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SPRING 2014 UPDATE

GAS STATIONS & C-STORES

HOW'ER YOU DO'IN?

Store operators continue to wonder "How am I doing compared to the industry?". Most are still feeling the fallout from the recession that ended Q2-09 (officially), but haven't seen the recovery in their businesses. Well, courtesy of CS News, the 2013 industry report is now out, and some of the performance data may be illuminating.

Total industry sales exceeded $700b for the 2nd year in a row. Fuel sales were up 1.6% to 143 billion gallons, still well below the 2007 peak of 148 billion gallons. In-store sales (under the roof – UTR) were down 2.1% to a per-store average of $1,340,000, or about $111,000/mo. The offset: UTR sales grew faster than the population, so per-capita sales increased 1.4%. If you haven't brought as much to the bottom line, you're not alone … operating expenses industry-wide increased faster than gross profit. The sales mix was about 28% UTR and 72% fuel, a slight skewing toward the more profitable (%-age) UTR sales. The industry grew by number of units, adding 2,000 new stores to the population for a total of 151,000 stores. (You wouldn't know that by looking at Phoenix and Tucson.) Using the new population of stores for fuel sales, the 2013 fuel volume works out to be about 82,000 gal/mo for the average store.

You can go to www.CSNews.com to order the complete report.

WHAT'S MY BUSINESS WORTH?

Continuing as one of the top 3 or 4 questions that comes up in my discussions with both sellers and buyers is the value of the business, generally including real estate. The helpful comments here addressing that question come from our friends at American Business Appraisers (ABA) via their *May 2014 Newsletter*, KC Conrad owner and appraiser. (Space doesn't permit listing all of his credentials and qualifications. You can check them out at www.ABAvalue.com .)

It's important to recognize that if you're selling a gas station/c-store business that includes the real estate as an asset, the real estate is valued separately, and differently, from the business. The basis for that is that you don't need to own the real estate to be in the gas station business, you could lease it, thus committing far less capital to the investment.

The severe decline today in business values is driven primarily by a decline in any, or all, of the financial metrics used as multipliers, percentages, etc. to derive the value. For instance, if you priced your business at 2.58 times (actual national average) the EBIDTA (you might also use adjusted cash flow or seller's discretionary earnings) when you bought it in, say, 2008, and the EBIDTA was $300,000, you paid $774,000 for the business. If today your business has eroded to where your EBITDA is $200,000, the same multiple may apply, but the value would calculate to $516,000. The thief here, isn't the multiple, but the decline in business. In fact, data from ABA shows that today for businesses valued at less than $1,000,000 the multiple of EBITDA is 2.25 times. The differential between 2.58 and 2.25, or .33, represents a loss in value of $33,000 for every $100,000 of EBITDA.

The other, and perhaps more meaningful fly in the ointment: the value of real estate. This is where most value has been lost since the 2008-2009 economic decline. Nationally for all segments of CRE, values bottomed about 2009-2010 with CRE industry-wide losses in value of 40-45%. This would include gas station and c-store properties. The dynamics of CRE value recovery is more complex than envisioning the recovery of you business as a function of improved sales and profits. The basic relationship, however, is that the value of CRE is determined by the net income it produces. For investors how own real estate and lease it to a tenant, their bottom line that they capitalize is the rent they collect less their operating expenses, termed net operating income or NOI, which are nominal compared to an owner-operator. If you own the real estate where your business exists, the most direct influence you can have in increasing the value of your property is to increase your bottom line, not necessarily taxable income, but EBITDA, or seller's discretionary earnings.

To get a valuation of your business with the real estate you have 4 choices: a business appraiser, a real estate appraiser, and a broker's price opinion from a qualified business and/or real estate broker. Oh, and that 4th choice would be the guy down the street, your barber, bartender, or cleric.

