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A Special Report  
December 24<sup>th</sup>, 2009  
*2009: A Year of Transition*

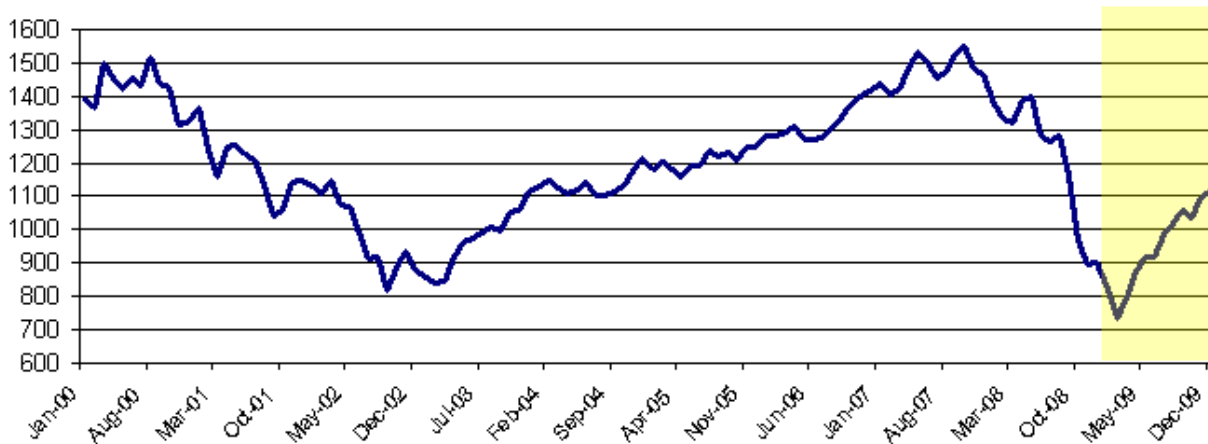
As we approach the end of calendar year 2009, we find ourselves facing economic, political, and societal challenges so complex that King Solomon himself might have found himself scratching his head in bewilderment. Many of these problems, like unfunded entitlements and fiscal budget deficits, have been confronting us for years, while others, like the mounting numbers of home foreclosures and personal bankruptcies have yet to reach “crisis” proportions, but are building steam like a runaway freight train.

In fact, unlike the (relatively) blissful and prosperous state of affairs in existence as we approached the end of the decade of the ‘90’s, this month marks the end of a decade *characterized* by its turmoil and uncertainty. The relative peace of the ‘90’s has been replaced with an amorphous but deadly enemy in our now decade-long “War on Terror”. Previously benign third world countries that were recipients of our foreign aid in past years have emerged to relative economic, and in some cases, military prominence in the world, and in so doing, have shifted the balance of power in ways that our leaders find themselves more reacting to than directing. The domestic political landscape, dominated for most of the decade by the right, has shifted decidedly to the left. And the global equity markets, booming in the ‘80’'s and ‘90’'s, have delivered little, if any real return to investors this decade.

Societal, economic and market shifts seen in recent years have been as dramatic as the exponential changes more commonly seen in the field of technology. Taking our focus down to the capital markets in the year just ending, 2009, like the year before it, was clearly *a year of transition*, bringing with it some fairly sharp shifts in market direction. Global equity markets started the year in a continuation of the freefall that began fifteen months earlier, a peak-to-trough decline in the S&P 500 Index (for example) that exceeded 57%. In early March of this year, we saw a sudden reversal in the equity markets’ direction, and through last Friday (12/11/09), the S&P 500 Index had jumped an incredible 65% from its lows, but despite the improvement, remains 29% below its October 2007 high.

