

Executive Economic Outlook And Summary



Fall/Winter 2011-2012

By Phillip E. Multop, CPA, CFP® and the Multop Financial Planning Group

In our last economic outlook (published in May 2011) we cautioned investors that a market correction was imminent. That “Bull Market Correction” prediction was correct with one exception; it turned into a “Bear Market”. Over the past six months the Dow Jones Industrial Average dropped from 12,800 to 10,700 with most of the decline in late July and early August. From that point, the market whipsawed up and down ultimately slipping into a Bear Market. Indeed, there has already been plenty of damage to stocks and we may continue to see a sharp decline in the near term. However, we are still optimistic that while a further decline could be quick and abrupt, it shouldn't resemble a 2008/2009 debacle. But, we caution you to put on your seatbelt because the next few months might be a rocky ride. Much of this volatility hinges on the looming outcome of the European debt Crisis.

Our economy appears to be in a continuous slowdown in most part due to political uncertainties, turmoil in Europe, the jobless rate that continues to be a burden and the depressed housing market. Businesses both large and small are hesitant to commit resources because of the unpredictable nature of the economy and political climate. The European debt issue is a wild card; which is tough to factor in at this point. Greece may or may not be a tipping factor to send our markets into the abyss, since their GDP in relative terms is the size of Michigan to the United States. However, it does set a precedent that could lead to bigger issues down the road if they default on their debt in a messy way. On the domestic front much of what will determine our strength or weakness are the future unemployment reports. If we see positive gains on the jobs front it will send a signal of some improvement which will likely bolster up consumer confidence, something that has been falling for the past several months.

- The Case-Schiller index increased by 0.9% in July compared to June, but down 4.1% from July 2010. Nationally, home prices are back to their early 2003 levels. Applications for building permits rose 3.2% to the highest rate this year pointing to the possibility for some sense of stabilization in the home construction market.
- The Consumer Confidence Index, which declined sharply in August, remained essentially unchanged in September. Confidence in the future of the economy also crashed in August, taking the Small Business Optimism Index down 1.8 points to 88.1. This was the sixth monthly decline in a row.
- Real GDP in the United States increased at an annual rate of 1.3% in the second quarter of 2011 compared to the first quarter. In the first quarter, real GDP increased 0.4%.
- In a sign of how investor fear has spiked, the Volatility Index (VIX) surged 146% in its biggest-ever quarterly percentage move. The concern is that this volatility shock may not dissipate, a sign investors may be looking for an extended period of underperformance.
- According to Government reports, unemployment is currently at 9.1%. The rate has shown little change since April.
- The Federal Reserve indicated that they will likely keep the Fed Funds Rate at low levels for the next two years.
- The Institute for Supply Management reported that manufacturing activity in August expanded for the 25th consecutive month, at a slightly lower rate. The Production Index registered 48.6%, indicating contraction for the first time since May 2009. The overall sentiment is one of concern and caution over the domestic and international economic environment, which is affecting customers' confidence and willingness to place orders.



The most frequently asked questions by our clients are 1) Are we in a Bear Market and 2) Will that Bear Market lead to a recession? We answered the first question in the opening paragraph; Yes, we are in a Bear Market, according to the Dow Theory. To answer the second question; slowdowns are quite normal and shouldn't necessarily be interpreted as a sign of an impending recession. The Index of Leading Indicators is nowhere near typical pre-recession levels at this point. We realize some pundits of Wall Street do predict a recession. Paul Samuelson, the first American to win the Nobel Memorial Prize in Economic Sciences, once said "Wall Street indices have predicted nine out of the last five recessions." In the next couple of months we will be watching to see whether the economy is simply in a slow patch or if a recession is starting. How things play out with the European debt crisis, the American jobs and housing crisis and the declining world financial markets will be our defining moment.

What does all of this mean to your accounts? Multop Financial recommends becoming more defensive by adding a higher percentage of your portfolio into established large mega-cap stocks that may offer more stability and/or a dividend yield. Also, scale back your international exposure with the instability in Europe and slowing growth in markets like China, Brazil and India, which accounted for much of the recent growth in the global economy. As we mentioned in our last Economic Outlook, implementing our durable portfolio philosophy through a mix of non-stock market alternative investments should help to insulate your portfolio from the expected turbulent times ahead.

At Multop Financial we have contacted our clients recently to discuss allocations but if you have further questions or feel your risk tolerance has changed please call us. If you are not yet a client we offer a complimentary consultation and Morningstar review of your current allocation which can help give a clear picture of your current position during these crazy times.



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