<u>EXXON & MOBIL COMING BACK TO AZ?</u>

A few weeks ago San Antonio-based Tesoro announced it has received rights to use Exxon and Mobil brands as part of its expansion in AZ, UT and NV. You may recall that BP sold its southwest retail assets (formerly ARCO) to Tesoro in Q1-13. Those ARCO branded-stations you see around AZ my start, at some time (?), to re-appear as either Exxon or Mobil. Reading between the lines, Tesoro isn't happy with the high volume, low margin business model that was (is?) ARCO. Unfortunately, as you may know, many of those Arco stations are operating with 20 year delivery agreements with 10-15 years left to expiration. However, for Tesoro to unilaterally terminate these shouldn't come as a surprise.

If you're an ARCO dealer and AM/PM franchisee, I'd be interested in your comments on the subject.

SMALL BUSINESS SURVEY

Most of our Blue Paper readership are small businesses, either gas station and c-store operators or functionaries catering to the gas station and c-store industry, such as MJG. Accordingly, an overview of how we, the collective, view the business climate may be instructive. (This provided by the Wells Fargo Economics Group (WF). Free subscriptions to a variety of reports are available at www.wellsfargo.com/economics .)

Mid-way through Q2 (May report) the Q2 data is part actual YTD, and part expectations. Q2 actual data shows little improvement in any of the data presented, but remaining Q2 expectations reflect cautious optimism about the future. Per WF," All of the second quarter's improvement came in the expectations series (of data), which rose 4 points to 33." They go on to say, "The drop in small business owners' view on the present situation may have been tied to the unusually harsh winter weather experienced in much of the country this year, which cut into sales and boosted expenses for many businesses. Despite the drop, the overall index still trended higher during the quarter and is now at its highest level in six years. More business owners see conditions improving this year than at any other time since the recession ended. The rise in optimism is also reflected in attitudes toward capital spending and hiring, which both improved during the quarter."

Concerning the continuing sluggish revenue growth, 32% of those surveyed said that revenues stayed the same as last year, 21% said they decreased a little over the prior year, and 11% said revenues decreased a lot. Weak revenue growth has made it more difficult for businesses to pass on higher operating expenses, put pressure on margins (gross margins), and made business owners more cautious about expanding their businesses, hiring more workers, and making capital outlays for new equipment. (If you would like to see a copy of this report in total, contact MJG or WF.)

Question: with no historical data to back it up, what is the reason for optimism reflected in the expectations data series, cautious or otherwise?

Sometime ago we made the observation that as President Obama's polling numbers declined, the University of Michigan Consumer Confidence Index increased. That is, the worst Obama does, the more confidence consumer's have in the economy. While this is not at all statistically based, it's an interesting observation nonetheless. This is not an attempt to politicize the economy, although the Government has largely done that over the last 5-6 years, but merely to note the coincidental measures. Given the President's and his administration's historic record, we might expect continuing improvement in optimism, but actual improvement in economic data may be lacking until 2015, with another boost in 2017.

COMMERCIAL REAL ESTATE (CRE)

CRE CAP RATES DECLINE IN 2013

Capitalization rates, used by real-estate investors to measure the annual return on income-producing properties, declined for many property types in 2013, according to data from Real Capital Analytics in New York. Meanwhile, the spread between cap rates and yields on 10-year Treasury notes narrowed. The average cap rate for all property types was 6.74% last year, down from 6.76% in 2012. Cap rates fell fastest for office buildings, which had an average cap rate of 6.93% in 2013 compared with 7.15% in 2012. (Originally Reported in the *Wall St. Journal*, 1-24-14.)

Clarification: The cap rate is calculated by dividing the net operating income (NOI) by the price paid for the property. The NOI is determined by the net rental income minus operating expenses. This makes the cap rate inversely proportional to the price, e.g., for the same NOI, the lower the cap rate, the higher the price. As a barometer, cap rates reflect interest rates in the general economy, and in the investment and credit markets.

CRE FORECAST 2014-2015

The following comments were offered by Bill Conerly, contributor to Forbes Magazine via Forbes.com. Per his by-line, "I connect the dots between the economy and business decisions." (That's quite an accomplishment if indeed he can do it! Let's see.) You can find and follow Bill at www.forbes.com/sites/billconerly .

