



DETTERBECK WEALTH MANAGEMENT

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Issue 13

Sherpa Snapshots

*"Preparing you for the
financial road ahead"*

-Bailout-

US Government Invests \$70 Billion in Bankrupt GM



O.K. It's official. GM filed for Chapter 11 bankruptcy protection in New York yesterday morning. Our government has already invested \$20 billion in GM and has agreed to invest another \$50 billion during and after bankruptcy. So, a total of \$70 billion for a company that at best is worth \$1 billion.

The US and Canadian governments would initially own 72.5% of the New GM, 17.5% would be owned by the

In This Issue

Bailout: US Government Invests \$70 Billion in Bankrupt GM

Consumer Spending: Buyers Seek Value

Business: Too Soon to Smell the Roses of Economic Recovery

Bailout: Concerns Grow about Increasing Government Debt

Market Update

Quick Links

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United Auto Workers and the remaining 10% would be owned by former bondholders (wiping out their \$27 billion in unsecured debt). Current shareholders would be wiped out completely.

GM employs 230,000 people globally, building more than 20,000 vehicles per day. More than one million Americans depend on it for healthcare and retirement benefits. For decades, GM was the symbol of American corporate power, selling about half the cars on the road in the 1950s and '60s. Today their market share is less than 20%.

Eventually, the government hopes that GM can return to profitability, which will allow the government to sell its stock. That will be very tough. GM loses money every month. Its costs (even with a restructuring) are out of whack.

The real question is if, and when, consumer demand for cars will rebound and with what force. According to the New York Times on Sunday, "(The) Nation's Love for New Cars (is) on the Wane". New vehicle sales have dropped significantly from a few years ago, when Americans took advantage of home-equity loans and easy credit to buy new cars. Since then, new vehicle sales have dropped 46% to an annualized level of 10 million cars. People are keeping cars longer, reducing the number of cars they own, and using more public transportation.

So even with the benefit of Chapter 11 restructuring, the US government is going to be hard pressed to make a profit on its continuing investment in GM.

For additional information in The Wall Street Journal's June 1 article [click here](#)

For additional information in the Financial Times' June 1 article [click here](#)

-Consumer Spending-

Buyers Seek Value



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"This movie cost \$300 million and you're surprised by the price of popcorn?"

In tough economic times, consumers want more bang for their buck. The effects of the recession can be seen from grocery stores to movie theaters, but the effects aren't necessarily negative.

Attendance at theaters has jumped 14% this year, according to tracking company Hollywood.com Box Office. In recent years, theaters have boosted revenue by raising ticket prices. Initially a turn-off for movie-goers, the price of a ticket holds less of a deterrence compared to going out to eat or going on vacations. Movie chains have been avoiding the recession's effects and attracting attendees by using promotions. Carmike Cinemas Inc., for example, recently started Stimulus Tuesdays throughout its 250 theaters, selling 16-ounce drinks and 46-ounce tubs of popcorn for \$1 each. This is a huge price cut. The discount program is clearly attracting more patrons because Carmike's reported revenue has risen 4.8%. Regal Entertainment Group's revenue has increased 6.8%. No one knows how long box-office resurgence will last, but movie theaters are poised for a strong summer, fueled by sequels such as "Terminator Salvation", "Transformers: Revenge of the Fallen", and "Harry Potter and the Half-Blood Prince."

Food brands are trying similar promotions to attract consumers. Oscar Mayer recently gave away \$1 million in free hot dogs. Limited to one coupon per household for one pack of Jumbo Beef Franks, this web-based promotion was just a mouse click away. This is the latest example of a freebie trend that has been sweeping the food industry. Oscar Mayer isn't the only company trying to attract consumers, Denny's ran a similar promotion as well as KFC.

In grocery stores, a recent growing trend shows that consumers are buying generic brands or less pricey brands instead of expensive name brands because they seek more value. Hormel, the maker of Spam, is currently seeing double-digit sales growth in a year, whereas most other companies are seeing their sales shrink. While Spam is a name

brand, kind of, grocery stores have reported strong sales of generic "private label" products in everything from sodas to pancake mix. For the average American struggling to pay down debts and save for retirement, Spam becomes their best option.

Changes in the quality of life are hard to express numerically. This substitution effect tends to understate both inflation and deflation. The CPI gauge of inflation/deflation would calculate the change in price of a given amount of food, but it doesn't take into account the effects of substitution or consumers trading down to generics.



For additional information in Chicago Tribune's May 27 article [click here](#)

-Business-

Too Soon to Smell the Roses of Economic Recovery



People are desperate for not-terrible news, but in the words of David Greising, as any Chicagoan knows, those first delicate blooms often wind up buried in six inches of snow.

