

MONTHLY ECONOMIC UPDATE

November 2010

MONTHLY QUOTE

“One must work and dare if one really wants to live.”

– Vincent Van Gogh

MONTHLY TIP

Take a second look at monthly payments you may have contracted years ago (cell phone usage, for example). Plan prices may have dropped. Are you overpaying? Imagine what an additional \$20-\$50 per month, contributed to your IRA or 401(k), could add up to by the time you retire!

MONTHLY RIDDLE

You see a large truck stopped just before the underpass of a low bridge. The driver informs you that his truck is 1" higher than the maximum clearance. This is the only road to his destination. What is the easiest way to help him get his truck through the underpass?

Last month's riddle:

When can you add two to eleven and get one as the correct answer?

Last month's answer:

On a clock face.

THE MONTH IN BRIEF

Stocks do poorly in October – right? Well, they didn't do so poorly in October 2010, a month in which the S&P 500 gained 3.69%.¹ Wall Street considered the mid-term elections, the fall earnings season and the all-but-certain resumption of quantitative easing from the Federal Reserve with a lot of anticipation (and a little bit of anxiety). Away from Wall Street, unemployment remained high and consumer spending seemed to be slowing again. With Americans losing faith in incumbent politicians and their claims of moderate economic growth, the Fed and the Obama administration thought about a proper response.

DOMESTIC ECONOMIC HEALTH

It seems almost a given that the Federal Reserve will intervene in the economy again, albeit too late to have an effect on mid-term elections. The latest Commerce Department data showed personal spending up 0.2% for September, not exactly the 0.4% gain economists polled by Bloomberg forecast. Personal wages declined by 0.1% in September, and there hadn't been a reversal in that category since July 2009. Speaking of reversals, the most respected consumer sentiment survey in America reversed course in October – the University of Michigan's index fell to 67.7, the lowest reading since November 2009. (The Conference Board's index did show some improvement, rising 1.6% to 50.2.)^{2,3,4}

The Commerce Department estimated third-quarter GDP at +2.0%, which mitigated some of the anxieties about a double-dip recession. However, more pronounced growth was needed to make a dent in the nation's 9.6% jobless rate.^{5,6} The manufacturing sector was healthy, as evidenced by the October Institute for Supply Management report - a 56.9 reading, up 2.4% from September and marking the fifteenth straight month of growth. ISM's October service sector index improved 1.1% to 54.3.^{7,8}

We got word that consumer prices rose only 0.1% in September; the core Consumer Price Index was flat, just as it had been in August. Producer prices were up 0.4% for September according to the Labor Department, with core PPI rising only 0.1%. If retailers were keeping prices low to promote a little demand, it was aiding retail sales – the Commerce Department said they were up 0.6% in September following a revised 0.7% advance in August.^{9,10,11}

The Fed made no move with interest rates, but certainly held Wall Street's attention for most of the month with signals of quantitative easing – and an October 25 *Wall Street Journal* article asserting that “it would gradually buy a few hundred billion dollars worth of Treasuries over the next several months” was accurate.¹²

GLOBAL ECONOMIC HEALTH

Confidence was up in Europe, at least according to the Eurozone's October index of executive and consumer sentiment. It rose to 104.1, the highest level since December 2007. The key German business confidence index improved along with European manufacturing growth. In the middle of the month, the International Monetary Fund forecast a +1.7% GDP this year for the euro-region economy, which would be a great improvement from the -4.1% mark of 2009. The IMF also predicted +3.3% 2010 GDP for Germany, the EU's biggest economy. The European Central Bank kept its key interest rate at 1.0%.¹³

A Goldman Sachs analysis forecast China's GDP at +10.1% for 2010 and +10.0% for

2011; China's 3Q 2010 GDP was officially +9.6%. Japan, which had managed a +1.5% GDP for the second quarter, saw the yen touch a 15-year high against the dollar last month.^{14,15} Manufacturing leapt north in both India and China; India's HSBC Purchasing Managers' Index went to 57.2 from September's 55.1 reading, and China's benchmark PMI improved from 53.8 to 54.7.¹⁶