### S&P 500 January 2000-December 2009

(2009 Denoted by Shaded Area)

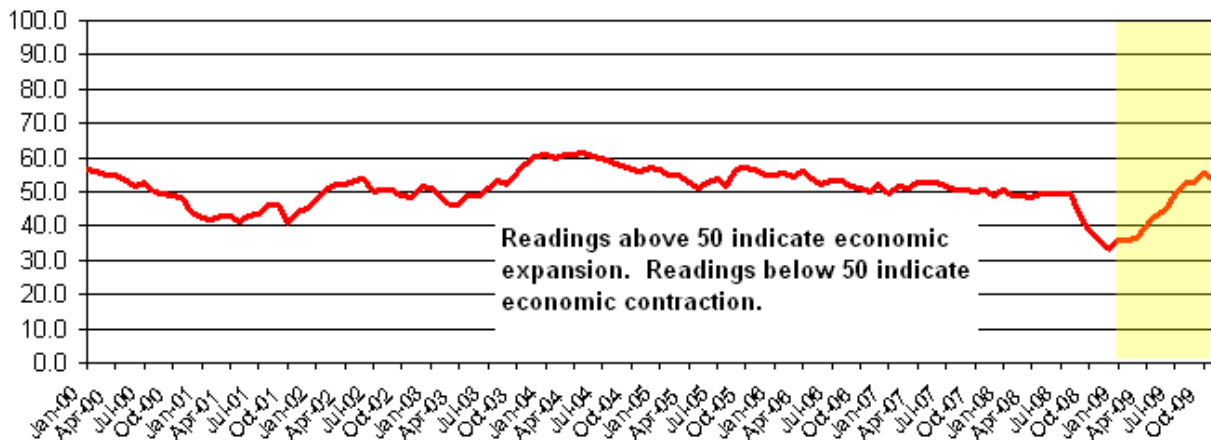


Source: Standard & Poors

As we look at the component parts of the economy for explanations for the turnaround, we see that the manufacturing and service sectors of our economy have apparently (and recently) reversed their prior year's declines, transitioning back to an expansionary phase in recent months, albeit from fairly contracted levels relative to the middle of the decade.

### ISM Manufacturing Index January 2000-November 2009

(2009 Denoted by Shaded Area)



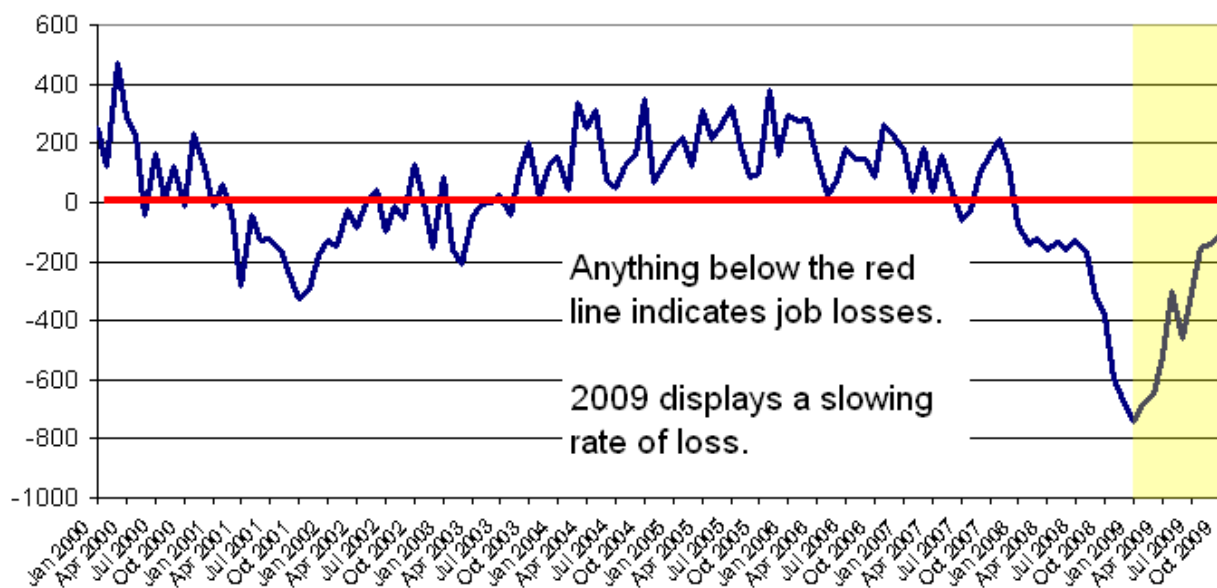
Source: Institute of Supply Chain Management

Always a lagging indicator, unemployment (as a percentage of the workforce) increased steadily throughout 2009. While the percentage of unemployed Americans rose steadily in 2009, the number of jobless claims actually peaked back in January, and showed steady improvement (smaller losses) through the year. This amid hopes that the government's stimulus and banking

reforms would provide the economic demand and credit supply needed for business to re-hire workers.

