



## Brounes & Associates

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

For the Quarter Ended June 30, 2012

#### Market Matters...

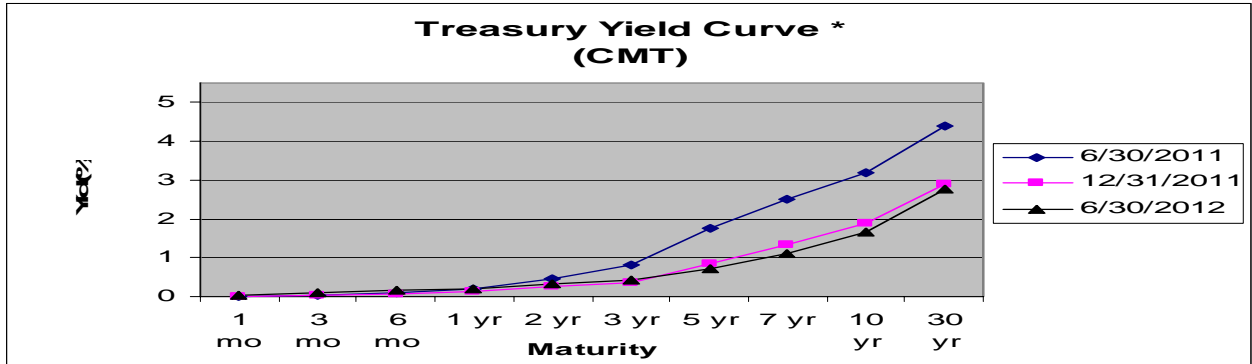
Market/Index	Year Close (2011)	Qtr Close (03/31/12)	Qtr Close (06/30/12)	Qtr Change	YTD Change
Dow Jones Industrial	12,217.56	<b>13,212.04</b>	<b>12,880.09</b>	-2.51%	5.42%
NASDAQ	2,605.15	<b>3,091.57</b>	<b>2,935.05</b>	-5.06%	12.66%
S&P 500	1,257.60	<b>1,408.47</b>	<b>1,362.16</b>	-3.29%	8.31%
Russell 2000	740.92	<b>830.30</b>	<b>798.49</b>	-3.83%	7.77%
Global Dow	1,801.60	<b>1,998.88</b>	<b>1,831.80</b>	-8.36%	1.68%
Fed Funds	0.25%	<b>0.25%</b>	<b>0.25%</b>	0 bps	0 bps
10 yr Treasury (Yield)	1.87%	<b>2.22%</b>	<b>1.66%</b>	-56 bps	-21 bps

So much for that Random Walk Theory. During the past two years, equities started strong before running into headwinds in the second quarter and Europe (namely Greece) was perceived to be the primary culprit. As another very solid first quarter came to a close, perhaps “smart” investors should have been looking at charts and reading the Greek press to predict another downturn. Lo and behold, Greek citizens showed their objections to austerity measures at the polls in May and prospects for a coalition government looked bleak. While contagion spread across Europe, the domestic economy got bad news from the once-promising labor sector and even manufacturing began running out of steam, thus, sending stocks into their traditional second quarter downturn.

Though earnings season proved healthy again (on reduced expectations), a few bellwethers like **IBM** and **UPS** struggled and Big Oil suffered from the drop in oil and gas production. Still, **Microsoft** bested forecasts on solid demand for its Office suite; **Wal-Mart** posted its best domestic sales numbers in three years; and banks experienced their most profitable quarter since the start of the financial crisis in mid-2007. But not all was rosy in Corporate America. Deal-making became less appealing in the boardrooms as announced global M&A transactions dropped about 15% from last year. The long-anticipated **Facebook** offering proved disastrous on many fronts as greed and technical glitches sent the would-be Wall Street darling into a tailspin. **JP Morgan** proved that financial institutions may not have learned their lessons from “Too Big to Fail” as the behemoth disclosed a \$2 billion “hedging” loss to the shock and dismay of all those who believed Wall Street had cleaned up its act. The “conservative” Supreme Court Chief Justice gave the “liberal” White House a big victory in health care reform as the campaign season heated up, leaving Candidate Romney to bash the decision (while forgetting about his similar health plan in Massachusetts.) **Goldman Sachs** warned investors that the economic slowdown was extending well into the summer and even advised that clients “short” (sell) the S&P 500.

