Economic Recovery Not Guaranteed, SCM Advisors Strategist Says

Bublitz warns that positive signs in financial markets don't signal economic growth

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SAN FRANCISCO, and HARTFORD, Conn., Aug. 4 /PRNewswire-FirstCall/ -- Despite the government's massive stimulus efforts and the current rally in the financial markets, "formidable" challenges remain for the U.S. economy and "the market backdrop remains highly volatile and uncertain," says Max Bublitz, chief strategist and portfolio manager at SCM Advisors LLC, an affiliated investment manager of Virtus Investment Partners (NASDAQ: VRTS).

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

In his recent quarterly economic commentary, Bublitz warns that while the federal government is doing all it can to lift the U.S. economy, signs don't point to a quick recovery. "This is a very different beast from anything that has been seen for decades," Bublitz says. "It is one thing for the recession to end and quite another to return to a more normalized level of growth."

"Progress has certainly been made. This alone justifies the current rally," Bublitz notes. "But equity investors should not count on outsized gains based solely on a slowing rate of decline. A sustained market recovery will require a move beyond the current stabilization phase and into a growth phase."

Unlike prior downturns, Bublitz does not see a consumer-led recovery. Despite U.S. personal income being up 1.4 percent in May, personal spending rose only 0.3 percent, lifting the national savings rate to a 16-year high of 6.9 percent. As a result, the government's plan to put money in people's pockets with the hopes they would spend it backfired as consumers saved the extra cash.

Plus, forget about healing the broken hearts and depleted wealth of consumers in this country. Everything that has transpired to deepen this recession will leave them burned "in a once-bitten, twice-shy sort of way for a long time," Bublitz says. "Low income, few hours worked and long unemployment periods for job seekers add salt to the wound and, in turn, squash demand."

Contrary to consensus, Bublitz isn't concerned about inflation over the foreseeable future. Rather, he is worried that the U.S. is entering a period where, already burdened by a high degree of economic slack, it will face "significant headwinds" from increased government regulation in the financial sector, health care reforms and higher taxes.

Bublitz recalled the "nine most terrifying words in the English language: 'I'm from the government and I'm here to help'" in cautioning against complacency as the economy shows signs of recovery.

"Don't get us wrong, monetary and fiscal stimulus is exactly the correct remedy," Bublitz says. "Without it, the financial crisis would have been even more of a catastrophe and the global recession would have been deeper and longer."

The concern now is to ensure the medicine isn't worse than the ailment. "It's our fervent hope this government-as-the-solution doesn't create a kind of unintended nuclear winter where today's 'green shoots' grow into disfigured mutations."

Bublitz's commentary, "The Nine Most Terrifying Words in the English Language," is available here.

About SCM Advisors

SCM Advisors LLC, an affiliated investment manager of Virtus Investment Partners, 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 and equity strategies for its diversified client base. As of March 31, 2009, SCM Advisors managed approximately $2.3 billion of client assets. Visit SCM Advisors at www.scmadv.com.

About Virtus Investment Partners

Virtus Investment Partners (NASDAQ: VRTS) 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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