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## The Double-Dip Recession: Four Reasons to Put This Talk to Bed

by [Louis Basenese](#), Small Cap and Special Situations Expert  
Thursday, July 22, 2010: Issue #1307

The dreaded double-dip recession chatter is getting louder by the minute. And it's clearly scaring the dickens out of most Americans.

How else do you interpret the five-fold increase in the number of Google searches for "double-dip recession" since May?

My advice? Get some earplugs. Seriously.

I'll concede that the wounds from the Great Recession might still be raw. And given the impact of the crash on investment portfolios, many retirement plans might still be on pause.

But as demoralizing as the thought of another downturn is, the chances of a double-dip actually happen are slim. And it's certainly not worth losing any sleep over.

Here are four reasons why...

### Do You Believe in Double-Dip Recessions and Unicorns?

The first reason not to worry about a double-dip recession is simple. They're rare. Extremely rare.

In fact, the National Bureau of Economic Research says that over the past 80 years, we've only endured one of them – from 1980 to 1982.

And over the past 150 years, we've only encountered... (wait for it)... three.

Translation: We have a better chance of seeing a unicorn before another double-dip recession. Well, almost.

If you're looking for a little more meat on the bone, look no further than my second reason...

### **Double-Dip Defiance From Corporate America**

If America were heading into a double-dip recession, we'd see the downturn reflected on corporate financial statements across the country.

But that's not happening. Quite the opposite, actually...

Corporate profits are rising – up 52% during the first quarter, with analysts forecasting a 34% increase once the second-quarter results are tallied.

And that's not the only positive trend. Consumer spending, capacity utilization, industrial production, retail sales and the average number of hours worked are all rebounding, too.

In fact, of the 40 economic indicators that I track, the overwhelming majority have steadily improved over the past year.

I'm not the only one who believes the current economic data flies in the face of the double-dip recession talk, either. Credentialed economist and Lord Abbett's market strategist Milton Ezrati offers seven reasons why you shouldn't fear a double-dip in a recent [Wall Street Journal blog post](#).

Now I'll readily concede that the momentum of the economic recovery might have slowed over the past couple of months. But that's not fazing these guys...

### **These Two Heavyweights Are on the Same Page**

Former Federal Reserve Chairman Alan Greenspan notes that the current environment seems to resemble the typical pause patterns witnessed during previous recoveries. In other words, the recovery is still intact.

Don't trust Greenspan's assessment? No worries. Consider Warren Buffett's...

In his [2008 "Letter to Shareholders,"](#) he wrote of "life-threatening problems," "non-functional" credit markets, "tumbling home prices" and "a freefall in economic activity... that I have never before witnessed."

Financial Armageddon, you might say.

But nowadays he's preaching a different story, saying: "*There's no doubt in my mind, we're coming back.*" And he offers irrefutable proof: Most of the 70 companies in which Berkshire Hathaway owns a stake are improving their margins and hiring workers again.

And then there's the Federal Reserve...

### This Indicator Says There's Zero Chance of a Double-Dip Recession, Too...

What's one of the best indicators that the Fed uses to determine the probability of a recession?

It's the Treasury spread – i.e. the difference in yields between 90-day Treasury bills and 10-year Treasury bonds.

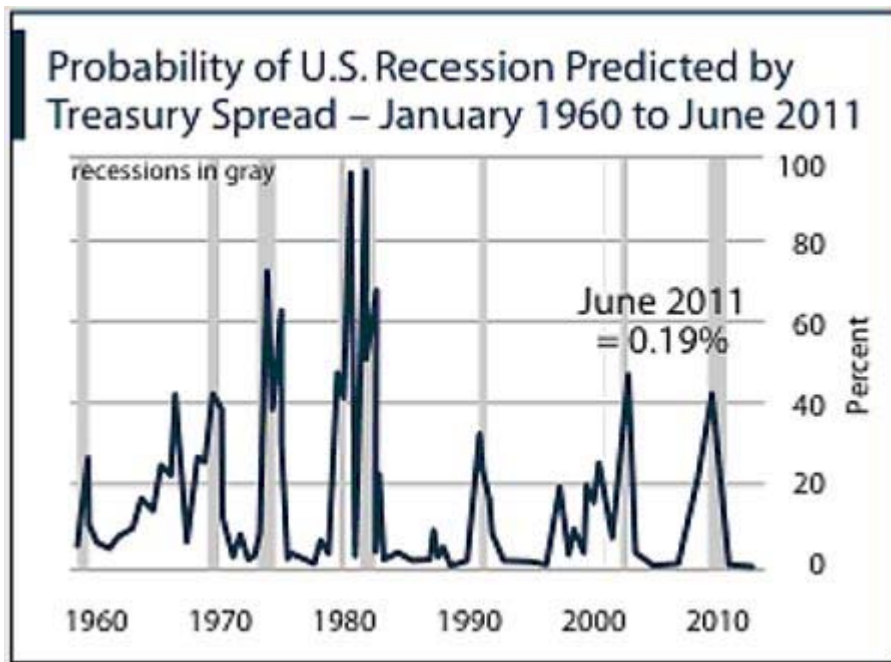
The calculation allows the Fed to construct a yield curve.