The President and the Democratic-controlled Congress point to lower monthly job loss statistics as evidence of the efficacy of their policies. And while it does appear that there has been progress made toward the goal of actually *creating new jobs*, our severely weakened economy's ability to do so clearly remains a question mark.

**Change in Payroll Employment 2000-November 2009 (in thousands)**  
(2009 Denoted by Shaded Area)

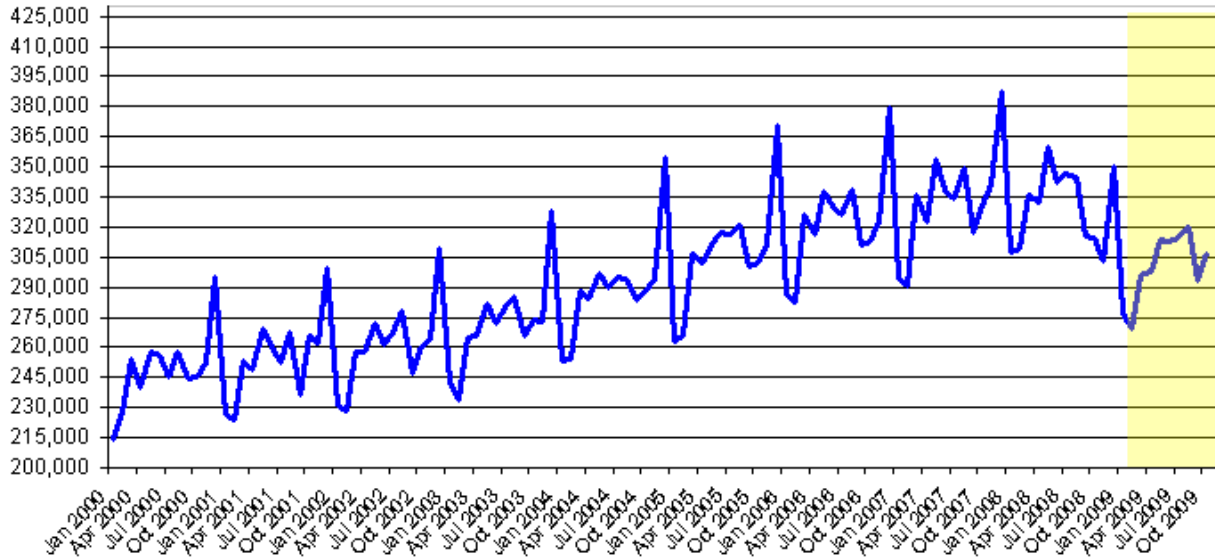


Source: Bureau of Labor Statistics

American consumers were in transition this year as well, as the economic tsunami consumed much of the equity in their homes and the dollars in their retirement accounts. When coupled with their aforementioned job *in*security, their “sentiment”, and their legendary willingness to consume were reduced to levels never seen since such measurements have been compiled.

