



Friday, November 27, 2009

## Market Holding On as Economy Creeps Back

For three weeks running the Dow has traded between 10,200 and 10,400. This week's news was mostly positive with the Federal Reserve trimming its forecast for the jobless rate, home re-sales and new home sales rising, and consumer spending climbing more than forecast.

Fed governors and regional bank presidents predict on Tuesday that the unemployment rate will range from 9.3% to 9.7% in next year's fourth quarter, down from a June projection of 9.5% to 9.8%. While the adjustment is small the direction of the trend is noteworthy. The Fed continues to say that they will keep interest rates "exceptionally low" for an "extended period," but they suggest that a decision to raise rates will hinge on changes in the labor market, inflation and inflation expectations. As unemployment falls, rates will be rising, but not any time soon.

On the other hand, the Fed is concerned that low rates will fuel "excessive" speculation in financial markets and possibly dislodge expectations for low inflation, according to minutes of their meeting Nov. 3-4 released Tuesday. "Members noted the possibility that some negative side effects might result from the maintenance of very low short-term interest rates for an extended period, including the possibility that such a policy stance could lead to excessive risk-taking in financial markets or an un-anchoring of inflation expectations." They do acknowledge however, that the risks of speculation are "relatively low," but they will remain alert to the possibility, while focusing on improving employment and economic expansion.

Gold is reaching new highs as the dollar falls. On Wednesday India reported that it may buy more bullion for its central-bank reserves. Gold reached a record \$1,188 an ounce and has rallied 13% since November 2nd when India said it bought 200 metric tons from the International Monetary Fund. The country, the world's largest gold consumer, may buy more from the IMF, the Financial Chronicle reported. The US Dollar Index, a six-currency gauge of the greenback's strength, fell to a 15-month low according to Bloomberg.

The economy continues to show some signs of growth as consumer spending last month grew .7%, exceeding economists' estimates. Incomes climbed .2%, also more than forecast. Existing home sales grew by a record 10.1% in October, to an expected annual rate of 6.1 million homes. The year-on-year rate, at plus 23.5%, is also a record (series begins in 1999). New home sales reported on Wednesday joined in the party boosted by first-time buyer government incentives.

New home sales jumped 6.2% in October to a much higher-than-expected annual rate of 430,000. Only 239,000 new homes were on the market in October in what is the lowest number going all the way back to 1971. Supply at the current sales rate fell to 6.7 months vs. September's 7.4 months and compared with 11.1 months a year ago according to Bloomberg.

Mortgage rates continue to support housing and may stay low longer as Fed policy makers have signaled they will hold their benchmark interest rate near zero for an extended period. The average rate on a 30-year fixed mortgage dropped for a fourth straight week, according to Freddie Mac of McLean, Virginia. The rate fell to 4.78%, matching the record low set in April.

About 80% of S&P 500 companies reporting third quarter results since October 7<sup>th</sup> were ahead of analysts' predictions. That level exceeds the record pace of 72.3% set in June, according to data compiled by Bloomberg. The S&P has soared 64% from its 12-year low on March 9<sup>th</sup>, leaving the index valued at more than 22 times its companies' reported operating earnings, near the highest level since 2002, again according Bloomberg.

Is the stock market ahead of itself and the economy? Do stock prices still have room to rise? Is the dollar near its low? Will gold continue to reach new highs? These are all good questions for traders and market timers, policy makers and economists. But should you really manage your family's wealth by attempting to guess or by paying others to guess the right answers to such questions? We believe not and are happy to show you why and how the capital markets combined with ongoing plan oversight are sufficient to meet your life's needs.

Have a wonderful Thanksgiving weekend.

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