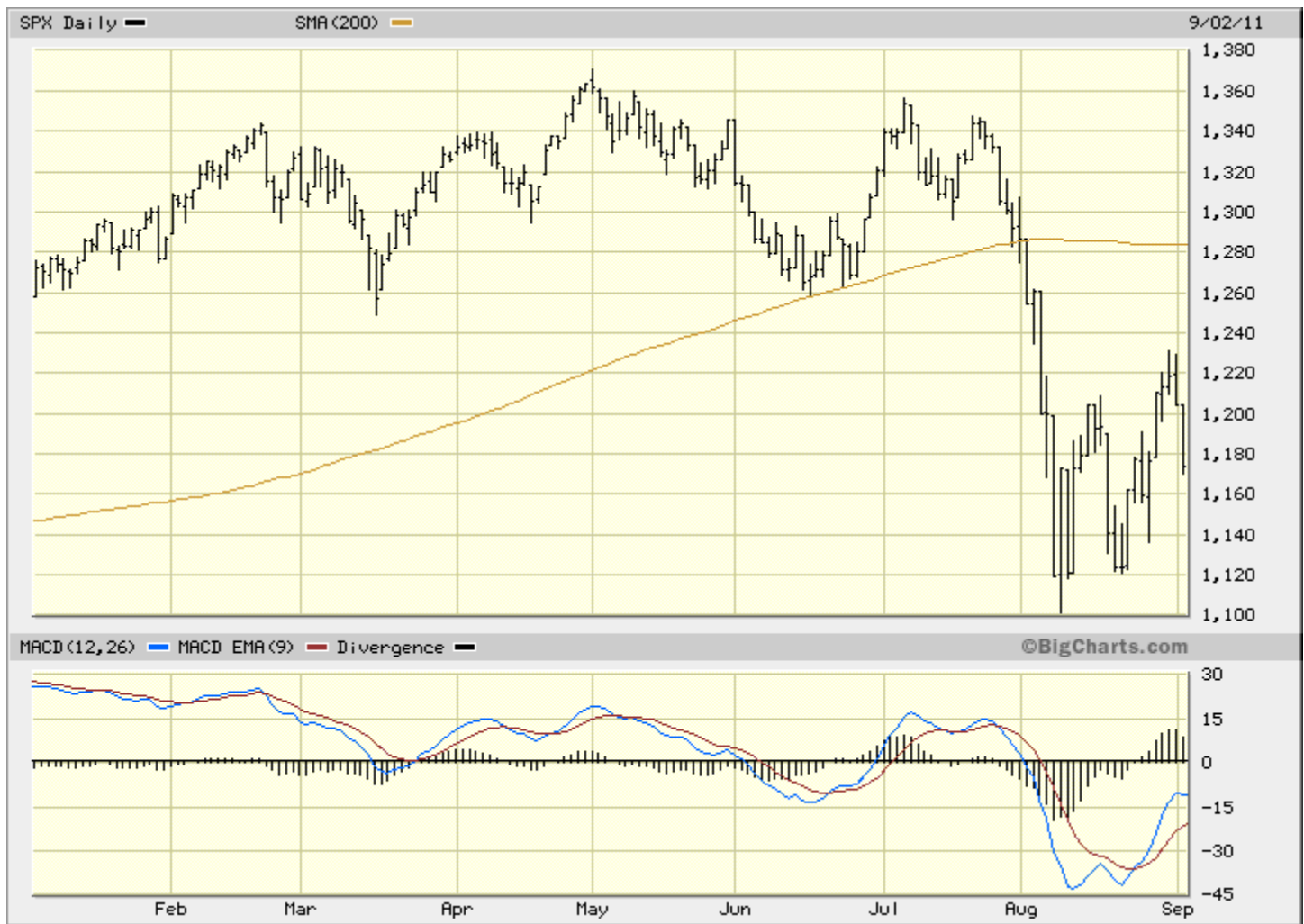


## **September 2011 - Review of Global Financial Markets**

*Please note – The views and opinions expressed in this article are those of the writer and do not necessarily reflect the views and opinions of High Falls Advisors, LLC. The information provided is not specific financial advice or a recommendation to buy or sell. We must review your profile, needs and accounts specifically to determine what is right for you.*