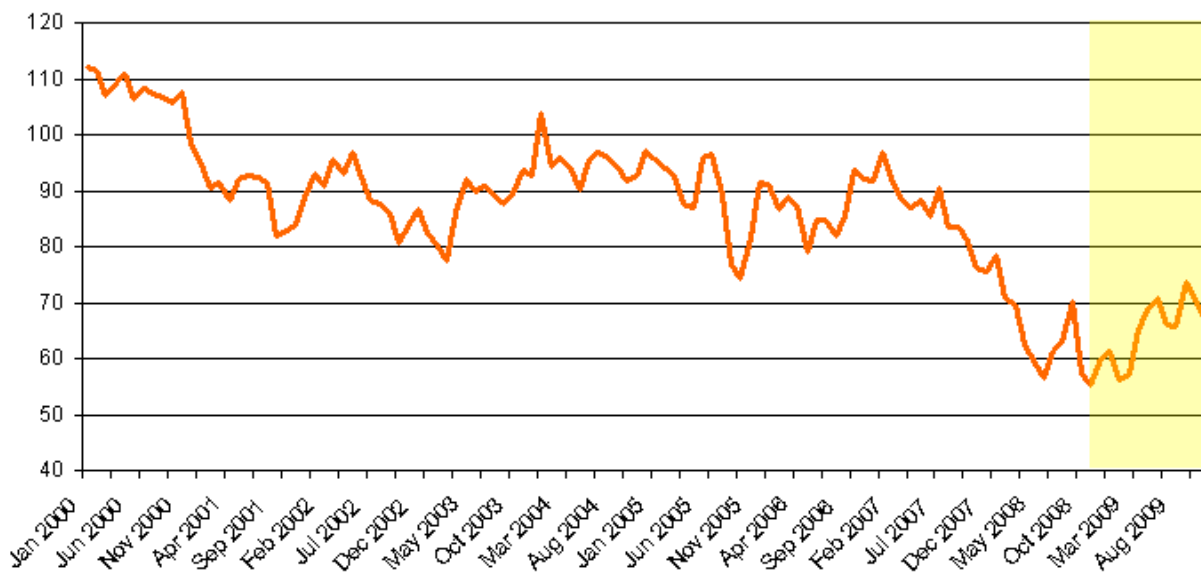
While we have seen some modest improvement in Consumer Sentiment and Retail Sales the past few months, we remain mired at levels well below historical averages.

**Retail Sales 2000-October 2009 (in millions)**  
(2009 Denoted by Shaded Area)



Source: US Census Bureau

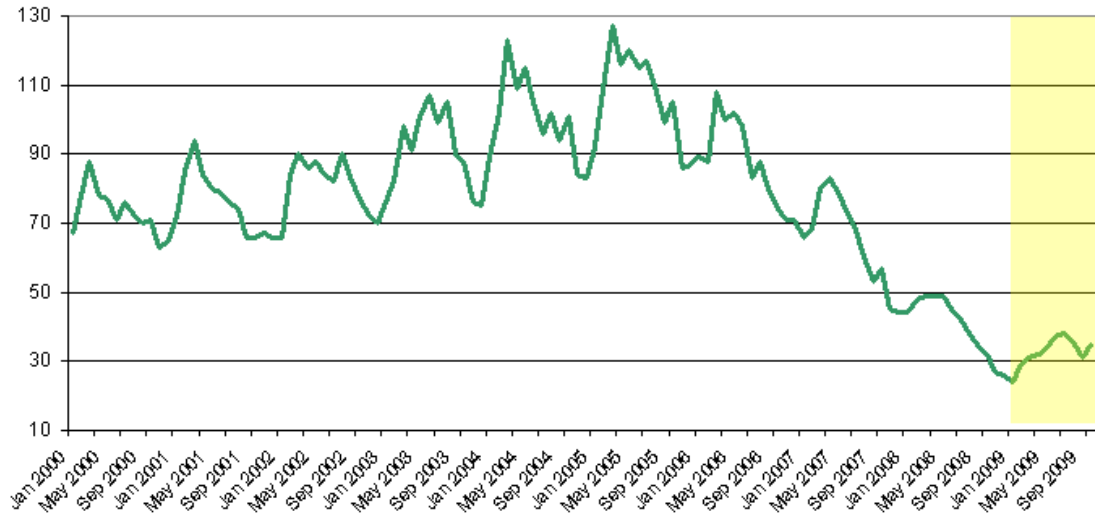
**Consumer Confidence 2000-November 2009**  
(2009 Denoted by Shaded Area)