Non-residential real estate should rise at a modest-to-moderate rate during the coming 2 years, with higher NOI offset by higher interest rates (assumes leverage, i.e. borrower money). Private non-residential construction is growing at a fairly strong pace with dollars spent up 10% in the last 12 months. Retail is continuing to reduce vacancies, a key to being able to increase rents. Looking at 2013 as a point of reference, combining appraised values (capital gain realized or potential) and operating earnings of institutional properties indicates a total return for that year of 11%, notably higher than the 9% long term average. Bill's modest-to-moderate rate improvement will be relative to this 11% number. (Note: The 2% improvement on the 9% long term average equals a 22% improvement on 9%.)

PHOENIX RETAIL VACANCIES DOWN TO 10.3%

As reported by CoStar, retail vacancies in the Phoenix metro market declined from 10.4% in Q4-13 to 1-0.3% in Q1-14. As, or more, important, rental rates increased to $14.09 per sf (assumed

NNN leases). Net absorption for the quarter was a positive 53,000 sf with 200,000 sf still under construction.

Phoenix compares to national retail vacancies of 6.5%, and rental rates of $14.63/sf.

Retail continues to struggle with indirect competition among tenants with internet marketers. It's speculated that reduction in vacancies will come by traditional retail space being replaced by service provider uses, and quasi retail/office space users, e.g., schools, especially if the location has evolved into a poor retail location, and the building is old. In many cases these are being marketed as "redevelopment opportunities". Aside from who takes the financial hit in these cases, either the owner or the lender, somebody's equity is being squeezed from these properties. This same process occurs when an older gas station is closed and converted in a re-opening to a cell phone store or flower shop.

CREDIT & BANKING

FED TAPERING CONTINUES

On Mar 19, the Wednesday after the FOMC's March meeting, 5-year Treasury yields also exploded, surging 15 basis points to 1.7 percent. That was also the biggest one-day leap since last June. Longer-term yields rose a bit more slowly, but they still climbed noticeably, with the yield on the 30-year Treasury rising to 3.68 percent from a recent low of around 3.54 percent.

The catalyst for those upsurges was the latest Federal Reserve policy meeting. Fed policymakers slashed yet another $10 billion off the QE money-printing program. That was the third such reduction in a row, and it leaves QE at just $55 billion per month. They also came out and endorsed the view that the economy is still recovering and that the labor market is continuing to improve. Specifically, they said that labor "market indicators were mixed but on balance showed further improvement." And: "The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions."

In the post-meeting press conference, new Fed Chairman Janet Yellen also said that QE likely will be dead and buried by this fall. And she suggested rate hikes could follow a few short months thereafter.

MONEY MARKET FUND BALANCES SINCE JAN. 2010 (Per Deutsche Bank).

In Jan. 2010, tot. US balances were $3.3 trillion, the dropped about $500 billion to $2.8 T by July (6 mo's). Further declined to about $2.55 billion by July of 2011. Have oscillated between $2.55 and $2.7 billion since July 2011, and stands at about $2.7 billion today (Dec. 2013).

Flow-of-funds have seen these draw-downs go into equity & bond markets. Fear of a taper sell-off in bonds is likely to move bond money into stocks. Money has been exiting the bond market for the last 6 months or so, and going into equities. Don't expect much new money market fund money to go to either of these markets.

$229 billion flowed into managed hedge fund assets across the globe in 2013. The industry now controls an all-time high of $2.01 trillion.

ARE AMERICANS DONE DELEVERAGING ?

US household debt rose in the latest quarter by the most since before the recession, a sign that Americans may be nearing the end of a multi-year belt-tightening trend, data from the Federal Reserve Bank of New York showed on Tuesday (3-25).

Total consumer debt rose 2.1% to $11.52 trillion in the fourth quarter of 2013 from $11.28 trillion in the third quarter, the New York Fed said in its quarterly household debt and credit report. The increase, $241 billion, marked the biggest quarterly jump since the third quarter of 2007. (Reuters)

The feds added nearly $7 trillion in debt after 2007. Overall, debt to GDP shrank… but not much. The tally fell from 360% of GDP down to 345%.

