

Emotional Roller Coaster

In our summer newsletter, we compared the 2011 market action to 2010. Just like 2010, the market fell over 15% to start the third quarter of 2011 but the similarities stopped there. In 2010, the market had recovered over half of its drop by the end of September. In 2011 it has not. The other difference has been the volatility of the market. The S&P 500 has moved 10% up or down seven times during August and September.

Emotions have ruled the market the last few months and it is these emotions that have slowed the market's recovery. Every morning there seemed to be some piece of news that gave the markets something to get excited about. Most of the news reports revolved around budget deficit and worries of further economic slowdown in the United States and Europe.

It is interesting to note that many of these news items were not actual events, but the discussion of what might happen. For instance, there were weeks of negative news reports talking about what would happen if our government debt was downgraded. Everything from our interest rates rising to our country not being able to finance our debt was written about. When these stories were reported, the market would drop. When our government debt was downgraded, none of the bad things that were predicted happened. Interest rates for government bonds actually went down.

Another item that was in the news for most of the quarter was Greece and its debt issues. News reports forecasted everything from banks that hold Greek debt going under, to the world being driven into recession. Every time a negative article came out, the market dropped. Then, a possible solution would be announced and the markets would run back up. As of this writing, a solution is in the works with 21 of the 27 members of the European Union agreeing on a bail out for Greece. It seems

that once again, the event will be a non event as far as the stock market is concerned.

There were many other news items that added to the markets emotional roller coaster. Most of them predicted a negative outcome on the markets and our economy. So far, none have had the dire outcome predicted, but have caused major volatility to our markets.

This volatility has many wondering what to do. When the market goes up, they wish they had bought while it was down. When it is dropping, they wish they had sold before it dropped. The following is an excerpt from our last newsletter titled "Groundhog Year?":

We feel the S&P 500 will continue to mirror 2010 for the remainder of 2011. Except we do not think it will end up rising as much. This is for many reasons.

The sovereign debt issues will be worked out, as is happening in Greece right now. The global slow down as a result of the earthquake in Japan will shift to growth once the rebuilding phase begins. Investors will realize that the economy is still growing just not as robustly as hoped for or predicted.

In the end strong corporate profits will drive the market higher. The S&P 500 is cheap on a price to earnings (P/E) basis and earnings are continuing to grow. Currently the average company in the S&P 500 is projected to grow its earnings 11% this year.

We feel the same way today. Once earnings reports come out and we see that companies and the economy are still growing, the market will start its recovery. Just a little later this year than last.

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