Source: University of Michigan

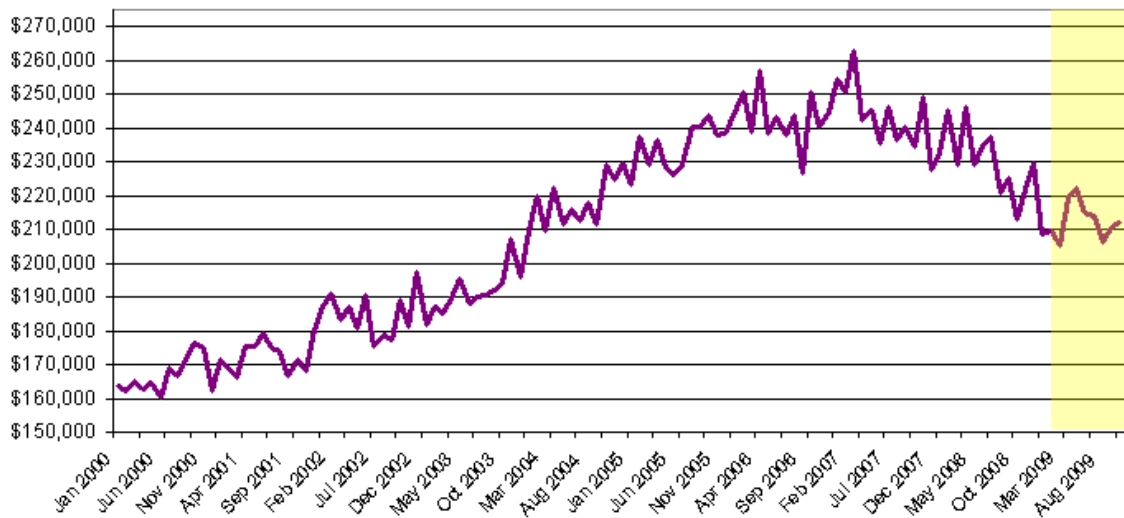
The “Housing Bubble” burst in 2007, and home prices (and equity) have fallen dramatically since. While the size of these declines differed regionally, recent months have seen some welcome stabilization in the national sales and median home price data. Like the previously-cited data however, these “improvements” leave us well below previous levels.

