



## AND THAT'S THE WEEK THAT WAS... For the Quarter Ended September 30, 2012

### Market Matters...

Market/Index	Year Close (2011)	Qtr Close (03/31/12)	Qtr Close (06/30/12)	Qtr Close (09/30/12)	Qtr Change	YTD Change
Dow Jones Industrial	12,217.56	13,212.04	12,880.09	13,437.13	4.32%	9.98%
NASDAQ	2,605.15	3,091.57	2,935.05	3,116.23	6.17%	19.62%
S&P 500	1,257.60	1,408.47	1,362.16	1,440.67	5.76%	14.56%
Russell 2000	740.92	830.30	798.49	837.45	4.88%	13.03%
Global Dow	1,801.60	1,998.88	1,831.80	1,921.70	4.91%	6.67%
Fed Funds	0.25%	0.25%	0.25%	0.25%	0 bps	0 bps
10 yr Treasury (Yield)	1.87%	2.22%	1.66%	1.64%	-2 bps	-23 bps

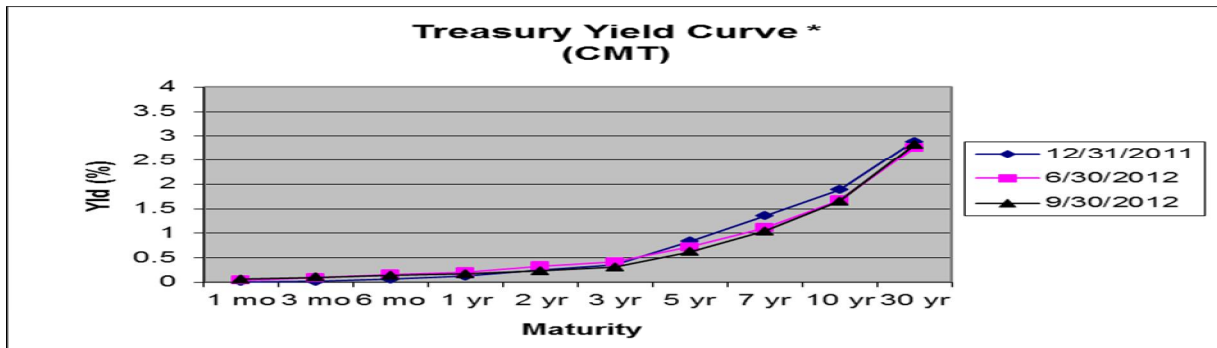
It was the quarter of Bernanke (and Draghi). Clearly investors had plenty to focus on during the prior three months. The domestic economy was not resurging as fast as many had hoped. Unemployment was too high and manufacturing had hit a major lull. Europe remained nowhere close to resolving its issues and Spain was on a rapid course toward bailout. China was suffering ill-effects of weaker trade and its outlook had become (relatively) pessimistic. Enter the Federal Reserve, the European Central Bank, and their cohorts across the globe to attempt to rescue the global economy (or, at least, apply a large Band-aid). A sizable bond buying program here, some optimistic words about low rates for the foreseeable future there. Investors welcomed the seemingly *œn masse* actions and moved into risk assets, despite the ongoing global concerns.

A heated presidential campaign reminded voters of all that is bad with the current administration (AND its partisan rivals) and the country seemed destined to fall off that *œfiscal cliff* as compromise no longer existed in anyone's vocabulary. While one side praised the Fed for its moves, the other bashed the policymakers for overstepping their bounds. (Mild-mannered Bernanke even landed a few potshots of his own toward Congress and its *œdo-nothing but bicker* attitude toward fiscal policy.) Candidate Romney backtracked on his 20% *œacross-the-board* tax hike promise (once factoring in lost exemptions and deductions) and **Moody's** threatened a US government debt downgrade (from AAA) if some efforts to slash the debt are not made.

