Advisor Economic Update Fourth Quarter 2010

November has been an up and down month for equities, with increases of nearly 3% in the first week, but then declining amidst concerns related to future economic growth and inflation. The Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite were down less than ½ of 1%, respectively.

Bond yields, as measured by the 10-year Treasury ended November at 2.79% compared to 2.61% at the end of October. The higher yields translate to lower bond values as investors became concerned about bond valuations and fund flow into bonds slowed.

Corporate earnings for the third quarter have generally beat expectations and this has helped increase equity valuations from the end of September. However, this has been offset in part to concerns over unemployment and debt issues internationally (Ireland, in particular). While unemployment is important, this is considered a lagging indicator and tells us more where we've been as opposed to where we're heading. As corporate America strengthens, hiring is generally the last growth piece to fall into place. Foreign debt is also important, but provided the "contagion" doesn't continue to spread, the net effect to corporate America should not be significant.

What may be more material is the economic stimulus and how this will contribute to growth and inflation. Also important is tax legislation and the extent to which the Bush tax cuts will remain in place. We feel it is unlikely that the tax cuts will be eliminated entirely, but it is possible that they will be reduced.

In spite of the recent market volatility, the Dow seems to show technical support at the 11,000 level, rebounding from this level several times. We are hopeful that we will see strong sales this holiday season and general economic improvement.

Clients should be thinking about year-end tax planning, which may include required minimum distributions, roth conversions, capital loss generation, and qualified plan/IRA contributions. Please feel free to call us to discuss these, or any other issues.