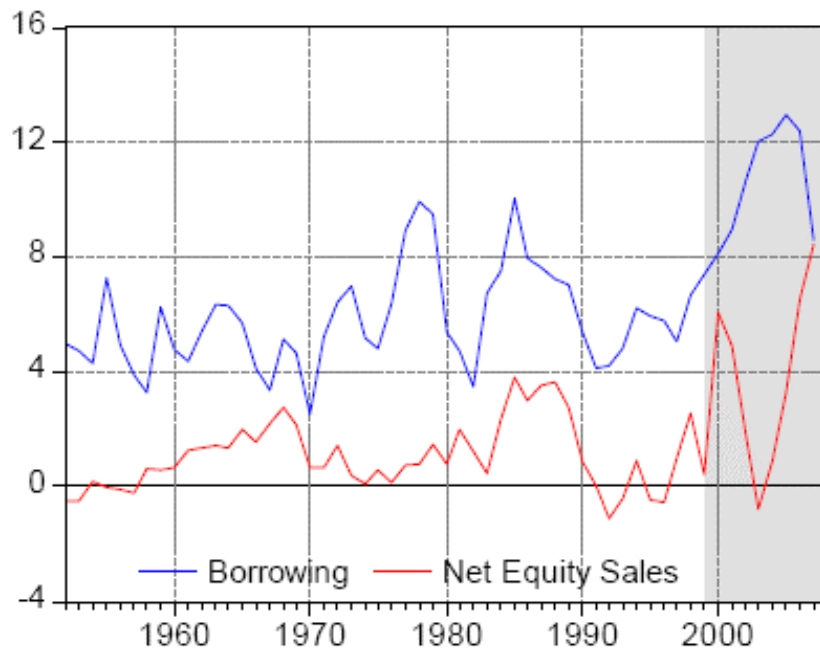
**There are two major problems that only time will cure. First and foremost is the condition of the banking system. There now appears to be \$1T of bad paper that will need to be absorbed in the future. During this period of time, the bankers will be on the other side of the desk asking for money. We'll see how they like the side you and I have been on for most of our lives. Two uppermost conditions will be prevalent: first, the provider of the capital will want a man "inside" to see just how the management is conducting its business—very carefully, we would imagine; the second condition will come from the banks' stockholders. They are being diluted like crazy, and we would wager to guess they do not want to go down this road again.**

**As Ferland Husky once sang, "Love may make the world go round, but money greases the wheel." For at least five years, probably much longer, there is going to be darn little grease. The result: slow to no growth.**

**On a more fundamental and long-lasting basis, the consumer who has spent well beyond his means for at least ten years is being compelled to go into hibernation for a long winter's nap. Please note the following chart, which reveals the source of funds the consumer has needed to be able to continue to spend like the good old days before his income went south.**

**It's a whole new ball game for the U.S. economy. The good news is that when this "lost decade" or so is over, we will have restored our economic health, thereby being in shape to grow again.**

**Households: Borrowing and Net Sales of Corporate Equities  
as % of Disposable Personal Income**



Adapted from [www.SafeHaven.com](http://www.SafeHaven.com)