



## Brounes & Associates

4607 BRAEBURN DR. • BELLAIRE, TEXAS 77401 • 713.962.9986 • ron@ronbrounes.com

### AND THAT'S THE WEEK THAT WAS...

For the Quarter Ended June 30, 2010

#### Market Matters...

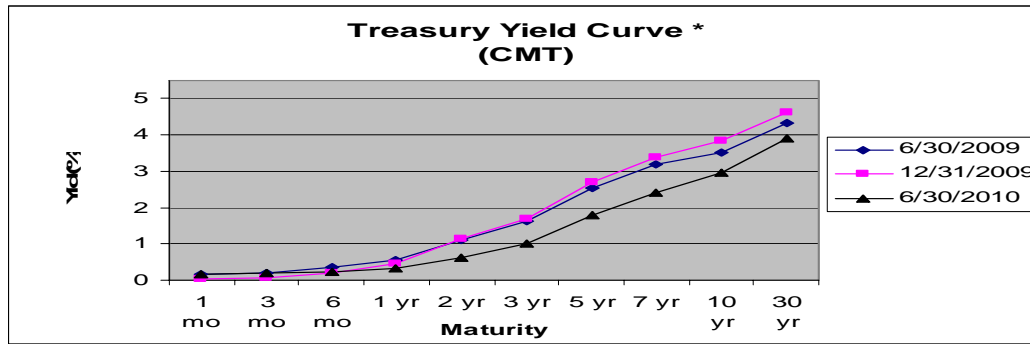
Market/Index	Year Close (2009)	Qtr Close (03/31/10)	Qtr Close (06/30/10)	Qtr Change	YTD Change
Dow Jones Industrial	10,428.05	10,856.63	9,774.02	-9.97%	-6.27%
NASDAQ	2,269.15	2,397.96	2,109.24	-12.04%	-7.05%
S&P 500	1,115.10	1,169.43	1,030.71	-11.86%	-7.57%
Russell 2000	625.39	678.64	609.49	-10.19%	-2.54%
Global Dow	1,984.48	2,021.70	1,710.71	-15.38%	-13.80%
Fed Funds	0.25%	0.25%	0.25%	0.00%	0.00%
10 yr Treasury (Yield)	3.85%	3.83%	2.95%	-0.88%	-0.90%

As the quarter began, the economy continued its trek toward recovery; confidence had returned to corporate boardrooms; and investors were pouring their “cash-on-the sidelines” back into risky assets. Just when all seemed right in the world again, tiny Greece (and huge **BP**) began dominating the headlines. (Remember when a mere volcano was big news?) While market watchers would have expected a collective yawn about an economy whose GDP is smaller than that of Houston’s, soon Spain, Portugal, Ireland, and others across Europe offered similar debt concerns. Threats of sovereign debt defaults rekindled memories of the subprime debacle and investors feared a new global banking crisis as the contagion could spread across Europe (and perhaps to the US). Meanwhile, somewhere Joe Hazelton of **Exxon** Valdez fame breathed a sigh of relief as his name was no longer associated with the worst oil spill disaster in history. Not even a \$20 billion fund for victim compensation could ease the pain caused by the BP oil disaster (which had yet to be plugged at quarter-end). While investors were considering the long-term implications of these critical events, they were greeted by a “fat finger,” rather “high frequency flash trades” that prompted the Dow to plunge 1,000 points in less than an hour. If the euro-zone and BP were not enough to cause severe panic, the sharp drop that day more than did the trick.

When the dust had settled, the Dow had declined by 10% and suffered its first down quarter since early 2009. The S&P and Nasdaq experienced similar fates and many global markets fared even worse. Most sectors struggled as commodity-related stocks were among the biggest losers, and financials plummeted as well. Gold mining companies reaped the rewards of the newfound bearishness (as investors pushed gold to record highs as a hedge for all that ailed the world). Oil prices fell steadily during the quarter as traders feared the weakness in Europe would spread and hinder global demand. Shifting to bonds, the benchmark 10-year treasury dropped 90 bps on flight-to-quality trades and corporates (and junk) again fell out of favor as companies found new challenges gaining access to credit. Overseas, Greece’s ASE led the downward charge in Europe, dropping over 30%, while Spain’s (-14.8%) and Portugal’s (-12.8%) indexes struggled mightily. Germany, whose economy stands to benefit most from a much devalued euro, saw its DAX index fall by 3.1% as well. Even China’s Shanghai Composite plunged 23% to a 14-month low as investors began to worry that its overly expansive economy was heading toward bubble mode.