As the New York Fed reveals: *“Research beginning in the late 1980s documents the empirical regularity that the slope of the yield curve is a reliable predictor of future real economic activity.”*

So how do you read the yield curve? Simple...

- **Steep Yield Curve:** Points to economic growth.
- **Flat or Inverted Curve:** Signals an economic slowdown or recession.

And as the latest Treasury Spread Model shows, there's a 0.19% probability of a recession in the next year. Take a look... and relax.



What can we conclude from this? That there's essentially no chance of a double-dip recession in the year ahead.

The fact that previous spikes in the indicator accurately predicted other recessions (denoted by the gray bars) should only increase your confidence in this indicator, too.

Bottom line: While the economic picture isn't all rosy (unemployment remains uncomfortably high and credit remains tight), we're certainly not facing the dire fundamentals of two years ago. And too many economic readings are improving for a double-dip recession to be in the cards.

And that's before we even get to one final – and the most important – reason not to fear a double-dip recession...

### **It's NOT the Economy, Stupid!**

Simply put, it doesn't matter!

No matter what happens, it's still possible to invest safely and profitably – even if you're the most risk-averse investor.

All you have to do is focus on this strategy...

- Pinpoint simple businesses, selling recession-resistant products or services.
- Look for companies that have a minimal need for credit and are churning out gobs of cash.
- [Identify stocks that pay a modest, safe and increasing dividend](#). After all, countless studies show that almost half the gains in the S&P 500 since 1925 can be attributed to reinvested dividends.

Basically, look for companies that will thrive in any environment.

Now here's the good news: You don't have to look very far to find such investments...

### **The Ultimate Retirement Portfolio**

At *The Oxford Club* we dedicate an entire portfolio to sleuthing out such opportunities and we call it TI Ultimate Retirement Portfolio.

And our strategy doesn't just look good on paper, either. It works.

Consider this...

- None of the 15 companies in our portfolio suffered a debilitating blow to demand during the Gre Recession. In fact, sales at all but three companies actually increased – by an average of 13% – through the recession. And the three laggards only suffered modest declines of 5% to 8%.
- Every single company maintained its dividend. And 10 out of 11 were able to increase their dividends in 2008 and 2009.
- We've only experienced one loss (a modest one of 7%) since we created the portfolio.

Such stats don't happen by accident. They're a result of steady demand and conservative financial management. And there's never a bad time to buy such companies – including now.

I encourage you to [sign up for risk-free trial today](#) so you can find out the identity of these 15 all-weather ultra-safe, high-yielding stocks (plus new ones as we recommend them).

Or you can let fear get the best of you and miss out on the opportunities altogether. You decide.

Good investing,

Louis Basenese

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**Share *Investment U*:****10 Responses to “The Double-Dip Recession: Four Reasons to Put This Talk to Bed”**1. *Susan Kishner* Says:

[July 22nd, 2010 at 10:13 am](#)

You know, I have to tell you, I really enjoy this blog and the insight from everyone who participates. I find it to be refreshing and very informative. I wish there were more blogs like it. Anyway, I felt it was about time I posted.

[Reply](#)

2. *kent porter* Says:

[July 22nd, 2010 at 11:08 am](#)

Quickley on Louis's double dip prediction. Housing always leads us in and always leads us out. Being a part of that industry on the supply side I can tell you, we are not leading out. Recent stats would say we're going the other way. I'll stick with this indicator. When our industry starts getting well, so will the economy.

[Reply](#)

3. *Damian Moran Says:*  
[July 22nd, 2010 at 11:41 am](#)

Louis are you totally disconnected from reality?

We'll be lucky if it is only a double dip.

You cite the Fed as a source. The same Fed that refuses to be audited? That has printed more \$ than Americans know about. That has engineered the biggest Ponzi economy in history.

