



Friday, May 21, 2010

Uncertainty Back Again?

Yesterday represented the seventh down day in a row for the S&P 500's, putting the average just 6 points above the low it reached during the technical panic of May 6th. It is 10.2% off its recent high of April 23rd and 3.9% down for the year. Long term US Treasuries on the other hand are up 9.5% since the high and 11% so far this year. Selling over the past three days was amplified when German Chancellor Angela Merkel banned some types of speculation against government bonds and financial institutions. The move was ill-received by investors in general but particularly in Europe as traders there drove the Stoxx Europe 600 Index down 7.2% in just three days. Other governments have not followed suit with the ban.

Debts continue to mount globally, building on record levels created by the bailouts of '08 and '09. The IMF forecasts that debts in the US, UK, and Ireland will rise between 11 and 12.2% of those countries' GDP. Greece, Spain, and Portugal's debts and the efforts of greater Europe to support them will force significant budget cuts throughout, dampening growth. Add the uncertainty of China's ability to curtail growth in a controlled manner and one begins to wonder if the US recovery is sustainable.

The heart of the US recovery has been in manufacturing and exports. Earlier this week the New York Fed released very encouraging results in their May Empire State index. The gauge reported a solid 19.1 (break-even is zero), though down from April's exceptionally high 31.9. The report showed that new orders, shipments, and hiring were all strong. The report also showed that significant excess capacity remains in the system.

But the forward-looking Leading Economic Indicators declined for the first time in over a year, dropping .1% in April. Weighing on the index were the stock market, unemployment claims, consumer confidence, and declines in building permits. The Conference Board said though that the recovery would continue, though it will likely slow during the summer.

Jobless claims jumped 25,000 in the week of May 15th to 471,000 though the more stable four-week average of 453,000 shows improvement over April's 461,000. Continuing claims improved, declining by 40,000 in the May 8 week to 4.625 million. The four-week average of 4.643 million is little changed compared to April.

The slow pace of economic recovery is keeping prices down, at both the producer and the consumer levels. The annual CPI inflation rate fell to 2.2% (seasonally adjusted) from 2.4% level in March. It represents the lowest level in 44 years. The core rate slipped in April to 1.0% from 1.2% in March.

At the produce level prices came in at a better than expected .1% in April, down nicely from a .4% spike in March. Food and energy both helped to bring the headline number down. The core number, which trims out energy and food increased by .2%. The reason was largely attributed to reduced discounts by auto dealers. The overall annual PPI rate decreased to 5.4% from 6.1% in March (seasonally adjusted). The core rate firmed to 1.0% from 0.8% the month before.

While prices at home and in Europe are flat or falling, they are rising quickly in fast-growing emerging economies such as China and Brazil. Investors and economists worry that they could easily go too far in reining it in, damaging demand for US and other developed countries' exports, vital to their recoveries.

Technical Rout or Normal Market Action?

Of the market panic caused earlier this month, James Stewart of the Wall Street Journal asks an interesting question: “In the search for the problem at the root of the apparent breakdown of trading on May 6, launched with such fanfare and urgency but so far showing scant results, investigators may have to confront an awkward question: What if there wasn't any problem?”

Stewart suggests that officials jumped to conclusions that there had to be something wrong. “Securities and Exchange Commission Chairman Mary Schapiro called the plunge ‘unacceptable.’ Even before knowing the cause, stock exchanges canceled trades that occurred between 2:40 p.m. and 3 p.m. at prices 60% above or below the price at 2:40 p.m. Nasdaq alone canceled more than 10,000 trades involving at least 1.4 million shares.”

There was the ‘fat finger’ theory where a single trader entered a few extra zeros on a Procter & Gamble trade sending the market into a tailspin. But no such order has been found. There was the theory that high-speed trading computes made the problem worse when they were shut down, drying up liquidity, but they don’t have to remain in the market if they are not market-makers.

Stewart concludes by saying: “The May 6 plunge was an extreme event. It needs to be understood and its lessons applied. But the market regained its footing and functioned. For the overwhelming number of investors, it appears to have done no lasting harm. Most people didn't even know it was happening until it was over and stock prices had recovered. Those who jumped into the fray and traded, using computers or otherwise, may well have deserved the outcomes they got.”

We may never know the true cause of the May 6th “flash crash,” but it provides a vivid reminder of how *UNCERTAIN* the capital markets are. Market uncertainty naturally translates into investor uncertainty and people understandably worry about their futures. If you are one of these people, if you are tired of being told to simply hold the course, to ignore the short-term swings because you invest for the long term; you may be waking up to a truth that Wall Street doesn’t want you to grasp: **Their focus is on your money, not on you or your lifestyle.**

Wouldn’t you feel more comfortable if your advisor valued your goals more than your portfolio? Does he even know your goals? If your only guides are colorful charts of your investments’ historical performance amidst a sea of uncertainty how should you feel about your future? Without systematic professional oversight of your unique circumstances, priorities, and valued goals, how can you have confidence of success? We respectfully submit that you cannot, without Wealthcare.

Please consider our value proposition. By controlling what we can, to minimize costs, taxes, and the risk of materially underperforming the market, and respecting what we cannot, by planning for the uncertainty of markets, we will help you make the most of your life.

Call us to see for yourself in objective terms why Wall Street does not want you to know about Wealthcare.

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