Third Quarter 2011 Market Review

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Concern surrounding slow growth of the global economy produced a significant correction for virtually all major stock markets in the third quarter. The S&P 500 was down 14% and the Nasdaq fell 13%. Both indices experienced their worst quarter since 2008. The Dow Jones returned -12%, which was its worst quarter since 2009. European markets performed even worse than their U.S. counterpart, recording a loss of 17% for the quarter.

The struggles of the global economy in the third quarter, coupled with the inability to favorably resolve budget and debt problems in both Europe and the U.S., has seemed to precipitously erode investor confidence. The Greek debt crisis, still unresolved, continues to make daily headlines. The good news is that the German parliament just approved an expanded bailout fund. The bad news is that the fund has to be approved by all 17 countries that use the euro, a difficult task to achieve. The failure of U.S. Congress to address budget issues, the debacle over increasing the U.S. debt ceiling, and the downgrade of U.S. debt by Standard & Poor's have contributed to the steep decline of U.S. markets. Consequently, these concerns have resulted in investors turning to "safe-haven" vehicles.

Many are concerned that the steep market correction reflects the belief of investors that the U.S. has either entered another recession, or soon shall. Economic conditions in both Europe and the U.S. are undoubtedly very weak, creating a viable environment for another recession. However, much of this economic weakness is the result of market behavior, which could have some positive, long-term benefits.

Consumer demand is low, primarily because individuals are saving rather than borrowing and spending. Banks are no longer lending to unqualified borrowers (or even to qualified borrowers for that matter), and unemployment remains high in many areas. The road to a stronger economy and higher stock prices is likely to be very unpredictable. However, there are many constructive factors in place, which should eventually lead to a positive outcome for the patient, long-term oriented investor. The financial status of U.S. corporations is surprisingly upbeat. Many corporations have lean levels of inventories, and balance sheets have been strengthened significantly. Collectively, corporations have in excess of $2 trillion on their books. In the event that the economy takes a turn for the worse, corporations are much better prepared than they were a few years ago. By mid-October, the third quarter earnings season will be ramping up and we will get a chance to see how well corporate America did during Q3. This could provide the catalyst the market needs to free itself from its current trading range.

It seems we are currently in an “all or nothing" market. Each day, the market tends to shoot up or plummet. At TPI, we continue to take a long-term perspective on investing. We are cognizant of the market volatility. However, we are positioning our client portfolios to avoid Europe and to reap the eventual benefits of a global recovery. While we may not have a crystal ball, we continue to do all we can to mitigate volatility and give your portfolio the best shot for growth. Please feel free to contact us if you have any questions or concerns.