THE MASTERS
WEALTH MANAGEMENT GROUP
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Presents:

MONTHLY ECONOMIC UPDATE

MONTHLY QUOTE
"It takes a long time to grow an old friend."
– John Leonard

MONTHLY TIP
Think about setting up a system for 2012 to record your allowable income tax deductions and credits. Too many people spend too many hours trying to figure out deductions and credits in April.

MONTHLY RIDDLE
I'm dressed in a golden jacket. I take it off abruptly, accompanied by a loud noise. When I do, I become larger, but I weigh less. What am I?

Last month's riddle: Take a 5-letter word identifying a crop. Take away the first letter, and you have a form of energy. Take away the first 2 letters and you have a verb. Rearrange the 3 letters left and you have a drink. What is this 5-letter word?

Last month's answer: Wheat.

October 2011

THE MONTH IN BRIEF

September 2011 was a difficult time for many investors; the best thing about it may be that it's over. Stocks and commodities were battered during the month - the S&P 500 retreated 7.18% and the Thomson Reuters/Jefferies CRB Commodity Index sank 12.97%. Investor anxiety about the European Union's debt problems increased, and Wall Street was unimpressed by some of the stateside economic statistics. Would stocks struggle for the balance of the year? Had we entered a new recession? Investors could only hope for market performance and economic signals in future months that would put both questions to rest.[1,2]

DOMESTIC ECONOMIC HEALTH

Consumer spending increased by 0.2% in August, down from a revised 0.7% gain in July. Consumer incomes declined by 0.1% in August for the first time in almost two years. Consumer confidence – which seemingly had nowhere to go but up in light of the July figures – did improve somewhat. The University of Michigan's final September survey rose to 59.4 from the final August 55.7 reading, 1.6 points better than the consensus forecast of economists polled by Bloomberg News; the survey's index of current conditions went up to 74.9 from August's final 68.7 mark. The Conference Board's consumer confidence index edged north 0.2% to 44.7. Consumer prices grew 0.4% in August, with core CPI up 0.2% and 2.0% year-over-year, the biggest annualized core inflation number in almost three years. Producer prices were flat in August, and so were U.S. retail sales. The jobless rate was 9.1% in August – the 25th time in the past 27 months it had been above 9%.[3,4,5]

The manufacturing and service sectors saw improved growth, at least by the gauge of the most recent Institute for Supply Management manufacturing and service sector indices. ISM's service sector index rose to 53.3 in August from July's 52.7 mark – an improvement few analysts were expecting. Its September manufacturing index rose a full percentage point to 51.6. Durable goods orders diminished in August, but not by much – just 0.1% overall. Core capital goods orders were up 1.1% and core capital goods shipments were up 2.8%.[6,7,8]

In Washington, there were two big news items. President Obama unveiled the American Jobs Act – a bill that would cut the payroll tax for workers and businesses to 3.1% in 2012, offer tax credits as large as $4,000 to companies hiring the long-term unemployed, and devote about $80 billion into infrastructure projects. To pay for it, the President proposed $1.6 trillion in tax increases for upper-income Americans and corporations as a component of a $4.4 trillion reduction of the federal deficit by fiscal year 2021. Republicans dismissed any direct link between taxes on the wealthy and future job creation, and it remains to be seen if the AJA will pass in anything like its entirety.[9,10]

GLOBAL ECONOMIC HEALTH

Fears of sovereign contagion grew on rumors that Greece would soon default on its debt. At mid-month, European finance ministers and central bank governors (and even Treasury Secretary Timothy Geithner) conferred to try and figure out the least disruptive resolution to the crisis. The G-20 issued a statement promising a "strong and coordinated international response to address the renewed challenges facing the global economy". That aside, both the Federal Reserve Open Market Committee and International Monetary Fund managing director Christine LaGarde saw appreciable "downside risks" for the U.S. and world economies.[11]

When investors weren't worried about Greek banks going belly-up or Greece ditching the euro for the drachma, they had concerns about China. Its central bank was trying to arrange a soft landing for its slowing economy. Data showed China's consumer prices up 6.2% in August from a year earlier; the People's Bank of China has raised interest rates five times in the last 12 months. China's official PMI improved a bit to 51.2 in September, but looking long-term, 59% of analysts and traders recently surveyed in Bloomberg's Global Poll of Investors think that its economy will see growth of less than 5% by 2016. Meanwhile, key PMIs in Australia (42.3) and India (50.4) went lower.[12,13]