**Monthly New Home Sales 2000-October 2009 (in thousands)**  
(2009 Denoted by Shaded Area)



Source: US Census Bureau

**Median Home Price 2000-2009**  
(2009 Denoted by Shaded Area)



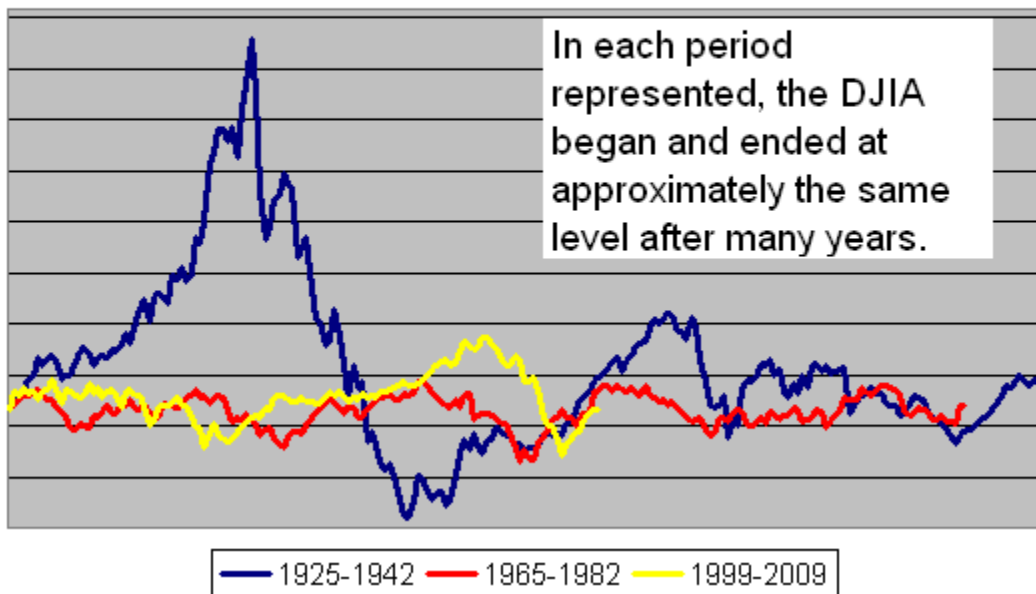
Source: US Census Bureau

As we know, economic cycles ebb and flow from expansion to contraction, and back to expansion again. The year ending this month will, I hope, prove to be a transition year as far as the economy goes. The equity markets, typically a leading (anticipatory) economic indicator, have been pointing all year to economic improvement on the near-term horizon.

That said, like the improvement in the equity markets seen over the past nine months, the (relative) improvements in these data has been modest, and in the context of longer-term levels, complete recovery is anything but a certainty. Concerns for the potential of a “double-dip recession” remain, and this year’s market advances are anything but secure.

As previous secular bear markets might indicate, even an end to recession won’t assure a return to market highs anytime soon. In fact, we may be entering a second decade of market turmoil. Manufacturing job losses, trade deficits, the dollar’s devaluation, geopolitical risks, and heretofore unseen levels of annual and cumulative government deficits provide strong economic headwinds against a market breakout.

### Dow Jones Industrial Average (DJIA) Secular Bear Markets Compared



Source: Dow Jones, Inc.

Before I am accused of looking at the glass as “half-empty”, or of playing “Scrooge” at an inappropriate time of the year, let me say that this year’s market gains were a great relief to my clients and me. Our firm’s investment strategy “transitioned” this year as well, in grudging recognition of the fact that we have been, and we believe we remain mired in a *secular bear market*. And as we’ve stated all year in communications to clients, such markets require an active and tactical approach be taken by our money managers, in order to protect the gains we’ve enjoyed this year.

In point of fact, in nominal terms, and by historical standards, 2009 was a great return year for us and our clients. In relative terms however, we remain well below prior asset valuation levels, and consequently, we remain guarded in our approach, and ever-vigilant to signs of new economic and political problems here and around the world. While the world presents new and ever more complicated challenges around every corner, rising and falling in reaction to them, we have no choice but to invest our collective capital in global markets. To not participate in these markets, or to permanently sit on the sidelines in response to the uncertainties ahead is not an option for investors seeking to advance that capital's buying power to meet future needs. Our strategy employs the strong and well-defined "sell disciplines" necessary to play, and win, in transitioning market environments.

No doubt the politicians in Washington will argue the cause and effect of economic and market "gains" or "losses" from now until the end of time. But in my humble opinion, they (politicians) cause more problems than they solve, since government really can't create permanent demand, or develop efficient supply. Consumers create real demand, and businesses create efficient supply, and the politicians in Washington would do well to remember that.

In closing, here's hoping for a continuation of the recently improving economic data into 2010, regardless the reasons for their improvement, and for the resurgent strength of the businesses and consumers who drive the most successful economic system the world has ever seen, a system we lovingly refer to as "American-Style Capitalism". May it not only survive, but prosper and thrive long after the current occupants of political office are but footnotes in our history books.

Happy Holidays, and May God Bless America abundantly in 2010!

- JRP

This article is for informational purposes only. This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice as individual situations will vary. For specific advice about your situation, please consult with a financial professional.

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### *What's "Right" With America*

#### **Profile: Harlyn & Dorothy Griffiths**

Harlyn Griffiths was born in Mankato, Minnesota in depression-era 1931, the sixth of eight children in his family. On 240 acres Harlyn describes as a “*sandy-soiled dirt farm*”, his father and mother grew most of their own food, raised some milk cows, some chickens and turkeys, and they scratched out a relatively meager living by selling what they couldn't eat. Like many rural families of that time and place, Harlyn says his family was “*poor, but never neglected*”.

Dorothy Pass was born around the same time in Minneapolis to lower middle class parents. One of four children, her mother would divorce her alcoholic father when she was in the eighth grade.