While top-line earnings remained solid, many corporations revealed lackluster revenue and several biggies (**Ford**, **IBM**, **Apple**, **UPS**) blamed results on diminished trade with their European partners. Some analysts are even predicting contraction in third quarter earnings for the first time in three years. IPO activity all but came to a standstill in the aftermath of **Facebook's** offering debacle and **Best Buy's** founder even began formulating a plan to take the company private. **Apple** became the most valuable company of all time (over \$600 billion) and continued its path toward invincibility with the introduction of iPhone 5. The company sold five million units in the initial three days, but some fear logjams as suppliers have trouble meeting demand.

Investors disregarded much of the negative news during the quarter and focused on the Fed and other central bankers as potential saviors of the global economy. Each rumor of stimulus prompted more buying and equities moved to multi-year highs after Bernanke and friends took action in mid-September. Energy stocks led the charge with communication services and basic materials enjoying stellar quarters as well. Internationally, India experienced a solid performance during the three-month period and European markets even rose to higher levels on the ECB moves and hopes that the powers-that-be were finally making the right moves. (Where have we heard that before?) Crude reacted to turmoil in the Middle East and shot passed \$100/barrel before giving back gains late and settling closer to \$90. For now Bernanke is the man of the hour among investors (and Romney may need to rethink the Fed bashing as election day approaches).

## Economically Speaking...



With Spain emerging as the next problem child in the EU, ECB Prez Draghi took actions into his own hands by proclaiming that the bankers would essentially do "whatever it takes" to keep borrowing costs low throughout the region. Once Germany gave (reluctant) approval to the permanent bailout facility through a court ruling, optimism (too strong?) reigned throughout the land (except maybe in Greece). The combined GDP in the Eurozone fell in the second quarter and the manufacturing sector remained in contraction mode. Late in the quarter, the ECB announced a major bond buying program and Spain initiated new tax hikes and spending cuts to the tune of \$16+ billion. Meanwhile, China suffered through factory-related issues of its own as reduced trade with its developed country partners cut into its growth prospects.

Despite a little dissension in its midst (and more than a little political badmouthing), the Fed launched a significant open-ended bond buying program, extended Operation Twist (lengthening the maturity of its portfolio), and stated that rates will remain low until mid-2015. Bernanke also warned Congress to act on the expiring tax cuts and the ongoing budgetary issues before the country falls off the fiscal cliff. The Bank of Japan joined in the fun with a bond buying program of its own as did Brazil, Turkey, and other bankers across the globe.

A look inside the numbers showed that the consumer may have picked up the slack for slumping manufacturing and stagnant labor during the quarter. Retail sales posted a sizable jump late in the quarter and a key confidence index depicted its strongest summer since May. Housing also has proved to be a shining star as of late as the previous doldrums are showing signs of rebounding and residential construction and sales jumped to levels not seen in over two years. On a down note, the ISM manufacturing index fell into contraction mode for three straight months and dropped to its lowest level since July 2009. The economy has been adding fewer jobs each month than analysts (and the Prez) had hoped and the unemployment rate remained above a seemingly unhealthy 8% level. Though inflation does not appear to be causing much concern (at least to Dr. B.), the higher energy prices could foreshadow challenges down the road.

**On the Horizon...**The Fed, ECB, Bank of Japan and others have set the course and now hopefully the global economy can follow suit with growth over the months to come. (Romney hopes that any strengthening waits until at least December.) Spain continues to work through its issues amid protests in the streets and bailout appears inevitable. The consumer has shown an ability to be resilient despite the lackluster economic numbers and "gloom and doom" warnings from certain politicians. With the holiday season approaching, continued buying could go a long way toward leading an end of year resurgence. Finally, with one month and counting, Prez O appears to have a comfortable lead so expect plenty of policy bashing, backstabbing, and new scare tactics to help sway the tide in the election. Once the campaign season comes to a close, Congress cannot merely wade its way through a lame-duck period as the "fiscal cliff" approaches and major decisions must be made about the budget (and Moody's and S&P are watching).