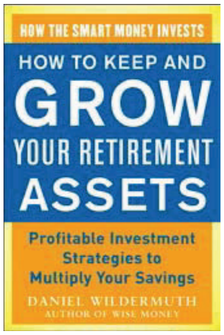
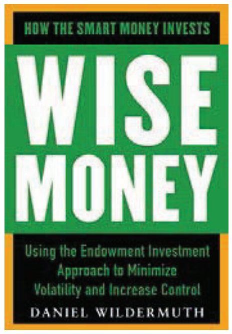
OCTOBER 2012
MARKET COMMENTARY





Another Book Release

We've been very pleased at the response to *Wise Money*. We appreciate the encouragement and hope the book continues to make a positive impact.

My next book, *How to Keep and Grow Your Retirement Assets* will hit bookstores in January of next year. The book's title pretty much explains the topic.

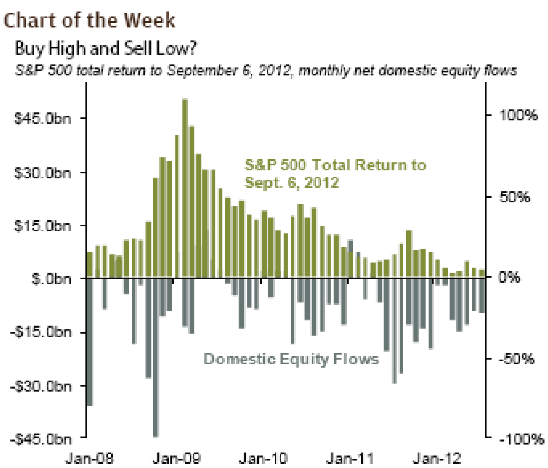
Market Behavior

The market has remained fairly stable after its recent run-up. I've been asked by many people why it hasn't gone down given all the issues facing Washington and Europe as well as ongoing unemployment and so on. I believe the answer is fairly simple. There's frequently little direct correlation between the events of today and stock prices.

The market always looks ahead. Today's economic numbers impact the market only if investors believe they will markedly affect the ability of companies to generate profits in the future. During the last several years, stocks have performed incredibly well because private enterprise has maintained and increased profits in the face of economic and political headwinds. Many individual investors have focused on unemployment, housing, and numerous other main street issues, while savvy investors have ridden a strong bull market driven by corporate profits for last four years. For better or worse, the connection between the middle-class and corporate profits is very weak.

Investor Sabotage

The disconnect between investor perception and stock market performance was highlighted by a recent study by Franklin Templeton, a mutual fund company. The results revealed that many investors remain far too conservative and/or out of sync with what has been happening in the equity markets over the past few years.



When 1,000 investors were asked whether they thought the S&P was up or down during each of the past three years, 66% thought it was down in 2009, 48% thought it was down in 2010, and 53% thought it was down last year. In reality, the S&P was up 26.5% in 2009, 15.1% in 2010, and 2.1% last year. According to JP Morgan, investors have pulled out $313 billion from equity mutual funds since the market low in March of 2009, while the market had risen in value a staggering 128%. The traditional buy and hold strategy has worked quite well in reality, yet many investors missed the rally because they bailed out too soon.

Today’s Corporate Profits

Profits remain strong in spite of tremendous political, regulatory, and economic uncertainty, and most longer term trends suggest profits should continue moving up.

Recent Trends

Housing appears to be firmly on the upswing, and the long awaited news cheered markets. Sales of new and existing homes are up, and the trend should continue through next year. Housing could add half a percent to GDP growth in 2013. By 2014, housing should return as a significant contributor to job creation, consumer spending and economic gains, and the sector’s growth should provide a small tailwind to the anemic recovery.

Commercial real estate is also improving. Much like corporate America, real estate executives are focusing much of their time and energy on increasing operational efficiency and reducing costs as a means to profits. Commercial real estate executives expect the modest recovery to continue, in spite of nearly two out of three (63%) executives surveyed by KPMG pushing back expectations for a full U.S. economic recovery until 2014 or later.

Investors in other parts of the world seem to be more bullish on America than many Americans. Foreign direct investment in factories, firms, and real estate is expected to increase over the next several years pushing annual inflow up to $320 billion by 2018. These numbers are 50% higher than now, and if the increase goes as expected, the U.S. would have attracted a third of the rise in total global investment. For the U.S., that means millions of new jobs and another boost to the economy.

On the opposite end, Europe’s ongoing struggles have provided the primary downward pull on the U.S. stock market as investors fear the troubles of Europe will hurt U.S. profits. Germany’s economic downturn eased a surprising amount in August, but France’s economy, like much of the rest of Europe, appears to be sinking further. Recent attempts by the European Central Bank to boost confidence appear to be having little effect. Economic performance indicators signal that the contraction is continuing.

Elections

While projecting elections is fraught with danger, the market seems to be leaning toward a Republican win in both the Senate and the House with Obama hanging on to the Presidency. If this scenario pans out, the Bush tax cuts will likely be extended during a lame duck session which will add some economic certainty to next year. While many of the anti-business initiatives kicked off during Obama’s first term would continue under this arrangement, the regulatory assault will slow considerably. The result will likely be a less hostile business environment even as the Dodd-Frank Bill, ObamaCare, more stringent EPA regulations, and the multitude of other new regulations go into affect. The lack of new initiatives will increase certainty, and businesses will probably start to invest more of their $3 trillion cash trove. The change may not be what investors are hoping for, but it would likely be welcomed as an improvement to the current state.

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