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To: Wall Street Journal, Editorial and Opinion Staff

Gentlemen:

I have been a professional money manager and global macro investor for 38 years. There are some important things I want to state in your paper for the benefit of your readers. Please publish my comments below as an Opinion is your Section A at your earliest convenience.

I have been a reader and subscriber for 38 years. You all do fine work in covering financial market news and opinions.

Sincerely,

Charles Dushek

Article as stated below:

US Economy…Beyond Sub Prime, Reigns a Powerhouse

For months, all the news and outlook is about the US economic glass being "half empty" and a recession in the making. We all know what a recession is: 2 consecutive quarters of negative GDP growth, typically with rising unemployment, falling personal income, declining capital spending…many factors working in concert to contract growth.

The fact is we are already in a recession, in housing, for months. Unsold homes inventory has risen by more than a million residences and new home construction has fallen by over a million annual starts. That is a big deal, but it's quite far from a recession across the whole economy. The housing industry comprises only 4.9% of GDP, and housing has fallen so much already that it is unlikely to have a major negative effect going forward. Housing contraction is only a cyclical factor not a long term secular trend. What is secular is: population growth, new family formations, immigration, and lifespan longevity…each growing and collectively the driver of long term housing "growth".

Instead of being "half empty", the glass is really "90% full". The average price of a new home is $200,000. So, 1 million lost housing starts are equal to about $200 billion of lost GDP. A big amount for a $13 trillion GDP economy? Not really, because just one important offsetting factor "growth of US exports" has added $20 billion to "monthly" GDP output from 2006 to 2007. That's $240 billion per year, more than offsetting a million annual housing starts. Exports now comprise 12% of GDP and are growing at an annual rate of 13.6%. The US dollar has fallen 20% against the C$ and 10% against the EURO over the past 12 months, and down 50% vs EURO since 2000. US exports are booming as a result, and the more the dollar drifts or stays low, the faster exports grow.

US economy:
The glass is 90% full,

Not half-empty

Further on the glass being "90% full", we are enjoying a host of other constructive factors underlying the resilient growth tendency of the economy. Small business income accelerated in final quarter of 2007, yet most headlines on the economy slowing are from "public" company surveys and outlooks. 20 out of 24 S&P 500 technology companies have reported earnings that have beat estimates in the 4Q of 2007. US corporations have $1.1 trillion in cash on their books. This indicates a healthy state of affairs in corporate America….outside of the housing industry.

Federal Reserve President, Ben Bernanke, estimated that even a loss of $100 billion in value of sub prime loans would only represent 0.1% of the combined $100 trillion assets of all U.S. households. $100 billion is a big number, but just a minor ding in the entirety.

On recession history, we have clocked about 11 since 1950, and pulled out of everyone of them. The current one is now just in housing…about 5% of the economy. Thru most economic downturns, the Federal Reserve has had a tight monetary policy very near to or even into a recession. With the early 2.25% in rate cuts over the past six months, the FED is really acting to lower rates "before" the anticipated event, rather than during or well into it. FED interest rate policy is a "blunt instrument". Currently, it is targeted to aid housing and banking, yet this wonderful "financial rain" is benefiting all sectors of the economy, outside of housing, whether all other industries need it or not.

Adding to this pre-emptive monetary stimulus is the anticipated $150 billion of one time tax rebates (1% of GDP) are expected to be implemented over the next several months with checks going directly into consumer hands. This covers about 3/4s of housing construction loss.

The stock market is behaving like there may be no "sunshine" in terms of a return to normal economic growth for the US. It seems that neither analysts, nor economists in general, nor many investors want to "look over" this valley of housing contraction, and invest with the idea that normal economic times will return. The irony of this negativity is that sub prime has tripped off a lot of positive forces in motion to offset housing: Weak dollar, Rising exports, Higher farm income, Growing in-bound tourism, Bio-fuels, Lower interest rates and Tax rebates.

This fear of inflation by the FED from cutting interest rates too quickly is unfounded. The US has entered an era of higher productivity growth via IT innovations and more efficient manufacturing and distribution processes across all industries. A strong economy and strong employment growth has not…in the past 20 years….caused inflation in the US. On the contrary, good economic growth has fostered a very long run in annual manufacturing productivity growth of 4.4% per year since 1995 that is keeping inflation tame. Economic growth is the driver of productivity growth investments, not overly tight monetary policy, which chokes off growth.

All the anxiety over inflation circles around: Energy costs, Food prices and Healthcare expenses…everything else is pretty tame. Inflation potential from "excessive ease in monetary policy" on any of these three, does not have correlation. Energy from Crude Oil is a global issue, not a purely US matter. If the US was put into a recession from having FED policy too tight, our falloff in demand would likely be offset by continued rising oil demand from China, India, Europe, South America and other emerging economies now in high GNP growth trends. These are the engines of global growth and demand for global commodities, not just the US.

On food prices, a tight or easy monetary policy will make no difference. The US ethanol program has put more acreage into corn and less for other food crops. Biofuels are replacing petro fuels in the US. Petro gasoline consumption is down 5% from last year's volume. More domestically produced ethanol is being added to gas to reduce the amount of crude imported to refine gasoline. Hence, as ethanol use grows,

those dollars are staying in the US to be earned by our farmers, rather than going to already wealthy Arab nations. Add to this, growing global demand for US agricultural products and you're going to see higher food prices. Exports are growing (13% per year), and petro volume imports are contracting….a good trend for our trade account. The US is becoming the OPEC of global grain production. Not a bad thing. A tighter FED monetary policy is not going to reduce our eating habits and lower grain prices. On healthcare inflation, it is all driven by growing demands for healthcare services. Enhanced diagnostics detect more needs for therapies and longer life expectancy requires more services for more years. A tighter FED policy would have no beneficial effect on healthcare inflation.

With the US dollar low, there are substantial in-bound foreign investments on merger & acquisition deals (46% of 2007 US deals had foreign parties), plus added foreign ownership stakes in US companies by foreign investment funds. This is a positive for the US capital account. As in-bound US tourism builds on the weaker dollar trend, major international arrival cities (NYC, Miami, CHGO, San Fran, LA), resort areas, amusement and park settings (Disney had a blowout 2007.) are seeing growing foreign attendance and spending. This is new spending coming into the US to stimulate growth, which offsets housing weakness.

Current sentiment on the broad economy is overly pessimistic, and not factoring in positive forces that are in place: natural resiliency of the US economy, weaker dollar…stronger exports, more in-bound tourism, lower gas consumption…greater domestic non-oil energy production, high level of US productivity, low income and capital gain taxes, a new political administration coming in 2008, and no terrorism activity in US. What more can be said? With the glass 90% full, 2008 is going to end up as a very good year!

By Charles Dushek, President of Capital Management Associates of Lisle, IL.