



Marketing Commentary - March 8, 2010

Toyota Motors finds itself at a strange crossroads and will face some very meaningful decisions in the days ahead. On one hand, they've become the punch line for jokes much like the Chevrolet "Unsafe at Any Speed" Corvaire did in the 60's and the Ford Pinto in the 70's. Conversely, their stock moved up more than a dollar just last Friday. But overhanging all of this are serious charges that Toyota may have engaged in a massive cover-up concerning safety issues with their vehicles. Many Toyota models have a "black box" system that may reveal the causes behind vehicular accidents. I say "may", because Toyota will not release that data to investigators. Indeed, Toyota uses a proprietary system language and hardware to even read the data and it came to light in recent questioning that there was only one laptop in the entire United States that was configured for use with their system. I'm not saying that Toyota is hiding anything, but as we all know from past history, perception becomes reality. In the 70's, when the Ford Pinto became the focus of an engineering issue after it was shown they could be susceptible to fuel tank explosions in rear impact collisions, the now infamous Ford Pinto Memo was uncovered. The memo showed that Ford had conducted a cost study weighing an \$11 repair per car against the possible value of a human life if they should lose a lawsuit. Toyota needs to get out ahead of this issue before they become more than a punch line and their brand becomes linked with corporate subterfuge ultimately tanking their stock price.

Friday's better-than-expected jobs report, while cheering stock investors, hasn't taken the threat of a double-dip recession off the table. The unemployment rate held steady at 9.7%, but layoffs were only 36,000, below the consensus projection of 50,000 by 14,000 jobs. Unfortunately, this seems to simply continue the trend of "less bad" numbers that we've seen in recent months. Arguably, the economy has leveled out, but significant growth in employment remains elusive. Bill Gross, co-CIO at Pimco, where he helps run the world's largest bond fund, said issues with *"structural unemployment,"* or lack of demand for available workers, will bedevil the economy as well. Pimco has coined the term *"new normal"* for its projections of slow growth-that stop short of a double-dip prediction-and Gross reiterated in an interview with CNBC that the economy is stuck in a cycle that will take years, not months, to break. *"It really comes down to the government spending. As long as the government continues to spend we'll continue to grow,"* said Doug Roberts, chief investment strategist at Channel Capital Research in Shrewsbury, N.J. *"The real big danger is stimulus interruptus, which is that (the government will think) all of a sudden we don't need this anymore so we cut back but don't have any fundamental reform to deal with it."*

The sovereign debt risk concerning Greece and the broader EU, has waned over the last two weeks and while the details still need to be worked out, the global equity markets seem to have moved on to other concerns. With the Dubai World event back around Thanksgiving and now the current Greece situation, the market seems to have reverted back to an even keel. The question is whether that signals strengthening of the markets or simply a push back of risk that could implode at a later date? The pricing on credit default swaps, those instruments that are

used to “insure” against default has decreased precipitously for most countries in recent weeks. The United States and Germany, arguably the linchpin of the EU, are currently the lowest priced CDS plays. The volatility of CDS pricing has been evident this year with prices spiking early for Portugal, Austria, Spain, Australia and the U.S. followed by the steepest declines in CDS costs for those same countries in recent weeks.

Meanwhile on the fringes of the European Union are issues with Iceland. Iceland is not a current member of the EU, but is a candidate for entry. In a referendum on Sunday Icelanders resoundingly rejected a \$5.3 billion plan to repay Britain and the Netherlands for debts spawned by the collapse of an Icelandic bank. Despite the vote, all three governments promised to work on a new agreement between Britain, the Netherlands and Iceland, which is depending on international assistance to help drag itself out of an economic morass. More than 93 percent of voters said “no” in Saturday’s ballot, while only 1.8 percent voted “yes,” according to official results. The overwhelming margin reflected Icelanders’ simmering anger at bankers and politicians as the country struggles to recover from a financial meltdown. President Olafur R. Grimsson -- who sparked the referendum by refusing to sign the repayment deal agreed by Iceland’s parliament -- said Icelanders resented having to pay for the actions of a few *“greedy bankers.”* Hmm, sure sounds eerily familiar, doesn’t it? Although the referendum was about the repayment schedule, not about refusing to pay back the money, most Icelanders that were interviewed thought they were voting “no” to repayment. *“The referendum was not about refusing to pay back the money,”* Grimsson told the BBC. *“Iceland is willing to reimburse those two governments, but it has to be on fair terms.”*

The story began in October of 2006 when Icesave, the online bank owned by Iceland bank Landsbanki, entered the UK market. It lured investors by offering higher interest rates than UK banks accompanied by the website claim “You can also rest assured that with Icesave you are offered the same level of financial protection as every bank in the UK.” Unfortunately, that wasn’t entirely accurate. In fact, it was a lie. A run started on Icesave in October 2008 when the global financial crisis was at its peak. Long story short, it turned out that the “depository insurance fund” was nearly empty and 229,000 British customers saw accounts vaporize. The UK and the Netherlands stepped in and made their citizens whole who had lost monies. This is where the issue started. Now, the amount Iceland owes to the UK and the Netherlands is as much as 40% of their GDP. Indeed, even the interest on the money is 25% of Iceland’s GDP. The quandary for Iceland is that they want to join the EU and if they don’t repay the monies, their chances of entry are virtually non-existent. On the other hand, with the EU supposedly limiting debt ratios of member countries to 3% of GDP why would they allow Iceland to join the club?

A bright spot did appear late last week when General Motors send letters to 661 dealerships offering them the option to stay open. GM said it would not have enough time to negotiate with all 1,100 dealerships that appealed the automaker’s decision to close them within a four-month window imposed by the federal government. GM’s decision to keep the additional showrooms open effectively shrinks the number of appeals it has to contend with. Arbitration hearings for the dealers who didn’t get offers but still want to stay with GM will begin later this month. GM would not offer any details on Friday about which dealerships it was reinstating and where they are located. It said it chose the 661 based on a variety of criteria, including sales and other business factors. This news came on the heels of rumors the week before that GM could begin offering shares again this year.

Until next week.

Scott Friel
Vice President
The Pacific Financial Group, Inc.
800-735-7199 - Home Office
866-583-8734 - Marketing
www.tpfg.com

If your investment manager isn't giving you what you need, maybe you're missing the boat!