Deleveraging was the market's natural reaction to excess debt. QE was the unnatural and monstrous response of the Fed. It expanded its balance sheet to reach a staggering $4 trillion (about 44%), as it tried desperately to keep the EZ credit flowing.

From a recent Bank of America Merrill Lynch research report:
The US Fed's modus operandi worked through asset prices, and animal spirits. This involved getting stock prices up, getting corporate animal spirits up by issuing cheap debt, buying back stock with cash or cheap debt to raise EPS, lowering government borrowing and mortgage costs, and raising consumer net worth/income ratios. Also, asset bubbles were generated in emerging markets, raising their growth labor costs and currencies.

So, did the Fed's QE offset consumer's deleveraging and save the economy? The smart money says yes … other smart money says no!? So much for smart money. The process clearly benefited Wall St., not so much Main St. And at sometime the Fed will have to "unwind" its balance sheet, i.e., sell the debt back into the market, or simply not reinvest maturing debt. A hint of this has started, known as "tapering". Traditional investment markets don't like tapering. But the markets haven't fully experienced Janet Yellen, the new Ben Bernanke. Widely perceived as a dove (easy money, low interest rates), some say she makes Helicopter Ben look like a hawk. However, out of the March FOMC meeting she announced a further $10 billion reduction in tapering in April to $55 billion.

We'll see. (As I've often said, "Making history ain't all it's cracked up to be.")

ENERGY

THE FUEL LANDSCAPE IN 5 YEARS

For a futuristic look into what fuel you'll be selling in 5 years, consider the findings of a recent survey conducted by CS News.

51% of respondents expect to be selling an alternative fuel, up from 43% today. Natural gas, either CNG or LNG, any of the ethanol blends higher than E10, and electric charging stations are listed as the expected beneficiaries.

Currently 8% of those surveyed sell natural gas, this number expected to increase 4 times in the next 5 years. Electric charging stations are currently in 2% of stations surveyed, this number also expected to rise 4 times by 2018.

Nearly 18% of stations sell ethanol blends of some formula. This percentage is expected to double to 36% over the 5-year period.

The most important finding I believe, however, is the reason given for the change is fuel alternatives. The number one factor given by 55% of respondents for driving the anticipated change to alternative fuels is consumer demand. (The fact that 45% of those polled don't think consumer demand is the driving factor is also telling!! What were they thinking??) While consumer demand should be expected to be a given, it raises the question of why consumers would want an alternative fuel. This question isn't addressed, but my own speculation would be price as the predominant reason. But what if traditional fuel, gasoline and diesel, don't continue to increase in price, and perhaps even decrease. This has been suggested, even predicted, based upon increases in U.S. production from fracking technology. Various forecasts have the U.S. energy independent within the next 5-10 years. What will that do to pricing models, balance of trade, currency valuations, budget deficits, etc. Which brings us to …

THE NEXT BIG OIL SHALE PLAY

The following gleaned from research and opinion by Paul Mampilly, Investment Director at Agora Financial, and parent company of the Daily Reckoning Investment newsletter. (Subscriptions available at dailyrecking.com, or email dr@dailyreckoning.com.)

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In the last 10 years America has gone from a country importing a massive percent of our energy needs to a country with huge proven reserves of oil & natural gas within our own borders. Extraction requires fracking, politically unpopular with the current administration, but economically not only feasible, but desirable. Development during the last 6 years has been largely by the private sector only, without support or participation of the Government. A change in the political landscape that may open public lands to fracking operations could alter the playing field and make fracking even more profitable for the producers. For those who think this technology is not sustainable, consider: (1) By 2015 the U.S. is projected to surpass both Russia and Saudi Arabia as the world's number 1 producer, and (2) by 2019, according the EIA, the U.S. will surpass its oil production peak of the '70s.