Interestingly, news from the biz world was actually quite positive. Quarterly S&P earnings grew by 55% from last year’s depressed levels (midst of recession). Transactions buzzed early as **UAL** and **Continental** looked to merge in the friendly skies and **CenturyTel** and **Qwest** announced a huge telecom deal. (Much of the boardroom optimism faded once volatility ensued after the dreaded “flash trades.”) **Apple** continued producing the “next next new” things as iPad topped 3 million in unit sales in less than three months and iPhone 4 was greeted with strong demand. And yet Greece and BP kept top billing as the quarter proceeded and investors remained preoccupied with debt and oil spills. Any new iPhone apps that can reduce deficits or plug a giant hole?

## Economically Speaking...



First it was Greece and nobody cared. (Sure it made good on its \$11 billion debt payment in May, but what about the next one?) Then it was Spain and eyebrows were raised. (An unemployment rate of 20% can lead to quite a few other problems.) Then rumors about Portugal, Italy, Ireland, and Hungary followed. With no end in sight, investors panicked and the European Union (in conjunction with the IMF) stepped up by announcing a trillion-ish dollar fund to support these ailing economies. Many eurozone countries developed (highly unpopular) austerity programs of their own (increased taxes, entitlement cuts, etc.) in an attempt to stabilize their balance sheets (though rating agencies still saw fit to downgrade certain countries' debts). As the quarter neared a close, the G20 countries (US included) pledged to reduce their deficits by 50% by 2013, a move not exactly favored by Prez O. He feared that such measures would serve to stall the global economy at a crucial time and continued government stimulus was needed to aid the recovery. (He basically lost that one.) China remained the one bright spot on the world stage, though its economy began to show signs of slowing as well. (Still, a 9.5% projected growth rate for 2010 is not so shabby.) In fact, its government continued to take measures to ease lending and hopefully prevent an overheated economy from moving into a disastrous bubble.

**Closer to Home...** While much of the economic data was well received early in the quarter, as the months passed, some new alarming trends began to emerge. **Housing:** In April, the government incentive for homebuyers ended and any prior rebound in housing was essentially written off as artificial. Existing and new home sales tumbled in May and single-family construction suffered its worst showing in a year. Still, mortgage rates remain at their lowest level in almost 40 years so buyers still have strong incentives to act now. **Retail:** Consumer continued to be concerned about the economy and their jobs' situations in particular, as retailers felt the effect of declining sales in May and the confidence index suffered its first decline since February. **Labor:** Though the economy added over 400k new jobs in May, most of them were temporary government census workers who will not be in the work force for long. Weekly jobless claims remain at high levels indicative of a weak labor market with no apparent end in sight. **Manufacturing:** The one savings grace in the economy has been manufacturing as ISM and industrial production continued to reveal strong demand for "Made in USA" products. **Other:** For now, inflation has not reared its ugly head and a 2.7% GDP growth rate sure beats the (contraction) alternative. The Fed seems set to leave rates at current low levels for "an extended period" as Bernanke and friends keep watchful eyes on the sluggish recovery and challenges within Europe.

**On the Horizon...** Will BP ever plug that hole? Will those austerity programs throughout Europe help get their "houses of cards" in order? Will the US trade picture suffer from depressed activity in the euro-zone or will China and the emerging markets pick up some slack? Will earnings begin to slow to reflect weak consumer activity and international concerns? Is the "U" or "V" shaped recovery becoming a double-dip recession? And what about flash trades? Investors sure seem fearful about any and all of these issues. So, welcome to the doldrums of summer.