WORLD MARKETS

Most of the world's benchmarks posted October gains. Leading the pack: the Shanghai Composite's A Shares index, which rose +14.1%. Coming in second: Argentina's Merval at +11.5% for the month. Other emerging market indices did quite well, with Brazil's Bovespa going +6.9%, Mexico's IPC All Shares at +6.4% and Russia's RTSI at +6.2%. (Indonesia's JSX Composite climbed 4.0% last month, and the Hang Seng advanced 3.2%; India's Sensex gained only 0.2%.) Away from the emerging markets, Germany's DAX gained 5.1% for the second month in a row; France's CAC 40 pulled off a 2.6% October gain. Canada's TSX Composite gained 3.1% and England's FTSE 100 gained 1.9%. However, Japan's TOPIX sank 4.3%. The twin MSCI indices did well: in U.S. dollar terms, the World Index gained 3.65% while the Emerging Markets Index advanced 2.81%.^{17,18}

COMMODITIES MARKETS

The bull market in precious metals showed no signs of slowing down. Palladium prices gained 12.9% last month. Platinum and silver prices both gained 2.9% in October, with silver ending the month at a 30-year high (\$24.56 per ounce). Gold hit another record close on October 14 (\$1,377.60 per ounce) on the way to a 3.7% October advance.¹⁹

Crop futures are volatile with the seasons, and there were some big gainers as we moved into fall in the northern hemisphere. Sugar advanced 23.0% in October, and cotton rose 22.0%. Corn gained 17.4%. Oil had a decent month, with futures gaining 1.83% on the NYMEX. The U.S. Dollar Index lost 2.22% for the month. 78.79.^{20,21,22}

REAL ESTATE

Home sales basically had nowhere to go but up – so up they went. Existing home sales rose by a gratifying 10.0% in September, while new home sales climbed 6.6% in that month with the median price up 3.3% from 12 months ago. The August S&P/Case-Shiller home price index showed a year-over-year gain of 1.7%. However, another wave of foreclosures and persistent unemployment and underemployment still stood in the way of any pronounced housing sector recovery.^{23,24,25}

If your home was worth more than its mortgage, it was a great time to refinance. Comparing Freddie Mac's September 30 Primary Mortgage Market Survey with the October 28 edition, average rates on 15-year FRMs dropped still further from 3.75% to 3.66%. Average rates on 30-year FRMs went from 4.32% to 4.23%. By October 28, average rates on 5-year ARMs (3.41%) and 1-year ARMs (3.30%) had moved lower as well.²⁶

LOOKING BACK...LOOKING FORWARD

It is always nice when you can describe a market month as the "best since...", and if you are considering assorted Octobers, we can apply a couple of superlatives to October 2010. Last month constituted the finest October for the S&P 500 since 2003 and the best October for the Dow since 2006.¹

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+6.62	+3.06	+11.60	+0.26
NASDAQ	+10.50	+5.86	+19.54	-2.14
S&P 500	+6.11	+3.69	+10.99	-1.54
REAL YIELD	10/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO

10 YR TIPS	0.50%	1.50%	2.01%	4.03%
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Sources: cnbc.com, bigcharts.com, ustreas.gov, bls.gov - 10/29/10^{1,27,28,29}
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
 These returns do not include dividends.

So the elections are done, and the market pretty much priced them in along with the second installment of Fed easing. What might the rest of November hold? Well, the market could follow history and go into rally mode – as Standard & Poor’s chief investment strategist Sam Stovall recently cited in the *Wall Street Journal*, the Dow has climbed an average of 17.1% in calendar years following mid-term elections since World War II.³⁰ Of course, stocks have defied historical patterns for the past couple of years, so who knows if 2011 will give investors that kind of gift. When you consider that some major financial and political issues probably won’t be resolved until December or January (the estate tax, the EGTRRA/JGTRRA income tax cuts and health care costs), you get the sense that Wall Street might watch and wait for the next couple of months before taking any kind of strong turn.

UPCOMING ECONOMIC RELEASES: What’s on tap for the rest of the month? Coming up, the October jobless report and September pending home sales (11/5), September wholesale inventories (11/9), the preliminary November University of Michigan consumer sentiment survey (11/12), October retail sales and September business inventories (11/15), October PPI and September industrial output (11/16), October CPI, housing starts and building permits (11/17), the Conference Board’s October leading indicator index (11/18), October existing home sales and the second estimate of 3Q GDP (11/23), a big day just before Thanksgiving with October consumer spending, new home sales and durable goods orders plus the November FOMC minutes (11/24), and then the September Case-Shiller home price index and the Conference Board’s November poll of consumer confidence (11/30).

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