“Signs of Stabilization in US Economy as Jobs Figures Surpass Expectations”

-*Financial Times,* August 4, 2012

The American economy added 163,000 jobs in July, according to preliminary numbers released by the Bureau of Labor Statistics. This was significantly higher than the 100,000 jobs that economists had expected and a major improvement from the meager 64,000 jobs added in June. And importantly, *private sector* jobs growth was higher at 172,000 jobs, with the difference accounted for by government job losses.

But lest we get too excited, the unemployment rate actually ticked *up* to 8.3% from 8.2%, and 40% of these unemployed persons are “long-term unemployed,” meaning they have been without a job for over six months.

We shouldn’t read too deeply into one month’s press release, of course. *Barron’s* writer Michael Santoli calls the jobs report “the most overhyped and excessively dissected entry in the data cycle,” and that is a fair assessment. The figures in this press release will be revised, as they always are, and in any event one month of data does not make a trend.

Still, the data over the past year have painted a pretty consistent picture. Improvement in the economy, when it has come, has come in fits and starts. Overall, the economy is on firmer ground than it was a year ago, but it is also aided by the loosest monetary policy in the history of the Federal Reserve and a yawning government deficit of over 8% of GDP. If the government were forced to balance its budget, the nascent recovery would quickly go into reverse and we would be looking at a deep recession.

So what does all of this mean? And what should we do as investors?

With a large debt overhang and the aging and economic retrenchment of the Baby Boomers well underway, we have to have realistic growth expectations going forward. I’m not suggesting that the economy will never grow again or that we are doomed to suffer high unemployment rates for the rest of our lives. That is a defeatist attitude, and we should have faith in America’s entrepreneurs to create jobs and growth opportunities in the future, just as they always have in the past.

But at the same time, the high rates of growth we enjoyed in the 1990s and through most of the 2000s are simply not realistic right now and won’t be realistic for quite some time.

As investors, this means that a simple “buy and hold” strategy that assumes that we will enjoy capital gains on par with those of the boom years is not realistic. We have to be more creative and be willing to look for opportunities in places we might not normally think to look. Where possible, we should look for steady, predictable income streams.

But most of all, we need to have a plan. Bull markets are easy. It’s during harder times that we learn what we are truly made of.

Sincerely,

Jeremy E. Portnoff

Jeremy E. Portnoff, CFP®, AIF®, CRPS®, CES™, CFS®, CTS™, CAS®, CIS™
NAPFA Registered Advisor
Ed Slott Master Elite IRA Advisor
HS Dent Master Certified Advisor
Paladin Five-Star Advisor

Sources:

http://www.ft.com/intl/cms/s/0/6c621876-dd69-11e1-aa7b-00144feab49a.html

http://bls.gov/news.release/empsit.nr0.htm

http://online.barrons.com/article/SB50001424053111903940904577559011680213098.html