Advisor Economic Update October 2011

Markets ended the third quarter with losses amidst the on-going financial crisis in Europe. Markets have essentially predicted a default by Greece (their one year bond yields jumped to more than 60% last month). This, alone, is not a major concern to world markets. However, there are concerns over a domino effect and whether or not certain countries such as Spain or Italy would be able to weather the storm.

The Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite were down 6.03%, 7.18%, and 6.36% respectively, during September. Smaller companies, as measured by the Russell 2000 index, were down about 11.65%. For the quarter, the Dow, S & P, and Nasdaq indices were down between 12-15%, compared to the Russell 2000 and Dow World Index (ex-US) down around 20-22%.

The third quarter is statistically not a good one, but this also helps set up the fourth quarter, which is statistically the best performing quarter of the year. This is based on S & P 500 data for the last 12 years, which is not an indicator of future results. However, on the assumption that history repeats itself, significant drops in the market are often followed by strong rebounds.

Bonds, as measured by the 10-year Treasury were higher, with yields dropping to 1.92% compared to 2.2% in the previous month. This is due in part to Operation Twist, where the Federal Reserve is buying long-term Treasuries to drive yields lower and help stimulate growth.

Corporate earnings continue to grow and according to Bloomberg, U.S. companies are trading at an average 10.2 times 2012 forecasted earnings, a ratio that is low compared to other periods of economic contraction. Bulls will argue that this is an indication that stocks are undervalued, in particular since forecasted earnings have already been reduced. Bears will argue that a double-dip in Gross Domestic Product (GDP) will further reduce earnings and stock prices.

Most recently, manufacturing data indicated expansion in September at a slightly higher rate than the previous period. In general, economic data has reflected slow growth and modest improvement, despite "high" unemployment and debt issues in Europe. The relationship between debt in Greece and our stock market may be overstated. If domestic markets can "disconnect" from any "Greek tragedy," and "reconnect" with economic fundamentals, we believe that the U.S. stock market can align with corporate earnings for slow, long-term growth. As always, please call us with any questions, concerns, or to schedule a meeting.

Advisor Economic Update- November, 2011

Equities were up significantly in October, with the Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite up 9.55%, 10.75%, and 11.12% respectively. Smaller companies, as measured by the Russell 2000 index, were up about 15% for the month. The Dow World Index (ex-US) was up around 10% for October.

The fourth quarter is statistically a good one, and October started the quarter with strong gains. Safer US Treasury values dropped slightly, and yields went up, with the 10-year Treasury yield at 2.18% at the end of October, compared to 1.92% the previous month.

During October there was an expectation that a bail-out program would be implemented in Europe and reduce potential loss from a Greek default. However, in the first week of November, the Prime Minister of Greece unexpectedly announced that he would subject the plan to a popular vote, moving Greece further from a resolution and increasing fears of default.

Meanwhile, we continue to see growth in economic earnings and corporate earnings. Recent Federal Reserve meetings indicate that they are concerned about growth, but feel the economy has strengthened and consumers have increased spending. Current measures of Gross Domestic Product for the third quarter are 2.5%, beating expectations, and reducing worries over a "double-dip" into recession. Analysts believe consumers are spending more due to lower gas prices, and that supply-chain disruptions from the Japan quake in March, 2011 have been fixed. Unemployment, however, remains at 9.1%, and is not expected to decrease until we see significantly higher growth. It's important to note, though, that unemployment tends to be a lagging indicator.

While the debt issues in Europe will definitely slow growth overseas, the impact on domestic growth and corporate earnings should be less significant. Should domestic growth deteriorate, the Federal Reserve Board has indicated that it will pursue additional stimulus, though currently, domestic growth is moving in the right direction and at a reasonable pace. We continue to review client allocations and make adjustments as needed.

Advisor Economic Update- December, 2011

November felt like a terrible month, but after a strong positive last day, equities were mixed, but mostly down, for the month. The Dow Jones Industrial Average (Dow) had a small gain of about 3/4ths of 1%. The Standard & Poor's 500 (S & P 500), and Nasdaq composite were down ½ of 1% and 2.37%, respectively. Smaller companies, as measured by the Russell 2000 index, were down about ½ of 1% and the Dow World Index (ex-US) was down more than 5% for the month.

US Treasury bonds values rose and yields dropped slightly, with the 10-year Treasury yield at 2.12% at the end of November, compared to 2.18% the previous month.

The big push at the end of November related to a combination of black Friday retail sales and Central Banks around the world agreeing to make money available at a low cost. While this is not a panacea, the coordination adds to confidence in the global financial system, which has been under stress from debt issues, primarily in Europe.

Holiday sales are generally expected to be strong, but emphasis has been placed on employment data, which is expected to be released in early December. Overall, economic data has been indicative of continued expansion and corporate earnings have also reflected this. Housing remains soft and some still question the effect foreclosures and troubled loans will have on economic growth.

The fourth quarter is statistically a good one and with such a strong October, markets are still on track for positive performance. Globally, demand has been slowing, and this is expected to have a marginal negative effect for the US economy. However lower demand is also reducing pressure for energy and other commodities, which can translate into lower production costs, or allow for consumer spending to shift into other areas.

We expect to see continued volatility in the "shock" market, but remain cautiously optimistic that slow growth will continue, and that debt issues around the world will slowly improve.