

THE MASTERS

WEALTH MANAGEMENT GROUP

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Presents:

MONTHLY ECONOMIC UPDATE

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MONTHLY QUOTE

“If you want to go somewhere, it is best to find someone who has already been there.”

– Robert Kiyosaki

MONTHLY TIP

Save your business \$ by buying furnishings and equipment at bankruptcy auctions, government sales, closeouts and furniture rental outlets.

MONTHLY 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?

THE MONTH IN BRIEF

In August, Wall Street waited for a debt deal, reeled from Standard & Poor’s downgrade of the U.S. credit rating, contended with mounting anxieties over mediocre domestic indicators and troubles in Europe, felt an earthquake and braced itself against an oncoming hurricane. No wonder the S&P 500 slipped 5.68% during the month – a month that most investors would rather forget.¹

DOMESTIC ECONOMIC HEALTH

Congress finally passed a bill lifting the nation’s debt ceiling, meeting the August 2 deadline set by the Treasury Department. However, Standard and Poor’s dropped the hammer on August 5, cutting America’s credit rating from AAA to AA+. Moody’s and Fitch Ratings did not follow suit, but the damage was severe to stocks and global investor confidence.²

Consumer confidence really plummeted: the University of Michigan’s final August poll presented a 55.7 mark, way down from 63.7 to end July. The Conference Board’s consumer confidence index dived nearly 15 points last month, coming in at 44.5. Unemployment stayed at 9.1% in August, and for the first time since September 2010, the economy added no new jobs.^{3,4,5}

There was some good news: consumers were still spending, and not just on the basics. The Commerce Department said that consumer spending soared 0.8% in July, and 0.5% in inflation-adjusted terms (the best such advance in 20 months). Overall retail sales were up 0.5%, with August increases in clothing store sales (0.5%), electronics and appliance sales (1.4%), online retail purchases (0.9%), auto and auto parts sales (0.4%) and furniture sales (0.5%). In another encouraging sign, durable goods orders soared by 4.0% in June; economists polled by Bloomberg News had forecast a 2.0% gain.^{6,7,8}

The Consumer Price Index rose 0.5% in July with core CPI up 0.2%. The Federal Reserve’s PCE gauge rose 0.4%; the Labor Department’s Producer Price Index rose 0.2%, with core PPI rising 0.4%.^{9,10}

As for the Institute for Supply Management’s key manufacturing and service sector indices ... the August manufacturing index looked shaky, descending to 50.6 (indicating just a small expansion) ... and in early August, the July service sector PMI came in at 52.7. Yet the Commerce Department said that factory orders rose 2.4% in July thanks to both a boost in aircraft orders and the biggest one-month demand for autos in eight years.^{11,12,13}

GLOBAL ECONOMIC HEALTH

At mid-month, German chancellor Angela Merkel and French president Nicolas

Last month's riddle:
2 boxes each hold 4 hot sauce packets and 4 soy sauce packets. Without looking, you take 1 packet from each box. What are the chances that at least 1 of the packets you draw is a hot sauce packet?

Last month's answer:
You have a 75% chance. You could pull out 1 hot sauce packet and 1 soy sauce packet, 1 soy sauce packet and 1 hot sauce packet, 2 hot sauce packets or 2 soy sauce packets. So 3 out of 4 times, you'll draw at least 1 hot sauce packet.

Sarkozy appeared together to reaffirm the European Union's support for the euro and to announce three new responses to the EU debt crisis: a new EU economic forum/leadership panel that would meet every six months, a tax on financial transactions, and (shades of the Tea Party) a proposal for all EU countries to adopt constitutional balanced budget amendments. To Wall Street, this was little better than rhetoric. There was no decision to bolster the €440 billion euro stability fund or to create a "Eurobond", a move that many analysts feel could help to stabilize bond yields across the EU's 17 nations and aid its most indebted countries.^{14,15}

In the Asia-Pacific region, factories seemed to be slowing down their pace of production. The much-watched official PMI of China did show some growth, rising 0.2% to return to the 50.9 level it had been at in June. Purchasing manufacturers indexes in Taiwan and South Korea flashed contraction. Consumer price indexes in Thailand and South Korea also climbed more than analysts had forecast, with inflation in South Korea surpassing the government's target for the eighth month in a row. Industrial output fell far short of forecasts in Japan – economists had expected a 1.5% improvement in August, but there was only a 0.6% gain. On the bright side, analysts surveyed by Reuters felt that Japan's economy would expand by 1.2% in 3Q 2011, outpacing all other major industrialized economies.^{16,17}