In the oil exploration business it comes down to location, location, and location. (Sounds like real estate … it is real estate!) North Dakota, for instance, has the now-well-known massive Bakken Shale oil field. It's been under development for years now, and produces over 1 million barrels of oil per day. Add it all up and North Dakota accounts for one out of every 10 barrels of oil the U.S. produces -- that's amazing! (ND reportedly has unemployment of less than 3%, and Walmart employees make upwards to $100,000/yr.) Texas is also booming. The Eagle Ford formation in South Texas popped up out of nowhere. Starting in 2007 with essentially no production, today it's producing nearly 1.4 million barrels per day. Again, these formations came out of nowhere. And now look at them. Shale fields in West Texas - a prolific oil area in the 1970s -- are also coming to life. The Permian Basin in West Texas is also booming with new found shale production. Don't misunderstand. This is not the low hanging fruit of the '70s that sold for $3/bbl, and got us $.25/gal. at the pump, but it can keep our price well under $100/bbl and a gallon of 87 octane around $2.00/gal.(third party estimates). What do you think that might do to OPEC? And how do you think China will feel about that 30-year gas supply contract they signed with Russia back in 2014? (They're scheduled to sign this agreement next month.) Yes, energy is an international negotiating tool, and should be integrated into our foreign policy … next time we have one!

And now for the next big secret – at least as of last April. It's the next "location, location, location" … Colorado. The area is east of Denver called the Wattenberg field. It's part of the Niobrara shale play. It's an up-and-coming shale zone that's not on most folks' radar. Dubbed the "baby Bakken" — because within the next few years we could see an increase in crude production similar to what we saw in North Dakota. By some estimates, Colorado could soon be the third largest oil-producing state in the U.S. Granted there are other states with shale formations and potential for development, namely California, Pennsylvania, and even New York. State political considerations, however, may delay production from some of these areas.

So, re-visiting the alternative energy discussion, how attractive are electric cars with plentiful $2.00/gal gasoline, and no Government subsidies for the car manufacturer to pass on to the consumer? If oil drops to $70-80/bbl (or $60?) at the wellhead, what will be the price of corn for ethanol if E85 is to compete in price at the pump? Might corn get cheap enough that we see 8 ears for $1.00 at Safeway … how about 10 ears? Just a thought.

ECONOMY

A LETTER FROM FDR - Regarding Collective Bargaining of Public Unions written August 16, 1937.

> All Government employees should realize that the process of collective bargaining, as usually understood, cannot be transplanted into the public service. It has its distinct and insurmountable limitations when applied to public personnel management. The very nature and purposes of Government make it impossible for administrative officials to represent fully or to bind the employer in mutual discussions with Government employee organizations. Particularly, I want to emphasize my conviction that militant tactics have no place in the functions of any organization of Government employees. A strike of public employees manifests nothing less than an intent on their part to prevent or obstruct the operations of Government until their demands are satisfied. Such action, looking toward the paralysis of Government by those who have sworn to support it, is unthinkable and intolerable.

So, (pop quiz) who was the first to take issue with FDR and declare that collective bargaining for government employees was the "fair and righteous" thing to do? Would you believe John F. Kennedy in 1962 by EXECUTIVE ORDER 10988? (Not even by an act of Congress!) Actually several of JFKs predecessors made limited attempts at collective bargaining for the public sector, but Kennedy is seen as having opened the door. And so would begin the exponential growth of the public sector.

It was announced one day last year that the number of employees in the public sector, all levels of government, had finally exceeded the number of non-farm employees in the private sector. If you need a tipping point to define "unsustainable", this is it.

APRIL JOBS DATA BODES WELL FOR CRE

Ken McCarthy, Cushman Wakefield's Senior Managing Director of Economic Analysis and Forecasting, issued this opinion and forecast for commercial real estate based upon the April Unemployment report by the BLS. Citing 288,000 new jobs added in April with the decline in unemployment from 6.7 to 6.3%, he noted this is the biggest monthly decline since 1949. He neglected to mention that over 800,000 people left the labor force that month also. Among more objective economists and analysts, it has been noted for many months that the biggest contributing factor in reducing the percent of unemployment has been the decrease in participation rate. Mr. McCarthy also noted revisions in February and March job creations to 222,000 and 203,000 respectively. It has long been calculated that it takes about 225,000 new jobs per month to sustain a given unemployment level. The mix of type of jobs was such that sectors increasing employment were more low paying jobs, such that the aggregate of employee wages was static, i.e., no growth.