More than 90% of economists predict the recession will end this year, but the recovery is likely to be a bumpy one. About 74% of the forecasters expect the recession to end in the third quarter. Another 19% predict the turning point will come in the final three months of this year, and the remaining 7% believe the recession will end in the first quarter of 2010.

Economists say recoveries after financial crises tend to be slower. Seven of the biggest banks are so desperately short of capital that they'll need, as a group, \$65 billion over the next six months to meet regulator's solvency requirements. People have become so

beaten down by the economic trauma of the last six months that they're desperate to see strength where it has not really come yet.

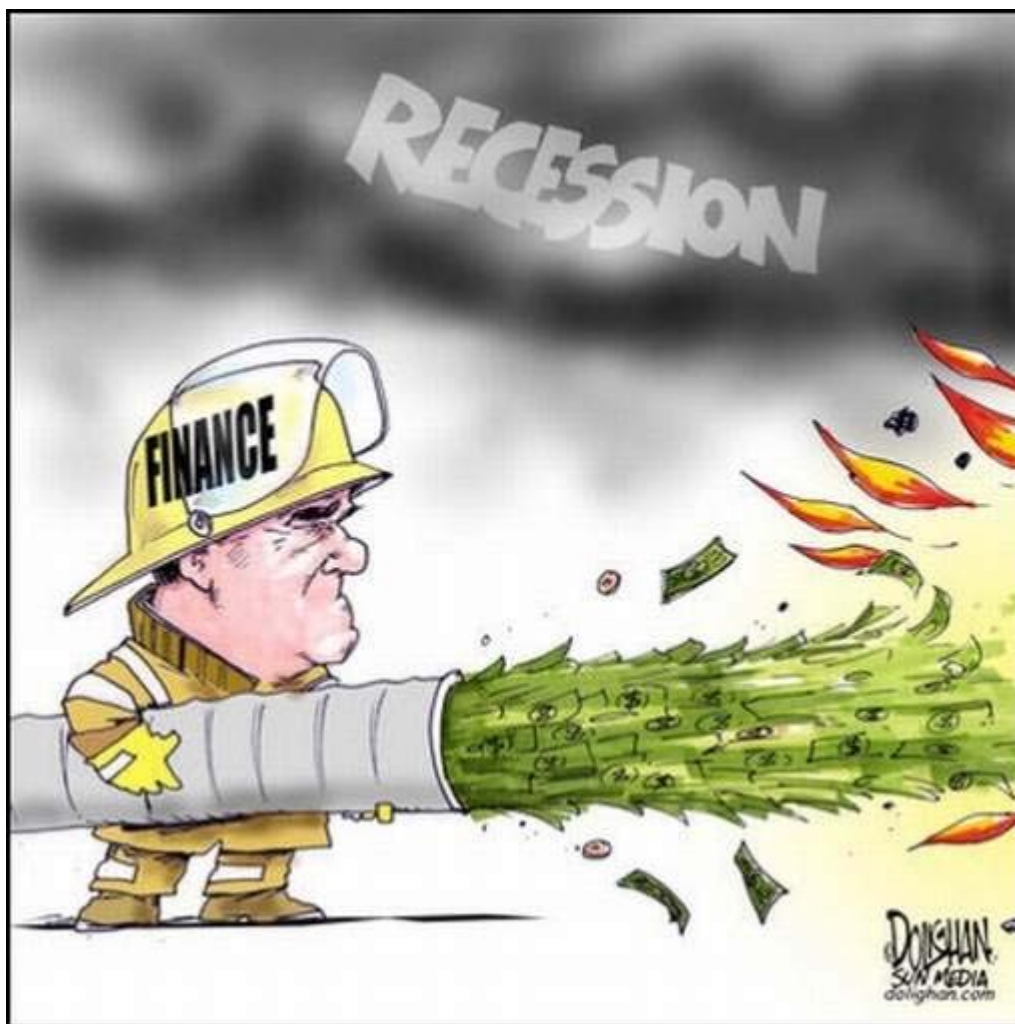
The economy is still falling, but it's falling at a slower rate. Retail sales were not as bad as expected, but subtract Wal-Mart results and sales overall were down by about 2%. Existing home sales, which had dropped at a 17% rate in last year's fourth quarter, fell "only" about 10% in the first three months of this year, and are on track for "just" a 2% decline in this quarter. Better, yes. But good? No.

