

Advisor Economic Update September 2011



Equity market volatility continued in August, taking most major indices into negative territory for the year. The Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite were down 4.36%, 5.68%, and 6.42% respectively. Smaller companies, as measured by the Russell 2000 index, were more than 10% for the month.

Bonds, as measured by the 10-year Treasury were higher, with yields dropping 2.2% compared to 2.8% in the previous month. In spite of the reduced credit rating from Standard & Poors, significant fund flow into US Treasuries has helped support prices.

In early August there were concerns that the US Federal Government would default on it's debt obligations. Ultimately, a temporary budget was reached, though there are concerns over how, exactly, a more permanent budget will be passed. In the meantime, corporate earnings have been relatively strong and recent reports from the Federal Reserve are showing modest growth in all 12 regions for the end of July and August. Most analysts feel that there is sufficient momentum for growth to continue, though variables surrounding the US budget and foreign debt make economic forecasting extremely difficult.

Financial advisor/marketer Nick Murray recently commented that the S & P 500 has had positive returns in 24 of the last 31 calendar years. However, the average, maximum, intra-year loss has been approximately 14%. We have not audited these figures, but recognize the point that stock market volatility is nothing new. Also, it's worth noting that the S & P 500 value was in the low 100's in 1980, about 30 years ago. There were five bear markets (declines of 20% or more) since 1980, including the worst recession since the great depression, yet the index grew nearly ten times during this period.

For our managed clients, we are monitoring activity and reviewing their portfolios. However, as always, we encourage clients & friends to contact us to discuss their portfolios, and determine if any adjustments to their allocations are necessary. Recent volatility creates discomfort for all of us but we remain confident in the resilience of the US economy and the long-term benefits of diversified investing.