STILL COUNTING ON A CONSUMER LEAD RECOVERY? …

Keep counting; it will be awhile!

Coming out of WWII consumers have emerged as the lifeline for U.S. economy, over the past decades representing about 2/3s of total GDP. Many have argued that the pace of our current recovery has been aggravated by a consumer that is more interested in paying down debt with discretionary money than spending it. Others say that increasing debt, spending what you don't have, actually helps the economy recover. According to the Minsky Financial Instability Hypothesis (FIH), while debt financing allows the economy to grow faster in the short- to medium-term, the long-term effects of debt financing render an economy unstable and susceptible to severe crises. (I think we've already seen that.)

Although it's true that consumer's deleveraging has hamstrung the recovery, there are additional, perhaps more direct, that are impeding the economy. A continuing high unemployment, weak job creation, and declining real wages (net of inflation) are the key factors frequently mentioned. All three of these factors affect consumer confidence, the biggest influencing factor behind consumer behavior. All this goes to explain the reduction in consumer credit for present day consumption, but an increase in debt for future earnings growth, i.e., the increase in student loans. Somewhere over the last year or 2 the amount of debt for student loans surpassed the amount outstanding in consumer debt (credit cards). The problem that has now surfaced is that the education being obtained by increasing debt has not manifested in a commensurate well-paying job. (I'm not sure what the job prospects would be for a degree in European Art History.)

It's been advocated for several years that the key to a recovery is the creation of jobs – this is not new. The problem is that the private sector doesn't have the confidence to create those jobs. (Re-visit Small Business Survey, page 2.) And the government doesn't create jobs, except to expand government. Recall that government spending adds to GDP. Accordingly, the government has sought to increase spending in place of the consumer, since they're hunkered down in reducing debt. To this end, the government has been running its credit card via the Fed, currently to the tune of about $4 trillion. Just like our credit cards were capped out, at some point the bond market will call enough to our government spending. Hopefully we'll have through the 2016 election to rectify our heretofore poor judgment.

UNEMPLOYMENT – UNOFFICIALLY !

As of the end of last year the unemployment rate stood at 6.7%, down a whopping .3% from November, a 1 month decline. It seems now to be widely known that the decline was because of workers leaving the labor pool, i.e., they stopped looking for work. This measurement is what's called the labor force participation rate (LFPR). Somewhat simplistically, it's the percent of people who should or could be in the pool, and those who actually are in the pool. Those reasonably, and historically, not in the participation pool, for instance, are those on disability, or in school, or in prison. At its lowest rate in 1978, the participation rate was 62.8%. In a note published by Westwood Capital, if you put the LFPR today back where it was in Jan. 2007, 66.4%, the unemployment rate would be 11.75%.

It's been argued that the LFPR is declining because more people are retiring – the baby boomers – and many are retiring early … "voluntarily". If that were the case, the employment-to-population ratio (EPR) for those 55 years and older would be declining as well. But this is not the case. But today (2013) the EPR for those workers 55 and over is higher that during the Great Recession (2008-2009), and any time prior to that! Seniors aren't retiring – they can't afford to.

In the broadest picture, at the end of 2013 the U.S. had 118.5 million full-time workers and 26 million part-time workers. Doing the math, 37.5% of America's (known) residents are supporting the other 62.5%. Another definition of unsustainable.

<u>FOMC CONTINUING TO TAPER</u>

The Fed chose to continue their tapering program by another $10 billion last April. They're now down to buying only $55 billion per month. But that's not the real news alert from their meeting last March. Recall that Janet Yellen replaced Bernanke last January, and is now driving the boat. Fed watchers will tell you that the Fed never comes out and tells you what they're going to do – they hint at it. To decipher their comments you have to be schooled in "Fed-speak".

