



LEADING THE WAY?



Let's talk about the Conference Board's Leading Economic Index, (LEI). This report is very popular with the media, and very popular on Capitol Hill, and I think you'll be interested in the real story behind the numbers.

The LEI is popular because it sounds important to a media base that's largely uneducated regarding economic matters. Many reporters actually think we call the indicators in the LEI the "leading economic indicators" because they're the most *important* indicators, the "leading" ones. It's really "leading" as opposed to "lagging." "Leading" refers to the notion that these indicators supposedly foretell upcoming economic trends; they "lead" the way. Moreover, the fact that the LEI has a pitiful track record in accurately predicting economic changes doesn't diminish its popularity.

The LEI is popular on Capitol Hill because politicians use it to make a point. Since very few average Americans understand how the LEI works, politicians can take advantage of its changes in order to underscore their message.

Here's the part that gets interesting. The LEI has been trending higher for months. Therefore, many on Capitol Hill say the LEI is proof our economy is on the road to recovery. Politicians get away with this spin since few media sources know enough to question that assertion. You may be skeptical about their conclusion when you hear what actually makes up those *leading indicators*.

Ten economic components comprise the LEI. One component is the M2; the money supply. M2 includes currency in circulation, money in bank accounts, CDs, and the like. Simply by turning on the printing presses, the government increases the money supply and improves the LEI.

Another component of the LEI is the interest rate spread between the Fed Funds rate and the 10-year Treasury Notes. The Fed now has the Fed Funds rate at its lowest point in history. This increases the spread, and the LEI looks better.

Yet another component is Consumer Sentiment. It's ironic that as Americans are told the LEI is on the rise, consumer emotions are bolstered, and consumer sentiment improves.

One more component is the S&P 500. The S&P 500 is the broadest measure of our stock market. The cycle continues because consumer sentiment is the main driver of any stock market increase since optimistic consumers pay more for the stocks they want.

As it turns out, the LEI looks like something of a self-fulfilling prophecy.

Lower Fed Funds rates and printing lots of money help the LEI look better. That aids consumer sentiment, which again helps drive the stock market higher, each in turn improves the LEI. So, if a better LEI this month helps next month's LEI, the question begs: is the Leading Economic Index really leading the way, or simply chasing its tail?

***Tax Tips* from Virginia Shelby**

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Virginia Shelby joined Robert Dokken's Office as the Certified Public Accountant in June of 2009. She was born and raised in Escambia County Florida but moved to Metro Atlanta in 1991 and was residing in the North Georgia Mountains when she moved back to the Sunshine State to join the Dokken Team. Her background is in tax preparation and tax resolution. She is a "Georgia Bulldog" fighting for your rights with the IRS.

1. **File your returns timely** – If you fail to file a tax return and you are owed a refund, the IRS will not pay your refund after 3 years from the due date. Therefore, if you think you are owed a refund, make sure you file a tax return timely to claim.
2. **File a Tax Return Even if You Owe** – Many people do not file a tax return because they are afraid that they can't pay the tax owed. However, the IRS charges a penalty of up to 25% for not filing. You can save this penalty by filing a timely tax return and then making payments to the IRS.
3. **Long Term Care Payments** – Generally payments you receive from your long term care policy as a result of injury or illness are not included in income.

These tax tips are intended to provide generalized information that is not appropriate in all situations. This information is not intended to be used by the recipient for the purpose of evading federal tax or penalties. The contents of these tax tips should not be acted upon without specific professional guidance. Please call us if you have questions.