WORLD MARKETS

While Wall Street had a trying month, other benchmarks had it worse, as these Morningstar numbers for August indicate: Canada's TSX Composite, -2.40%; Australia's All Ordinaries, -2.90%; China's Shanghai Composite, -4.97%; England's FTSE 100, -7.23%; India's Sensex, -8.36%; Japan's Nikkei 225, -8.93%; Hong Kong's Hang Seng, -9.16%. The truly severe losses came in Europe: France's CAC 40 plunged 11.29% on the month and Germany's DAX dove 19.19%. Some of the YTD numbers were also pretty remarkable on August 31: the Sensex and DAX were respectively -18.69% and -20.08% YTD.¹⁸

The Dow was just about the only major stock index that was *not* in the red at the end of August. The MSCI World Index and MSCI Emerging Markets Index also took big hits during the month, respectively sinking 7.26% and 9.19%.¹⁹

COMMODITIES MARKETS

The flight to gold was dramatic in August. Gold futures gained \$200.20 (12.3%) last month. The precious metal wrapped up August at \$1,828.50 an ounce and +28.67% YTD. How did other metals do? Silver went +4.1% for August, platinum +4.0%, palladium -4.5% and copper -6.3%. Oil slid 7.2% in August, with futures settling at \$88.81 per barrel on the NYMEX on August 31. The 19-commodity Reuters-Jefferies CRB Index posted a 0.33% loss on the month and the U.S. Dollar Index realized a 0.30% gain. The real yield of the 10-year note was just 0.18% on August 31 (and it was briefly negative earlier in the month).^{20,21,22,23,24}

REAL ESTATE

New home sales (-0.7%) and existing home sales (-3.5%) declined in July, along with housing starts (-1.5%) and building permits (-3.2%). Pending home sales diminished by 1.3% in July, according to the National Association of Realtors. One relative bright spot: June's S&P/Case-Shiller Home Price Index revealed a 3.6% quarterly gain in home sale prices, although the YOY price retreat deepened to 5.9%.^{6,25,26}

Comparing Freddie Mac's July 28 and September 1 Primary Mortgage Market Surveys, we see that mortgages became even cheaper last month. The average rate on the 30-year FRM fell 0.33% in this period to 4.22%, and rates on 15-year FRMs fell 0.27% to 3.39%. The average rate on the 5/1-year ARM shrank 0.29% to go to 2.96% and the average rate on the 1-year ARM went 0.06% lower to 2.89%.²⁷

LOOKING BACK...LOOKING FORWARD

August 2011 was the poorest August since 2001 for America's three major stock

indices. All three had their worst month since May.¹

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+0.31	-4.36	+15.96	+1.67
NASDAQ	-2.77	-6.42	+22.02	+4.29
S&P 500	-3.08	-5.68	+16.16	+0.75
REAL YIELD	8/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.18%	0.95%	2.24%	3.50%

Sources: cnbc.com, bigcharts.com, treasury.gov - 8/31/11^{1,24,28,29,30}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

After a wild and vexing August, we are now in September - traditionally a lousy month for stocks. Of course, Wall Street has not exactly behaved according to tradition these past few years. On the hopeful side, the latest consumer spending data indicates that America's economic engine has not stalled - and the August unemployment figures were affected by the fact that 45,000 Verizon workers went on strike (i.e., were technically jobless) during the week in which the Labor Department compiled its data. Factor in the recent demand for durable goods, the nice numbers on discretionary spending and the descent in oil prices and the economy may be in better shape than the bears presume. Perhaps we will also see a better September for stocks than analysts expect.⁵

UPCOMING ECONOMIC RELEASES: Looking at the balance of September, here is what is on tap: the August ISM service sector PMI (9/5), the Federal Reserve's newest Beige Book (9/7), a look at July wholesale inventories (9/9), the August PPI, August retail sales figures, and July business inventories (9/14), the August CPI and August industrial output (9/15), the initial University of Michigan September consumer sentiment survey (9/16), a much-anticipated Federal Reserve meeting (9/19-9/20), August housing starts and building permits (9/20), August existing home sales (9/21), the Conference Board's August LEI index (9/22), August new home sales (9/26), the July Case-Shiller home price index and the Conference Board's September consumer confidence poll (9/27), August durable goods orders (9/28), August pending home sales plus the final estimate of 2Q GDP (9/29), and August consumer spending and the final University of Michigan September consumer sentiment survey (9/30).

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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