Economic Bottom Impossible to Pinpoint, Virtus Strategist Says

Bublitz Says Secular Unwinding is Real Cause of Market Turmoil; Conditions May Worsen before Slow Improvement Begins

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SAN FRANCISCO, April 13 /PRNewswire-FirstCall/ -- Home prices will further decline, unemployment will soar to double digits, and bank solvency issues will reemerge, says Max Bublitz, Chief Strategist at SCM Advisors, an affiliated manager of Virtus Investment Partners .

(Logo: http://www.newscom.com/cgi-bin/prnh/20090105/NEM020LOGO)

In his most recent economic commentary, Bublitz says that many pundits have incorrectly defined this crisis as an unwinding of the excesses of this decade's credit cycle. He believes, however, that the unwinding is more secular in nature, encapsulating multiple cycles going back perhaps as far as the early 1980s, and in some cases earlier.

"Cyclical corrections do most of their cleansing via sharp contractions in price, and are characterized by spiky, distinct bottoms. Secular turning points are drawn-out affairs and accomplish their cleansing over a longer, more psychologically painful time frame, where the drip-drip-drip of negativity simply wears everyone out," notes Bublitz. "As a result, we've come to view the current gap between expectations and reality as a race to the secular bottom, with cyclical expectations still trailing the secular reality."

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Among Mr. Bublitz's predictions:
-- The consensus estimate of positive two percent GDP by the third and
   fourth quarters will prove too optimistic. Positive GDP by year end is
   more likely;
-- Housing prices will fall another five to 10 percent;
-- Unemployment will peak close to 10 percent next year;
-- Bank solvency issues will reemerge;
-- Corporate default rates will peak around 20 percent;
-- Three percent to 3.10 percent resistance level in 10-year Treasury
   yields will continue to hold.
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"It seems that we remain locked in a race to the bottom, if only because so many market observers spend so much time claiming this point or that stimulus plan will mark it," says Bublitz. "Perhaps we've already seen the bottom; we'll only really know in retrospect. But one thing we do know is that the race is largely about psychology, with the rot of failed expectations ultimately forming the nutrients for recovery as the cycle inexorably begins anew."

Another manifestation of the cyclical versus secular struggle can be found in the current debate surrounding whether or not the recent explosion in monetary stimulus from the Federal Reserve is inflationary.

In Bublitz's view, in an environment where the velocity money is almost non-existent, where the economic output gap is wide and growing wider every month, where capacity utilization is collapsing, where unemployment is skyrocketing and wage pressures are shrinking, reflation best defines current conditions. Money supply and inflation are linked only if the normal transmission mechanisms are functioning, and they likely will be after 2009

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Even when economic activity bottoms, the large amount of slack will ensure that corporate pricing power should be slow to improve. In fact, the economy has moved beyond the cyclical disinflation of the last year into a secular deflationary environment unseen for many decades.

Monetary and fiscal policy reflation will eventually work because policymakers will likely keep going until they succeed. The real trick will be when the economy starts to approach potential and the reins get handed back to the private sector. At that point, the markets will no doubt begin to focus on the long-run implications of the unprecedented reflation efforts.

"These changing times demand that our investment decisions be built on a solid foundation of fundamental research. They demand that we be prepared to take advantage of opportunities that inevitably arise when price deviates from fundamental value. And because each investor has unique needs, these times demand that asset managers create, manage and administer a portfolio that meets those specialized needs," Bublitz concluded.

SCM Advisors LLC is an independently-managed investment firm, based in San Francisco, CA, that provides asset management services to corporate, government and multi-employer pension funds, as well as foundations, endowments and high net worth private clients. SCM Advisors specializes in Fixed Income, Equity, and Structured Finance strategies for its diversified client base.

As of December 31, 2008, SCM Advisors managed approximately $2.4 billion of client assets.

About Virtus Investment Partners

Virtus Investment Partners provides investment management products and services to individuals and institutions. It operates a multi-manager asset management business, comprising a number of individual affiliated managers, each with a distinct investment style, autonomous investment process and individual brand. Investors have an array of needs and Virtus Investment Partners offers a variety of investment styles and multiple disciplines to meet those needs. Additional information can be found at www.virtus.com.

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