I forgot Louis you're a Wall Streeter. Makes perfect sense now. Pump and dump boys. Actually the only chance we stand Louis is if we relocate your ilk. Where you can pitch ET et al. Where they may also have over \$100 trillion in debt with their own printing presses and still drinking their own KoolAid. Beam them up some bailouts from their friends down here. Helicopter Ben has no shortage of the stuff.

[Reply](#)

4. *Richard Carrillo Says:*  
[July 22nd, 2010 at 11:54 am](#)

The information in this article is very refreshing and positively informative. I get exhausted from reading articles that lead people to believe in the end of the world.

Richard

[Reply](#)

5. *Gabriel A Ferrer Says:*  
[July 22nd, 2010 at 5:15 pm](#)

This article is absurd. The economic recovery is a mirage. The coup the grace to the economy will be the income tax increases in 2011.

Contrary to what you say, Alan Greenspan declared in a WSJ article that interest rates will go up significantly, in 2011. Furthermore that the US can not repay our debt in real terms. The only options are: 1. "Tectonic" cuts in spending. Probability of this happening is zero, 2. Hyperinflation. Probability of this happening is 100%

[Reply](#)

6. *Joe Says:*  
[July 25th, 2010 at 12:13 pm](#)

When CPA's and CEO's print out EPS and Book Value that has even a single thread of honesty you will believe you.

\$2.5 Billion for Good Will? Let 2 people die eating the company's food and watch Good Will go Zero in 12 hours!!!!

Is there an honest CPA or an honest CEO

[Reply](#)

7. *Russ* Says:  
[July 26th, 2010 at 12:22 am](#)

Hi!, Fellow Americans:

3 things:

(1): please ask the guy who's lost his home to foreclosure due to a loss of his job if he's still in a recession double dip or not? What this article tries to fit into a round hole is a square peg, because the thinking here is that a double dip means another housing slump etc. Are we to believe that families loosing their homes to foreclosures due to the loss of job(s) to their bread winner(s) is the new norm for an economic recovery for heavens sake.

(2): There's no mention here of the millions of pensioners who have been suffering for years and years from a loss of income from the Feds' lowered interest rates, so the banks can profit/prosper instead by purchasing Treasury Bills/Bonds to shore up their losses; while John Q. Public/Joe Sixpack has been zilched out of their savings. Who's going to reimburse either John Q. Public or Joe Sixpack for those years of losses; a so called recovery when the recovery if that's what we're beginning to have should have only added to John's & Joes savings now lost in time forever? Plus there's only one option for recovery available which is a fiat recovery without Constitutional mo @ hand to save us from future inflation whenever the Fed wants to crank up their quantitative easing pickpocketing purchasing power from John's & Joe's pockets irretrievably!

(3): An article in the Thursday, July 22, 2010 Investment Business Daily titled: "The Tax Tsunami On The Horizon" states only a partial list of the many taxes that are coming our way, after the Bush tax-cuts end Dec. 31, 2010 including (a) the lowest bracket for the personal income tax moves up 50%....from 10% to 15%; (b) the next lowest bracket ....25%....will raise to 28%; and the 33% bracket rise to 36% and the 35% bracket becomes 39.6%; (c) the marriage penalty also makes a comeback, & the capital gains tax will rise 33% ....to 20% from 15%; the tax on dividends will go all the way from 15% to 39.6%.....a 167% increase; added to the present increases, the capital gains & dividend taxes will increase in 2013 by another 3.8%, to accommodate Obama's Medicare levy on individuals earning \$200,000 a year & joint filers making more than \$250,000 a year. (d) Other tax hikes include halving the child tax credit to \$500 from \$1,000 and fixing the standard deduction for couples as it is for single filers; elimination of the health savings account, flexible savings account, or health care reimbursement pretax dollars to purchase nonprescription drugs, over the counter medicines (except insulin). (e) The HSA Withdrawal Tax Hike increases the additional tax on non-medical early withdrawal from HSA from 10% to 20%, disadvantaging the relative to IRA's and other tax-advantaged accounts, which remains at only 10%. (f) Brand Name Drug Tax means that makers & importers of name drugs will be liable for a tax of \$2.6 billion in 2011. The tax goes to \$3 billion a year from 2012 to 2016 then \$3.5 billion in 2017 and \$4.2 billion in 2018. Beginning in 2019 it falls to \$2.8 billion and stays there. And who pays the new drug tax? Patients, in the form of higher prices. (g) ATR reports that the IRS is now empowered to disallow perfectly legal tax deductions and maneuvers merely because it judges that the deduction or activity lacks "economic substance". A third & final (for now) wave, says ATR, consists of the alternative minimum tax's widening net, tax hikes on employers and the loss of deductions for tuition. The Tax Policy Center, no right wing group says: the failure to index the AMT will subject 28.5 million families to the tax when they file next year, up from 4 million this year. (h) Small businesses can normally expense (rather than slowly deduct, or "depreciate") equipment purchases up to \$250,000 says ATR. This will be cut all the way down to \$25,000. Larger businesses can expense half of the purchases of equipment. In Jan. 2011, all of it will have to be "depreciated". (i) According to ATR there are literally scores of tax hikes on business that will take place, plus the loss of some tax credits. The research and experimentation tax credit will be the biggest loss, but there are many others. Combining high marginal tax rates with the loss of this tax relief will cost jobs. (i):

