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Dow Jones Industrial Average: 13,564

High Finance Heroin

Since June 4th, the Dow has rallied 1300 points on the potential that the Federal Reserve (Fed) will embark on QE3...another attempt to stimulate the economy by flooding the economy with money from the government. This new attempt is in addition to the "Operation Twist", where the government buys longer term bonds and issues shorter term bonds. QE3 was officially announced last Thursday. With the Operation Twist and the QE3 activity, the current stimulus of the Fed equates to the following: QE3 will be buying \$40 billion dollars of mortgage backed bonds a month + \$45 billion dollars allocated to the Operation Twist- which was extended.

In my opinion, the scariest thing about the QE3 stimulus is that it is indefinite. The Fed has placed no closing timeframe on the mortgage buying—Ben Bernanke has said that the policy will continue until a time that conditions improve. Further, he said that the interest rates will remain at the current low level until mid-2015.

How did the market react to the stimulus / and such negative economic conditions which prompted QE3? The Dow Jones jumped 200 points on the day of the announcement (Thursday-September 13th). This led to the comment that the stock market is addicted to stimulus (whether it is good or bad), and the Federal Reserve is the drug dealer-- pushing the product. **Hence, (figuratively speaking) Ben Bernanke is the biggest drug dealer in the history of mankind.**¹

So, what happens now? Should we pile back into the stock market? Yes and No...

I think the stock market has come a long way, and is probably due for a pullback. So, I will be looking for a drop in the stock market before I recommend wading back into the equity investments. With that said, if the Federal Reserve is going to continue to flood the market with cash (a.k.a. heroin- in this example), the market could have some good momentum for the foreseeable future. Additionally, corporate earnings tend to be strong towards the end of the year, which carries into the first quarter of the following year.

So, if we get a good entry point- I am optimistic that we will see the market have some additional upside.

¹ **MORGAN STANLEY: Investors Are Addicted To Monetary 'Heroin' And Bernanke's Got The Hook Up. Business Insider. September 18, 2012.**

Two additional thoughts:

1. International investments and metals may be good investment opportunities due to the new QE3. The reason is that as the stimulus is put into effect, the government is essentially devaluing the currency (whether right or wrong). And as the currency is devalued-- international investments and metals (not just gold) tend to increase in value.*

I will be developing investment ideas along these lines over the next couple of weeks.

2. With less than 50 days until the presidential elections, I would be remiss to not give my thoughts on the potential outcomes. Bottom-line, none of my 3 thoughts would be a negative for the stock market.
 - a. If President Obama gets re-elected: the market will most likely keep trudging along. A market strategist has dubbed the US economy a “plow horse economy”—it is moving forward, but not at a brisk pace. With President Obama re-elected we should expect “same course for the economy, at the same pace”.²
 - b. If Governor Romney gets elected: I would expect that the market and the economy will most likely move higher, but at a faster pace- given the more business-friendly stance. If Romney is elected, he will come into office with the mandate of setting the economy on a different course, and at a faster recovery pace.
 - c. A change in the control of the Senate: I think that this will be the most influential effect on the economy (and the outlook for the government). As in 2010, the House switched control to the Republicans because the electorate, in my opinion, was tired of ineffectual economic legislation. And for the last two years, there has been deadlock / divisiveness in Washington.

If the Senate changes control, I think we will see some legislation get passed, which could stimulate the economy—similar to the TransCanadian Pipeline. And ideally, a new climate of cooperation will emerge. If the 2010 election is any guide for 2012, ANY incumbent senator should be working very hard right now...

My first recommendation for the Congress would be to PASS A BUDGET...it has been over 1000 days since the Congress has worked without having a budget.

I sincerely appreciate your time in reading my market commentaries—I hope this wasn't too boring (or political). If you would like to schedule a time to discuss your investment portfolio, please let me know—I will make my schedule available to you.

² First Trust Advisors. **Monday Morning Outlook: “The Plow Horse Rolls On”**. May 21, 2012.

* Investments in precious metals such as gold involve risk. Investments in precious metals are not suitable to everyone and may involve loss of your entire investment. These investments are subject to sudden price fluctuation, possible insolvency of the trading exchange and potential losses of more than your original investment when using leverage.

International investing has special risks relating to changes in currency rates, foreign taxation, differences in auditing and other financial standards, political uncertainty and greater volatility. These risks are even greater when investing in emerging markets

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