WORLD MARKETS

Losses abounded. Data from Morningstar tells the tale, with all of this measured in U.S. dollar terms. India's Sensex lost but 1.34% last month. The Nikkei 225 only lost 2.85%; Germany's DAX retreated 4.89% and England's FTSE 100 lost 4.93%. Now the greater descents: All Ordinaries, -6.86%; CAC 40, -8.44%; Hang Seng, -14.33%; TSX Composite, -8.97%; Shanghai Composite, -8.11%. After September, all of these indices were in the red by 10% or more YTD. The biggest loser among them? The DAX, -23.99% YTD. The MSCI World and Emerging Market indices respectively lost 8.85% and 14.78% in September.[14,15]

COMMODITIES MARKETS

The U.S. Dollar Index rose 6.0% in September. That alone might tell you what kind of month it was. Gold lost 11.38% last month. Other precious metals also saw major selloffs last month – platinum, -17.9%; palladium, 22.3%; silver, 28.0%. Oil futures slipped 10.82% in September. At month's end, the price of COMEX gold was $1620.40 per ounce; NYMEX crude settled at $79.20 a barrel. The 19-commodity Thomson Reuters-Jefferies CRB Index posted a 12.97% loss on the month, and just three crops in the 24-commodity Standard & Poor's GSCI Total Return Index of raw materials advanced – live cattle (+7.6%), feeder cattle (+7.7%) and lean hogs (+5.9%). The real yield of the 10-year note was but 0.17% on September 30, hardly changed from the 0.18% yield on August 31.[2,16,17,18,19,20]

REAL ESTATE

The housing market appeared healthier than a year ago. Perhaps that isn't saying much, but the progress was tangible. Existing home sales improved 7.7% in August, putting them + 18.6% from a year earlier. There were 3.2% more housing starts in August, and that indicator registered 7.8% annual improvement. August data also showed 12-month gains in new home sales (6.1%) and pending home sales (7.7%). The S&P/Case-Shiller Home Price Index rose again in July (0.9%); the index was still 4.1% below July 2010 levels.[21,22,23,24,25]

How low could mortgage rates go? In September, the short answer was "even lower". Homeowners who could manage a refi were looking at a 3.28% average rate for the 15-year fixed on September 29 according to Freddie Mac's Primary Mortgage Market Survey. That was down from 3.39% on September 1. The average rate on the 30-year FRM was a milestone 4.01% on September 29; it had been 4.22% on September 1. In the same interval, the average rates on the 5/1-year ARM actually rose to 3.02% from 2.96%; rates on the 1-year ARM went from 2.89% to 2.83%.[26]

LOOKING BACK…LOOKING FORWARD

Appetite for risk truly waned in September, a month in which the dollar seemingly beat every asset class.

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	-5.74	-6.03	+1.16	+2.35
NASDAQ	-8.95	-6.36	+1.97	+6.32
S&P 500	-10.04	-7.18	-0.86	+0.89
REAL YIELD	9/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.17%	0.75%	2.27%	3.50%

Sources: cnbc.com, bigcharts.com, treasury.gov - 9/30/11[1,27,28,29,30]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

Uncertainty defines the market at this point. Could this next earnings season be powerful enough to send stocks north in October? Could anything divert enough attention from the risks in Europe? (Don't forget the pressure from a stronger dollar.) This is a market given to rapid sentiment shifts, and its present level of volatility might be with us for months. If it is any encouragement, October has been a decent month for Wall Street since 2000; in fact, it has been the DJIA's fifth-best month of the year since then with an average monthly performance of +1.16%.[31]

UPCOMING ECONOMIC RELEASES: Here's what we have for the rest of October: the August ISM service sector PMI (10/5), the September jobs report and a report on August wholesale inventories (10/7), the initial University of Michigan October consumer sentiment survey, September retail sales figures and August business inventories (10/14), September industrial output (10/17), the September PPI (10/18), the September CPI, a new Fed Beige Book and data on September housing starts and building permits (10/19), September's existing home sales and the Conference Board's September Leading Economic Indicators index (10/20), the August Case-Shiller home price index and the Conference Board's October consumer confidence poll (10/25), September new home sales and durable goods orders (10/26), the initial BEA estimate of 3Q GDP and September's pending home sales (10/27), and then September consumer spending and the final University of Michigan October consumer sentiment survey (10/28).

If you would like to receive monthly and weekly updates via e-mail please call us at the office or send an e-mail to amy@masterswealth.com

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