Notes from this meeting included a statement that "… labor market indicators were mixed, but on balance showed further improvement." Seems harmless enough, but wait … there's more. One of the most anticipated changes in the policy statement was the move away from linking future policy decisions to the unemployment rate, and instead toward a range of labor market indicators. The Fed did just that by changing the wording in their policy statement. This has been in the works for some time, but is now official. The first stamp of Janet Yellen.

Why might this have been expected for some time? Bear in mind the Fed has only three objectives as granted by Congress: full employment, stable prices, and moderate long term interest rates – that's it! (None of which in fact is the Fed able to deliver, but that's another discussion.) We've been told for many years now that the Fed is committed to low interest rates until unemployment reaches 6% (initially), then "revised" up to 6.5%. In response to the credit market meltdown in late 2008 the Fed drove interest rates down by taking the Fed Funds rate to ¼%. Within months of being deemed insufficient they launched the first QE program, a policy movement which was to continue for about 5 years. While Wall St. responded as should have been expected to the flush of money, the economy in general, and the labor market specifically was muted in response to what many describe as unaffected. The problem with managing policy as a function of a quantitative measure is that it's too finite, too exact, and too public! When QE2 didn't work, and QE3 was launched, word began to surface that this program along with low interest rates wasn't going to work, and the concern began to surface about what would happen when the Fed had to unwind all the debt they were accumulating. Effectively they were digging a deeper hole with a short-handled shovel. By changing the policy trigger to "a range of labor market indicators" as opposed to a visible and quantitative measure, the unemployment rate, they can now use "judgment" and not have to depend on actions and behaviors of the citizens it serves, i.e., the labor market.

With this policy revision we can now expect tapering to continue to zero by the end of the year and a gradual rise in interest rates in 2015 regardless of what the unemployment rate might be, as long as "other labor market indicators" support their decision … in their opinion!!

Looking to refinance? Now's the time. Looking to lock in a fixed rate loan instead of keeping, or taking, that variable rate loan? Now's the time. Considering leveraging that re-built balance sheet with your next acquisition? Now's the time.

Once interest rates begin to rise, how high might they go? No one knows. The Fed's got, currently, a little over $4 trillion on its balance sheet – far and away a record level. In 2008 when all this started they had about $800 billion … a 500% increase in about 5 years! How long indeed, and at what rate?? And why would the Fed be concerned about continuing low interest rates? Unwinding their balance sheet, e.g., selling $3 trillion or so back into the market, brings up specters of inflation – it has in the past, and may be expected to this time also. By tapering today and announcing this change is policy as relates to full employment, they're preparing to raise rates ahead (hopefully) of inflation. Effectively they're saying we can't affect full employment, so now we're going to fight our other battle, stable interest rates. The smart money says they'll be behind on the inflation-interest rate curve also.

TOPPING OFF

GILBARCO RELEASES PASSPORT VER. 10 **-** Gilbarco Veeder-Root released the Passport v10, its most advanced retail point-of-sale (POS) system application to date. The new product offers many new features, including PA-DSS 2.0 compliance, age verification, mobile payment, remote management, and lottery ticket sales from the dispenser. Additionally, the Passport v10 continues to build upon the strengths of the POS system, including lower training time for cashiers and a higher degree of compatibility with loyalty programs and other third-party systems, the company stated. The Passport v10 also enables the new Insite360 suite of business management tools. For more information, contact Bob Dawdy at Northwest Pump in Phoenix, ph: (602) 484-7944.

THAT'S A LONG TRAIN - The proposed Keystone XL pipeline would run 1,179 miles from Alberta, Canada into the USA and would have the capability to move 830,000 barrels of crude oil a day, equal to a train with 1,200 railroad cars moving crude every day (source: State Department).