Memories of the euphoric first quarter were short-lived (again) as investors turned to the safe-haven of treasuries (again), while waiting for Dr. B. and the Fed to “bail out” the markets with another creative stimulus package (again). By late May, the Dow Jones had moved “into-the-red” year-to-date after surging over 8% during the initial quarter. Oil began plummeting on news from Greece, picked up (negative) steam on labor concerns, and never really looked back. Despite a nice showing in the last week of the quarter, crude dropped over 25% as traders feared that the weakened global economy would dramatically hinder future demand. Though stocks managed a sizable recovery in June, the major indexes dropped for the quarter, but are still solidly in positive territory for the year. Energy and basic materials had challenging quarters and financials and techs fared little better. Home builders were aided by a would-be rebound in housing. Overseas, London led the European markets with a less-than-stellar -7.5% return. Treasuries benefited from the flight-to-quality and investment-grade corporations rushed to take advantage of low rates by issuing \$158 billion over the three-month period. What does history imply for the next quarter?

## *Economically Speaking...*



As the Greek problems resurfaced, rumors had the tiny country with not-so-tiny challenges leaving the EU if June elections did not provide favorable results. As contagion moved across Europe, Spain's unemployment rate topped 20% and demand for its bonds plummeted as the yield pushed toward (and beyond) the "bailout" level of seven percent. France elected a socialist Prez; Italian banks faced the wrath of Moody's in the form of downgrades. Even mighty Germany saws its manufacturing sector contract as trade suffered throughout the Continent. By quarter-end, however, some positive signs finally emerged. Greece elected a pro-reform conservative leader who was able to forge a working coalition and move forward with bailout. With Spain in dire need of a rescue plan for its banking sector, a European summit produced results that leaders believe will send the euro-zone on the (slow) road to recovery. For starters, bank oversight throughout the region will be coordinated through a single supervisor and rules were discussed to assist the capital positions for ailing institutions. While Europe's trading partners have been feeling the ill-effects of its lingering problems, China tackled its economic slowdown head on by lowering its key interest rate for the first time in three-and-a-half years and loosening its banks' lending restrictions.

Closer to home, the domestic jobs market reversed a favorable trend that had seen a few months of optimistic releases. In May, the economy only added 69,000 new jobs and the unemployment rate climbed to 8.2 percent. Meanwhile, jobless claims have been slowly increasing back toward the dreaded 400k level. Likewise, manufacturing slowed as the regional indexes (particularly in the Northeast) gave up ground and factory orders and industrial production suffered recent declines. The consumer moved into caution mode and retail sales dropped in two straight months, while a key sentiment index fell to its lowest level in six months. On the flipside, inflation remains non-existent (for now) and the falling energy prices should ensure that to be the case for the time being. Housing also showed nice signs of recovering as new homes sales soared to the highest level in over two years and permits for future construction also increased at a pace not seen since 2008. The Federal Reserve extended Operations Twist, a program designed to increase the maturity of its portfolio, but the policymakers stopped short of initiating any new bond buying program (Quantitative Easing) to keep rates low. Bernanke did suggest that his team stands prepare to act should the situation warrant (and many analysts are beginning to think it might). The Beige Book showed that the economy is growing at a moderate clip (for now).

***On the Horizon...*** Europe has long been one step forward, two steps back. So what does the recent optimism mean for Greece, Spain, France, Italy, Germany and the whole of the euro-zone? Domestically, investors have grown concerned about the labor and manufacturing sectors. The consumer still accounts for two-thirds of the activity of the economy so any newfound strength would be quite welcomed. The Prez election should bring plenty of bickering and blame-placing about taxes and the budget, but not many practical solutions in DC. So what else is knew?