



“Low Demand for Lobster Sends Canadian Fishermen Into the Red”

-Financial Times, January 3, 2009

As we enter a new year, the recovery in the world economy appears to be in full swing. The stock market is up, housing appears to have at least stabilized to an extent, economically sensitive commodities like oil are at 12-month highs, and even the US dollar appears to be on the rebound. Holiday sales, though still somewhat tepid, finished stronger than expected.

So, is that it? Is the recession over?

It is our view that, while the current recession might technically be over, we're not quite out of the woods yet.

Dennis Gartman, one of the most respected newsletter writers on Wall Street, is fond of saying that “all economic information of any importance is initially anecdotal.” What Mr. Gartman means by this is that printed statistics do not tell the full story, and the information they do give tends to be dated by the time it is released. To get a full picture of what is happening, you need more than compiled data. You need real-life stories, or anecdotes.

This brings us to the headline above about the price of lobster. Lobster is the quintessential celebratory delicacy, and demand for lobster can be used as a rough measure of high-end consumer confidence and a willingness to spend freely. But, as the *Financial Times* writes,

“Prices have sunk so far over the past two years that some mass-market restaurant chains have added lobster to their menus. Tennessee-based Ruby Tuesday, with about 850 outlets in the US, offers lobster tails, as well as lobster carbonara and lobster macaroni and cheese.

“Hannaford Supermarkets, a New England chain in the heart of the US lobster industry, has the crustacean on special this week at \$4.99 a pound, half the price of halibut.”

Perhaps even more tellingly, boat foreclosures have risen, driving some fishermen out of the business.

It is dangerous, of course, to put too much emphasis on a single anecdote like the price of lobster. But taking note of such trends can help you to form a more complete view of the state of the economy. Right now, we continue to see reduced demand and nearly nonexistent appetite for extravagant purchases or sales on credit.

For 2010, we believe this will translate to improved but still lackluster retail sales, flat prices, and a slow rate of economic growth. In this environment, we believe investors should be nimble and should be prepared to reduce the risk in their portfolios at the first signs of market weakness.

Sincerely,

Jeremy E. Portnoff

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