HISTORY WILL TREAT YOU BEST IF YOU WRITE IT YOURSELF - Fed members sent Ben Bernanke out on a high note at his final meeting last January, voting 10-0 to maintain near zero short-term interest rates and to continue the cutback in asset purchases (from $75 billion a month to $65 billion a month) that has been critical in stimulating our economy. When Bernanke took over a vacant slot on the Fed's Board of Governors in August 2002 (3 ½ years before he became the Fed chair), he was required to set aside the 120 pages he had written for a book that he began in 2000. A New York City publisher had paid Bernanke an advance on the book that was to be titled "Age of Delusion: How Politicians and Central Bankers Created the Great Depression." Bernanke now has the time to finish that book. While not analyzing his own Great Recession yet in the future, you can bet other authors will draw from this in writing Bernanke's legacy. (Source: Federal Reserve)

$100 TRILLION **–** in global debt marks a 40% rise from the $70 trillion seen back at the onset of the financial crisis in mid-2007. Conclusion: the Government (all governments – think G19) can borrow (print) money faster than consumers and private sector can pay down debt.

STILL TOO BIG TO FAIL - The 6 largest banks in the USA held $9.67 trillion of assets as of 12/31/13, that's 66% of the $14.72 trillion of assets in the entire banking industry (source: FDIC).

JUST LEND IT - Excess bank reserves, i.e., amounts held at the regional fed banks by commercial banks instead of lending the money, totaled $2.52 trillion as of 3/05/14 (source: Federal Reserve).

PUTIN VS. THE U.S. (& THE WEST) - Billions of dollars in foreign investment in some of the world's biggest untapped oil reserves are at risk in Russia. Exxon Mobil Corp. (XOM), for instance, has drilling rights to 11.4 million net acres (46,134 square kilometers) in Russia, the company's biggest single cache of drilling rights outside the United States. Royal Dutch Shell also has significant investments in Russia. In line with Obama's sanctions as a method of correcting bad behavior, do you think Putin might retaliate? It's long been recognized that oil (energy) is a geo-political tool for international negotiations. Long before bullets fly capital flows migrate … capital flows ARE migrating. A record $60 billion left Russia for foreign lands (and markets) in Q1-14.

$2 BILLION - worth of cigarettes just disappeared from CVS' future sales, beginning in October. The drug store announced it wouldn't sell smokes anymore after that time. It plans to focus on healthcare products instead. If you're c-store is across the intersection from a CVS, how are you going to capture part of that $2 billion?

HOW ABOUT THAT BUDGET – The federal budget passed last December amid much pomp & heroics projected a budget deficit for fiscal year 2014 is $750 billion. For every $1 of expected tax revenue, our government anticipates spending $1.25 (source: Treasury Department).

FRAME OF REFERENCE - The 75-year (1939-2013) average growth in the size of the U.S. economy (i.e., GDP annual growth) is +3.7% per year. However, the actual growth in the economy has not reached +3.7% or greater in any calendar year since 2004 (source: Commerce Department).

SPEAKING OF TAXES – It's that time of year again. The IRS reported that 47.8% of the individual income tax returns filed in the USA for tax year 2011 reported less than $30,000 of adjusted gross income. Census data for 2011 put the Poverty Threshold that year at $22,350. The Poverty Threshold for 2013 is $23,550 – up $1200. According to the BLS, wages during this period have stagnated, at best. Median household "real" income has fallen seven percent since 2009, and is now back at a level first reached in 1988. Even that dismal figure reflects adjustment by the government's heavily scrubbed CPI index, which has become particularly fictional over the last decade or so. What's missing from this discussion is the number of people/households below the Poverty Threshold that didn't file tax returns at all. Might those living below the national Poverty Threshold be more than ½ to national population? Hm-m-m?

STUDENT LOANS VS. CREDIT CARDS - Outstanding student loans increased to $1.08 trillion as of 12/31/13, $218 billion larger than the nation's $862 billion of credit card debt. That total, coupled with an 11.5% delinquency rate (i.e., percentage of loans, by dollar, that have failed to make a payment for at least 90 days), has economists concerned about the buying power of a generation of 25-year olds that are struggling to pay down their student debt (source: Federal Reserve Bank of New York).

YOU KNEW IT WAS COMING – News out of Bentonville Arkansas. March 19: WalMart opened its first convenience store on a 2.01 ac. parcel at the NWC of Walton Blvd and 14th St. in Bentonville. And note, they reportedly paid a lofty $4.5 million for the land! They innocently commented that there are no plans for additional c-stores.

Thank you for your attention,

Mike

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