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**October 2010**

## **“Unusually Uncertain”**

These were the words of Federal Reserve Chairman Ben Bernanke as he described the economic outlook during recent testimony before the Senate Banking Committee. Debates rage on about the possibility of a “double-dip” recession, the value of more government economic stimulus and the need to address the national debt and budget deficit. Seventy-five days before the New Year, none of us knows the rate at which our future income will be taxed, or whether scheduled increases in the tax rates on dividends and capital gains will go into effect as scheduled. The populace is restless and polls point to significant change in the make-up of Congress and the balance of power come January. These are indeed uncertain times!

The stock and bond markets, while not immune to the news of the day coming out of Washington, have generally fared well for the year thus far. The benchmark S&P 500 index is up just over 6% for the year. After a significant pullback of 12% in the second quarter ended June 30, the index came roaring back in the third quarter, ending September 30th to record a gain of 10.7%. The Dow Jones Industrial Average recorded its best September performance in 70 years with a gain of 8.4%.

For our part, we believe the risk of a “double-dip” recession is low. The Fed seems poised to do “whatever it takes” to avoid having the economy slip into recession. Companies and consumers have been able to take advantage of generational lows in long term interest rates to refinance debt, thereby freeing funds for other uses. The dollars saved from corporate refinancing will likely flow to the bottom-line in the form of increased earnings per share. Consumers will use their savings to pay down debt, increase emergency funds, and eventually, to spend. We have seen the personal savings rate increase from less than 1% to about 6%. In addition, the amount of outstanding consumer credit card debt has been reduced each month for 24 consecutive months. Once consumers feel confident in the levels of their debt and cash reserves, they will no longer put off purchases of items they need and want.

We believe the markets will respond favorably to a more balanced Congress and the likelihood of less drastic change and fewer mandates on individuals and businesses. With increased knowledge and certainty in tax and regulatory policy we believe that business will begin to deploy some of the mountain of cash now on its collective balance sheet. This may result in further acquisitions, stock buy-backs or expansion into new markets.

Now more than ever, we recommend diversification. We have incorporated alternative investment products which have no correlation to the stock and bond markets for many of you to complement the more traditional portfolio holdings of stock and bond investments. We have also added more defensive, actively traded accounts to minimize losses during times of market turmoil. We are always diligent in searching for new opportunities to help you achieve your financial goals.

Please let us know if you would like more information on these products and techniques.