Analysis & Commentary

Third Quarter 2012 ***by: Edward J. Panfili, CFP®***

The market continues to shake-off the constant barrage of negative news confronting it. We have the continuing financial concerns out of Europe, the decline in the growth of the Chinese economy, the tepid growth of the US economy, continuing unemployment of about 8%, the drought that has diminished crops, and the uncertainty of the presidential election in just a few short weeks. There seems to be no shortage of issues causing investor concern.

As reported in the October 1st issue of the Wall Street Journal column written by Tom Lauricella…

> *"The Dow Jones Industrial Average rose 4.3% during the third quarter and is up 10% so far in 2012. As of Friday's close, 13,437.13, the Dow stands just a few hundred points below its all-time closing high of 14,164.53 set in 2007.*
>
> *The Standard & Poor's 500 stock index is having an even better year with a 14.6% gain to 1,440.67 on the heels of a 5.8% rise during the third quarter."*

Many believe these market advances are due solely to the Federal Reserve keeping interest rates low. According to Fed Chairman Bernanke, current interest rates are projected to continue for the next year or so, perhaps even into 2014 or 2015. The resulting effect of the low interest rates is allowing corporations to borrow at very favorable rates.

Many corporations are also using excess cash to repurchase their own shares. This action reduces the supply of shares available to investors, thereby causing some upward pressure from demand. In addition, spreading earnings over fewer shares increases the earnings per share and also makes more cash per share available to pay and/or increase shareholder dividends. This tends to makes each share more valuable.

As you know, I closely follow the market analysis provided by Mr. Brian Westbury, chief economist for First Trust Advisors. In his October 1st "Monday Morning Outlook", Brian has expressed concern regarding the possibility that the US could slip into another recession. To quote him:

> *"If a recession happens, it will not be the result of the typical causes: tight money, tax hikes, or protectionism. Instead, it would be our new nemesis, "uncertainty," leading to a decline in velocity.*
>
> *In our view, at the heart of the recent uncertainty is a massive growth in government spending and debt, and the fear of large future tax hikes if we stay on this path. Potential tax hikes are changing the risk-reward calculation of every business in America. In a few months, we should know how much of this potential will become reality."*

The "velocity" that Brian speaks of has to do with the speed with which money circulates through the economy. As consumers and businesses cling to cash because of economic uncertainty, velocity tends to slow. This is not a good thing.

Regardless, Brian stated in his outlook that he is forecasting a 1.5% real GDP growth for the third quarter with only a 25% chance that we would slip into a recession (negative GDP growth). Time will tell where it falls.

It is never easy to forecast the direction of the stock market. What I do know from history is that when the economy pauses and the markets sell off, they always rebound. Those that stay patiently invested for the long-term are usually rewarded handsomely.

As always, my door is always open to you. Whenever you have questions or concerns, or wish to reevaluate how your portfolio is managed or allocated, please do contact me. The opportunity to be of service to you is appreciated.