**CHART 1** – This chart shows the S&P 500 Index year-to-date courtesy of [BigCharts.com](http://BigCharts.com).



The S&P 500 finally broke out of the channel it has been in all year, 1260-1360, and moved decisively lower. Apparently investors are finally realizing that conditions are worse than policy makers admit. The Fed's conditional promise to keep interest rates low until 2013 is, to some, an admission that nothing it has tried to stimulate the economy has worked. Also, the continued rise in the price of gold has spooked some investors, and the deep divide at the Fed

on policy matters is not reassuring. In addition, mutual funds may be out of ammunition to drive the market higher, as their cash holdings are now 3.3% of assets, an all-time low.

Here are a couple of recent quotes that are constructive even if you don't agree with them.

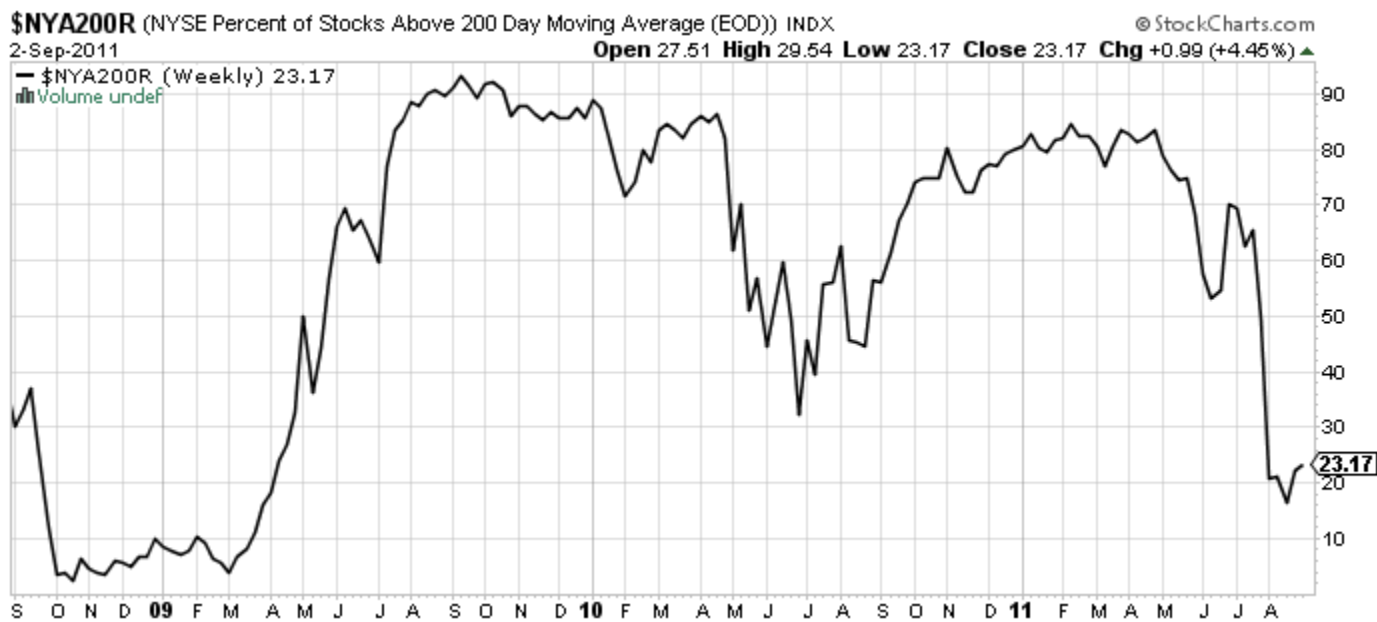
“Here we go again . . . Solving a debt problem with more debt has not solved the underlying problem . . . Can the US continue to depreciate the World's base currency?” Alan Brazil, Goldman Sachs, in a private note to hedge-fund clients as reported in the Wall Street Journal, Sept. 1, 2011, page C1.

