



Friday, June 11, 2010

Keeping the Faith

Since falling steadily during much of May by 12%, equity markets have traded within a 4.5% trading range since May 21st. Investors are struggling to assess what impact the worsening European debt crisis and China's lending curbs will have on the US and on the larger global economic recovery. Since the breaking news of each, \$6 trillion has been erased from equity markets worldwide.

The data coming in this week is beginning to reveal the impact of Europe and China. So far, however, it is difficult to tell if there is a trend. For instance, Chinese exports are performing better than expected, buoying the global expansion, but US consumers, the buyers for a good chunk of China's exports, slowed down in May.

The trend in retail sales turned down in May, falling 1.2%. Sales gained 0.6% in April and 2.1 % in March. Economists say that spending is healthy and that some offset should be expected following such a strong burst in prior months. The Goldman Store Sales and the Redbook weekly reports reflect more current reads on spending. Their tallies rose .8% and .1% respectively for the week ending June 5th which includes the Memorial Day weekend.

Meanwhile, as the consumer regroups, business remains healthy. Wholesale inventories rose 0.4% in April, following a strong 0.7% build in March, and 0.6% in February. But inventories continue to lag behind sales, which rose 0.7% in April. The wholesale stock-to-sales ratio fell to 1.13, a record low. If inventories don't keep pace with sales, eventually there is nothing to sell.

Troubling for the business side of the economy was this week's report that US exports slipped by .7% in April. Imports fell a smaller .4% which served to increase our trade deficit. The data point to the possibility that Europe is indeed having the feared impact on US exports.

Good news on the jobs front continues to be elusive. Initial jobless claims came in at 456,000 compared to 459,000 in the prior week, which had been revised 6,000 higher. The four-week average rose for the fourth straight week to its highest level in three months, up 2,500 to 463,000. There is the hint of new hiring from in the continuing claims numbers. Continuing claims fell a very steep 255,000 in the May 29 week to 4.462 million and is at the lowest level since late 2008, according to Bloomberg.

Taking Stock

The best economic forecaster, 'Mr. Market' currently sits on the fence. Having fallen 57% from October 2007 highs to a low in March 2009, averages are almost half way back to their peaks, even after correcting by 12%. For now, the averages seem to be in a holding pattern awaiting further indications from China, Europe and the US.

The year so far has been a difficult one for active managers. Only two of the largest 10 funds have managed to beat their benchmarks. With all the choppiness in markets investors are leaving stocks at the fastest pace in over six years. US stock mutual funds have lost \$15.3 billion to withdrawals this year through May, according to preliminary numbers from the ICI, a Washington-based trade group.

Huge flows out of mutual funds are of course, nothing new. Individual investors all too often allow their emotions too much sway in their investment process. The father of fundamental investing Benjamin Graham warned that “individuals who cannot master their emotions are ill-suited to profit from the investment process.” The latest Dalbar study shows that from 1988 through 2007, the average stock fund was up 11.6% while the average stock fund investor was up only 4.6%.

Profits for S&P 500 companies are projected to rise 17% in 2010 and 18% in 2011. The index currently trades at 13.1 times 2010 per-share earnings forecasts, compared with an average 16.4 times reported income since 1954. Economists predict gross domestic product will expand 3.2% this year, the most since 3.6 percent in 2004.

If you have a Wealthcare plan, take heart that your confidence remains in our comfort zone and our process anticipates far worse periods than we currently face. You know specifically how much your accounts can fall or rise before you are out of our comfort zone and you know the odds of both. In short, you have a plan, and you have a team continually watching your plan to ensure it is properly funded so you don't have to worry about markets, or stocks, or bonds.

If you do not have a Wealthcare plan, take heart that the economy and the market have far more going for them than against them. While you may indeed have a greater allocation of stocks in your portfolio (hence greater risk) than you need to meet your goals, getting out of them now because you are uncertain about the future is no reason at all. Will you be any more certain of the future next week, month, or year? Markets are uncertain and they always will be. Stock buyers base their confidence on the belief that the companies in which they invest will continue to profit from their endeavors as they have in the past, or they will find new ways to do so when the old ways fail. That model has been around since the dawn of commerce and it's not broken.

Keep the faith.

Information provided in this Brief has been prepared from sources believed to be reliable, but it is not guaranteed by Beacon Investment Management and is not a complete summary or statement of all available data necessary for making an investment decision. Past performance does not guarantee future results. Information provided is intended only to inform and does not constitute a recommendation to buy or sell. The opinions expressed reflect the judgment of the author as of this date and are subject to change without notice.