The deduction for tuition and fees will no longer be available and there will be limits placed on education tax credits. Teachers won't be able to deduct their classroom expenses and employer provided education aid will be stricter. Thousands of families will no longer be allowed to deduct student loan interest. (j): Then there's the tax on Americans who decline to buy health care insurance (the tax the administration initially said wasn't a tax but now argues in court it is) plus 3.8% Medicare tax beginning in 2013 on profits made in real estate transactions by wealthier Americans.

Not all Americans may fully realize what's in store-come Jan. 1, 2011 but they should have a pre good idea by the mid-term elections, and members of Congress might take note of our latest IBD/TIPP Poll.

Fifty one percent of respondents favored making the Bush cuts permanent vs. 28% who didn't. Republicans were more more than 4 to 1 and Independents more than 2 to 1 in favor. Only Democrats were opposed but only by 40% to 38%.

The cuts also proved popular among all income groups...despite the Democrats oft-heard assertion that Bush merely provided "tax breaks for the wealthy." Fact is Bush cut taxes for everyone who paid them, and the cuts helped the nation recover from a recession and the worst stock-market crash since 1929.

Maybe, just maybe, Americans remember that...and will not forget come Nov. 2.

Conclusion: It appears that we had better batten down the hatches and prepare to take our divider earnings etc. to the IRS service centers where the money can be spent for the Gov.'s purposes and not us spending it to the economy to fortify any kind of economic recovery; unless it's the Government's recovery from our taxes but not our recovery in terms of spending into the Nation's economy nor our savings accounts benefiting from higher purchasing power across the board? Unless we can defeat the inferred taxes we're ordained to pay when Bush's tax cuts are eliminated from their taxing ways!

RUSS Smith, California

[Reply](#)

8. *Mark Says:*

[July 26th, 2010 at 10:31 am](#)

I agree with Russ. Too many Washington folks have talked each other into a false sense of reality in where everything is wonderful all the time... Bush's tax cuts worked. The "BIG SPEND" of the recent administration hasn't and probably won't reach down to help the real Americans who need jobs. Spending with no accountability is the Washington Way – and no one seems to care. How sad for this Great Country.

[Reply](#)

9. *Rick Says:*

[July 27th, 2010 at 6:33 am](#)

Do you honestly believe the public is stupid or misinformed? The equities market is dead, and I wouldn't put a dime into it. You can call me unpatriotic but my money is in Silver and Gold.. Period!

This article is nothing more than propaganda gone sour in the eyes of a newly awakened public!! I've lost enough money already!!

[Reply](#)

10. *Jason* Says:  
[July 31st, 2010 at 11:45 pm](#)

Nice article to show that what we'll likely see is a modest slowdown in growth (or perhaps a slight decline) rather than a crisis 2.0 that ends the world as we know it. Those who are preaching the word of financial catastrophe either have done no legitimate research into the global economic condition or refuse to believe facts. I bet you that these are the same people who call others "sheeps", or the more sensational "sheeple" while at the same time suckling at the tit of some whackjob, survivalist blogger for all their information regarding the world. Obviously these are the same people who lost lots of money in the stock market and have now sworn off all investments other than gold (and guns).

I'm betting that most people who care to speculate on economic conditions are the ones who sell fear and buy with greed. Take care to read the last point the author makes: it's not the economy, it's good companies with strong fundamentals and they will weather any storm. Only when you enact this strategy of sounding investing will economic downturns – and more importantly, stock market crashes – seem like bargain sales rather than an apocalypse.

[Reply](#)

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