This soon-to-be couple would meet one another while both were just 15 years old, and while each worked at “*The Milk House*” a local, Hopkins, Minnesota establishment Harlyn described as “*a combination convenience store and ice cream parlor*”. Dorothy was beautiful, smart, and hard working. In addition to holding down her job at The Milk House, she was the very popular Head Cheerleader at her high school, a Majorette, and sung in her church's Choir. Harlyn was immediately smitten by her, but being painfully shy as a young man, it took him a while to find the courage to even speak to Dorothy. Fortunately for him, Dorothy must have seen something special in this young man. They began dating in March of their junior year, and married in 1951, a little less than a two years after graduating high school, and just months shy of their 20<sup>th</sup> birthdays.

Dorothy's mother had eventually remarried, and about this time she and Dorothy's step-father had relocated to the Phoenix area. When Harlyn and Dorothy visited her parents in Arizona for the first time the following year, they fell in love with the desert's beauty, warmth, and the wonderful aroma of orange blossoms that Harlyn noticed as they drove into town. Dorothy also found the drier climate a benefit to an asthma condition she had. Not long after returning to work in Minnesota, Harlyn asked for, and received a medical leave of absence from his job at Minneapolis-Moline, a tractor and farm implements manufacturer, allowing he and Dorothy to return to the desert for health reasons. During this hiatus in Phoenix, Harlyn looked for gainful employment, and he was quickly offered a permanent position at Air Research's Phoenix plant in their quality control area. (Air Research eventually became Allied Signal, and ultimately, Honeywell.)

Rising to a Shift Supervisor's position within Air Research's Quality Control Department in three short years, a mentor of his within that organization approached Harlyn with the opportunity to move into sales for the company. Harlyn hesitated briefly before accepting the change in responsibilities, since he knew he would have to overcome a stutter and his severe shyness in order to make sales calls. Recognizing the potential for advancement that comes with sales production however, Harlyn decided to take the leap, and soon proved to be more than willing to outwork his competition. He quickly rose to the position of Supervisor of Military Support for all of Phoenix, overseeing the efforts of 15 to 20 sales people.

While working at Air Research by day, Harlyn continued his education in the evenings, taking classes at Phoenix College, then Arizona State University, ultimately earning his degree in American Law & Procedure from LaSalle Extension University in 1968.

While Harlyn was working by day and studying at night, Dorothy was busy caring for their growing family, which would eventually include three daughters, Holly Ann, Debbie, and Linda, and a son, also named Harlyn. The young couple physically built their first home in Phoenix in 1952, paying just \$625 for a plot of land in Phoenix. On that lot they built their first home, a 1500 square foot, three-bedroom, two bathroom house. All in, they had a whopping \$7,500 invested in the home when it was finished.

In 1956, while Harlyn was still working at Air Research, the Griffiths invested in 160 acres of undeveloped land in a small town called Casa Grande, located right around the mid-point between Phoenix and Tucson, a town which boasted a population of less than 7,000 at the time. They paid just \$50 an acre for the land. In 1960, Dorothy's step-father started construction of a couple of homes on the property in partnership with the Griffiths, under the corporate name, “*Mi Casa Builders*”.

While still at Air Research, it soon became apparent to Harlyn that he would need to take day-to-day operational control of their little residential home building business, and in August 1963, he quit his job, consolidated ownership in Mi Casa Builders to himself and Dorothy, and they moved their young family to Casa Grande to develop the acreage they owned. The residential project, known as *Rancho Grande*, was very successful, and firmly launched their construction company and its reputation for quality.

Over the years that followed, the Griffiths grew Mi Casa Builders into a very successful residential construction and development business that would one day employ 22 – 24 permanent workers, and countless more sub-contracted laborers hired to build their quality residential communities. Over that 30 year period, Mi Casa Builders (and the Griffiths' commercial arm, Tierra Rica Development) grew to become one of the largest general contractors, residential or commercial, in Arizona's Pinal County.