Since March, according to data from Robert Shiller of Yale, the price/earnings ratio of the S&P 500 index has jumped from 13.1 to 15.5. That is the sharpest, fastest rise in almost a quarter-century. Over the course of 10 weeks, stocks have moved from the edge of the bargain bin to the full-price rack. This is nothing to celebrate. Trader sentiment on the S&P 500 has moved from 2% to 85% in just two months. The peak in October 2007 was at 89%. It's crazy, and sooner or later, this market is cruising for a bruising with that kind of manic behavior.

For Additional information in Chicago Tribune's May 8 article [click here](#)

-Bailout-

Concerns Grow about Increasing Government Debt



The sinking of treasury prices has continued, even after the government sold \$35 billion in five-year notes. There are several factors weighing on Treasury prices and sending long-term yields to their highest levels so far this year. Mainly, the country's growing budget deficit and a weaker dollar have contributed. Government debt auctions have been going well so far, but investors are worried that upcoming sales might not draw as much demand.

The dollar has pulled back from a 5-month low. The sharply rising deficits could lead to an eventual loss of the U.S. government's triple-A credit rating, which makes investors concerned. The other building concern over the U.S. debt market is that China could offload its holdings because of the deteriorating fiscal outlook. If China and other investors suddenly stopped buying U.S. debt, the cost of borrowing could rise for both consumers and businesses. Also, the value of the dollar could fall, which raises the threat of inflation.

Home mortgage rates are typically based upon yields on long-term treasuries. With treasury prices down and therefore yields up, mortgage interest rates are increasing. This could produce another hurdle for the recovery of residential housing.

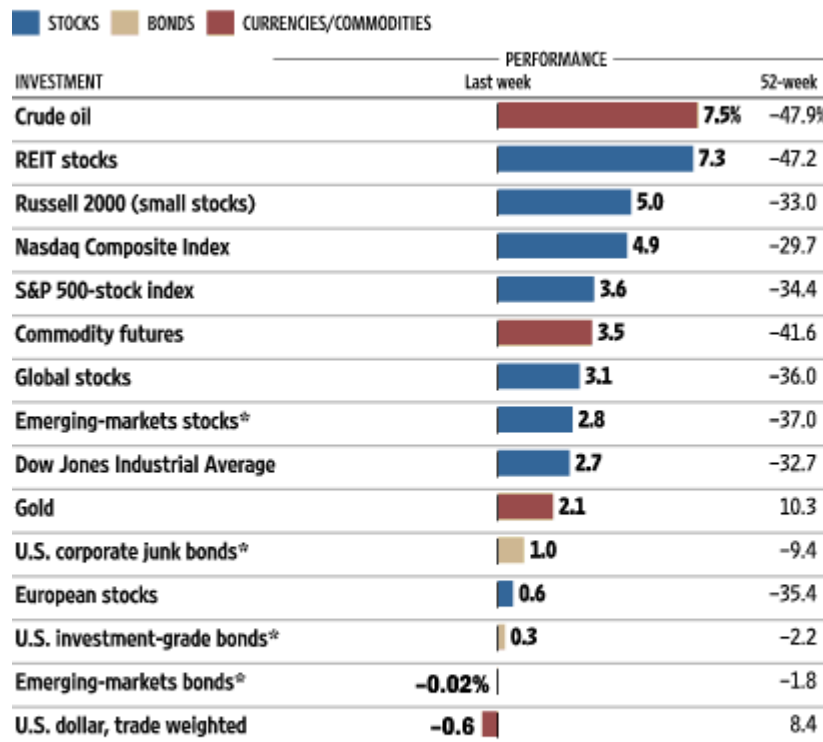
The estimated budget deficit for the current year, which ends September 30, is estimated to be \$1.84 trillion. That would be four times the size of the current record deficit. And how are the current deficits being financed? Thirty-year bonds are now being auctioned

monthly, up from four times a year. Can weekly auctions be far away?

For additional information in Chicago Tribune's May 26 article [click here](#)

-Market Update-

What's Hot - and Not How different investments did last week.



Notes on data: European stocks: Dow Jones Stoxx Index; emerging-markets-stocks: MSCI price index for free markets; corporate-bond prices: Merrill Lynch Global Bond Indexes; U.S. dollar and U.S. Treasuries: J.P. Morgan; REIT stocks: Dow Jones Equity REIT Total Return Index; emerging-markets bonds: J.P. Morgan EMBI-plus price index, in U.S.-dollar terms; commodity futures: Dow Jones-UBS Commodity Index; global stocks: Dow Jones World Stock Index *Data as of Thursday, May 28, 2009

Sources: WSJ Market Data Group; Dow Jones Indexes; Reuters; Merrill Lynch

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