Paul R. Ried Financial Group, LLC
Security for your future

A MESSAGE FROM YOUR FINANCIAL TEAM
Third Quarter 2012
October 8, 2012

Dear Clients,

The third quarter was marked by competing currents in the markets. On the one hand, you had noticeably slowing economic growth worldwide. From Europe to China, the ripple effects are making their way into the official statistics globally. However, on the other hand, you have had global central banks announce even more measures to pump money into the financial system in hopes of countering these effects.

While there is much debate about the usefulness of these programs when it comes to helping the real economy, it is clear that when it comes to the financial markets, the currents driven by the global central banks are winning out for now. Indeed, the US stock market (as measured by the S&P 500) ended the third quarter up over 16% for the year. International markets (as measured by the MSCI EAFE) ended up approximately 10%.

Evolving Slowdown

It seems hard to discuss an economic slowdown when things never felt like they were moving that fast anyway. One thing is for certain, however, the slowdown is definitely beginning to show up in reduced earnings outlooks from companies as well as official economic statistics.

The World Trade Organization announced that global trade is now on pace to grow by only 2.5% this year (in comparison, it grew nearly 14% in 2010 and 5% last year). This slowdown in trade is being felt by companies like FedEx in real time as they have noticed a sharp drop in shipments worldwide. They have reduced their forecasts accordingly.

Many eyes will be on earnings announcements since current estimates point to the possibility of this being the first quarter of negative year-over-year earnings growth since the third quarter of 2008-2009.

Fiscal Cliff

A quick internet search of the term "Fiscal Cliff" will return literally millions of results. You've likely heard all about the assumed worst case scenarios if congress does not act by January 1st. While it's true that if nothing was done taxes would increase and automatic spending cuts would be triggered. However, we must remember that we are talking about congress here. If can-kicking were a sport, surely the US would have medaled in the latest summer Olympics. Although, then again, there would be a lot of competition over in Europe.

The reality is that the issues of taxes and spending must be addressed at some point, but the only thing congress must do by January 1st is agree to do something about it at a later date. In other words, the "deadline" of January 1st is not much different than that diet everyone is going to start "next week".

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Election Time

Barring some hanging chads, we should know the outcome of the presidential race this time next month. In the meantime, we will probably get to hear all about what each candidate had for breakfast before their next debate and why that may or may not help their chances.

The markets have historically "priced in" the election results prior to the election. In fact, political science professors Christopher Wlezien and Robert Erikson studied polling data going back to 1952 and computed an average "poll of polls" for each election. Interestingly, they found that no presidential candidate who was leading in the polls six weeks prior to the election ended up losing the popular vote (However, it should be noted that in the case of Al Gore in 2000, the popular vote did not determine the election). This implies that most voters make up their minds well before the debates, but, then again, there is a first time for everything.

Implications

Regardless of the results from this election I'm sure there will be many questions about the implications going forward and the effect on the longer term direction of the economy. Specifically, we hope to address some of these questions at our annual Client Economic outlook event on November 8th, two days following the election.

Remember, you have a well-diversified portfolio reflecting your risk tolerance and return objective coupled with our assessment of the current stat of the economy. In addition, we actively monitor the activity of your money managers as well as a variety of economic indicators and make adjustments to your portfolio as needed. We thank you for your continued trust. We are here to serve you. Should you have any questions, don't hesitate to e-mail or call our office.

Sincerely, your Financial Team

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1 US stock market as represented by the S&P 500
2 International stock markets as represented by the MSCI EAFE