As they built their business and raised their family, they fully integrated themselves into the fabric of the rapidly-growing Casa Grande community. Harlyn was active in the Casa Grande Chamber of Commerce for more than ten years. He served on the Industrial Development Commission for the area, and even served an elected four-year term on the Casa Grande City Council. Included among their many business endeavors was the purchase, and management of five cotton farms. Dorothy was very active as well, working with the residential builder's home buyers in the interior design aspects of their new homes. At the same time, she served in various capacities (including President) on "The Casa Grande Valley Cotton Wives" civic organization, on the local hospital's Auxiliary Board, and in various other sororities and organizations of civic intent. When her children were older, she began a successful second career as a residential realtor in the early '80's, and actively remained so until just a few years ago.

The Griffiths were also among the founders of a local bank created to better serve their growing community, a single branch bank they originally called, *The Bank of Casa Grande*, a bank that would eventually grow to an eleven branch, \$300 million regional bank they ultimately renamed *Sun State Bank*. In 2007, after many years of profitable operations, the Griffiths and their partners sold their interests in the bank to Omaha-based, Great Western Bank.

If one drove through the community of Casa Grande today, they'd find a city whose population has grown to more than 45,000 folks, and you couldn't drive through too many neighborhoods without finding a building Harlyn and Dorothy Griffiths had a hand in constructing. In addition to their many residential developments in the area, they were involved in the construction of the Casa Grande Regional Medical Facility, branches of four different banks in the city, a couple school buildings, two churches, the city's library, and many more projects of similar size and scope. Outside of Casa Grande, their building projects included a five-story, 125-cell jail for Yuma County, and the City of Scottsdale's Headquarters building.

I was professionally introduced to the Griffiths by a mutual friend of their son's in 1985, and I've been serving as their financial adviser ever since. They were already successful when I met them, and they haven't really slowed down since. Today, the Griffiths are "retired", and living in Scottsdale, tending to their extended family, which has grown to include thirteen grandchildren, now ranging in age from 31 to 12. They travel extensively, and remain very active in their church. Harlyn continues to "wheel and deal" in local real estate development, often in partnership with his son. To look at them today, you would never, and I mean never *ever* believe either of them to be in their late 70's. Incredibly fit still, and exercising daily, the Griffiths are simply full of life. The expression, "*they're incredibly sweet people*" is commonly used in society to describe a lot of really nice people, but when you hear it said about the Griffiths, and you do, you know that it's really true. Despite their many successes in life, the Griffiths are genuinely sweet, wonderful, down-to-earth people, as non-pretentious as they come. People from all walks of life and from every rung of the socioeconomic ladder call them 'friends' and I'm privileged to do so as well. They have lived their lives as real-life advertisements for what has become commonly referred to as "*The American Dream*", a dream fueled, and ultimately fulfilled, by hard work, entrepreneurial vision, devotion to family, and civic contribution.

When I was gathering data for this profile, Harlyn spoke longingly of "*the good old days*" when development deals were often bound with a handshake, or with single-page, handwritten agreements. Local and state governments back then were more welcoming of development efforts, and they sought to encourage entrepreneurs, and to recruit them to local projects that inevitably led to *new jobs*. Today, he laments the bureaucracy and red tape that adds so much cost and delay to such projects, and ultimately, discourages job creation. He voices concerns over the direction of today's local and national governments, and wonders if the next generation of entrepreneurs can further grow the region to meet population growth demands as easily as he and his contemporaries were able to, or if they'll be able to shoulder the increased tax burden small business owners will (apparently) be asked to bear. I share those concerns, and I suggest, Americans everywhere should share them as well. Small business owners and entrepreneurs like Harlyn and Dorothy Griffiths are *community builders*. They *add* to society. They are *job creators*. They *meet payrolls*. They *pay fees and taxes*, and in their commercial pursuits, *they give back to their communities*. I would suggest that government should be *helping* people like these to add workers to the ranks of the employed, instead of adding to their burden. In my humble opinion, government would do well to nurture today's entrepreneurs, and avoid over-taxing and over-regulating them, because without people like Harlyn and Dorothy Griffiths, little in this country gets built.