“Preservation of capital is our prime concern. We would rather be out of the market wishing we were in than in the market wishing we were out. Portfolio managers with a mandate to stay invested could use hedges to protect portfolios. There are only two losses one can experience: a loss of capital and a loss of opportunity. If we can protect the capital there will always be another opportunity. The technical indicators currently suggest further risk is possible, not withstanding generous rallies.” Louise Yamada, eminent technical analyst, as reported in Barron's, Sept. 5, 2011, page 11.

**CHART 2** – This is a long-term chart (12 years) of the S&P 500 Index courtesy BigCharts.com. The last decade was a bust. Many investors are hoping for a better decade going forward. They may be disappointed. Perhaps they should look to Asia.



**CHART 3** – This is our favorite and most useful chart showing the percentage of NYSE stocks above their 200-day moving average. Investors tend to buy when the percentage is in the 80s, when greed takes over as they hear all the stories about others making money. And they tend to sit on their hands or even sell when the percentage is in the low 20s or below and fear takes over. Using this kind of data requires discipline and patience, both in short supply in today’s world. Chart courtesy [StockCharts.com](http://StockCharts.com).



**CHART/TABLE 4** – The table below shows the price targets for the S&P 500 of 14 strategists in Bloomberg’s weekly survey of August 17, 2011, as reported by [Bespoke Investment Group](http://Bespoke Investment Group). At the close on Sept. 2<sup>nd</sup> the index was 1174, so the strategists on average are looking for a gain of almost 18% by year’s end. Green indicates target increased and red decreased.

2011 Year-End S&P 500 Price Targets				
Firm	Current		Start of Year	
	Year End Price Target	S&P 500 EPS	Year End Price Target	S&P 500 EPS
Deutsche Bank	1,550	\$99.00	1,550	\$96.00
JP Morgan	1,475	\$97.00	1,425	\$94.00
Barclays	1,450	\$96.00	1,420	\$91.00
HSBC	1,430	-	1,320	-
UBS	1,425	\$99.35	1,325	\$93.00
Bank of America	1,400	\$97.00	1,400	\$93.00
Citigroup	1,400	\$98.00	1,400	\$96.50
Goldman Sachs	1,400	\$96.00	1,450	\$94.00
Wells Fargo	1,390	\$94.40	-	-
Oppenheimer	1,325	\$94.00	1,325	\$88.50
Credit Suisse	1,275	\$94.00	1,250	\$91.00
Morgan Stanley	1,238	\$96.20	1,238	\$93.00
Bank of Montreal	1,220	\$97.00	1,350	\$90.00
RBC	-	\$96.00	-	\$88.00
<b>Average</b>	<b>1,383</b>	<b>\$96.46</b>	<b>1,371</b>	<b>\$92.33</b>

**CHART 5 – Foreign stocks performer in line with US stocks as the chart of the EAFE Index Fund (EFA) shows. EAFE stands for Europe, Australasia and the Far East.**



**CHART 6 – Emerging markets have also performed in line with US markets as shown in this chart of the Emerging Markets Index (EEM).**



**CHART/TABLE 7** – This table, courtesy of [Bespoke Investment Group](#), should encourage you to pay more attention to the Far East. Note in the column showing the 5-year change, the negative numbers are for the larger developed countries like the US, UK, Japan, France and Germany, while the positive numbers are for developing countries like China, Hong Kong, India, and Brazil. Canada is an anomaly since it provides natural resources around the world. Regarding the US, in 2003, it represented 45% of the world market and is now 29.14%.

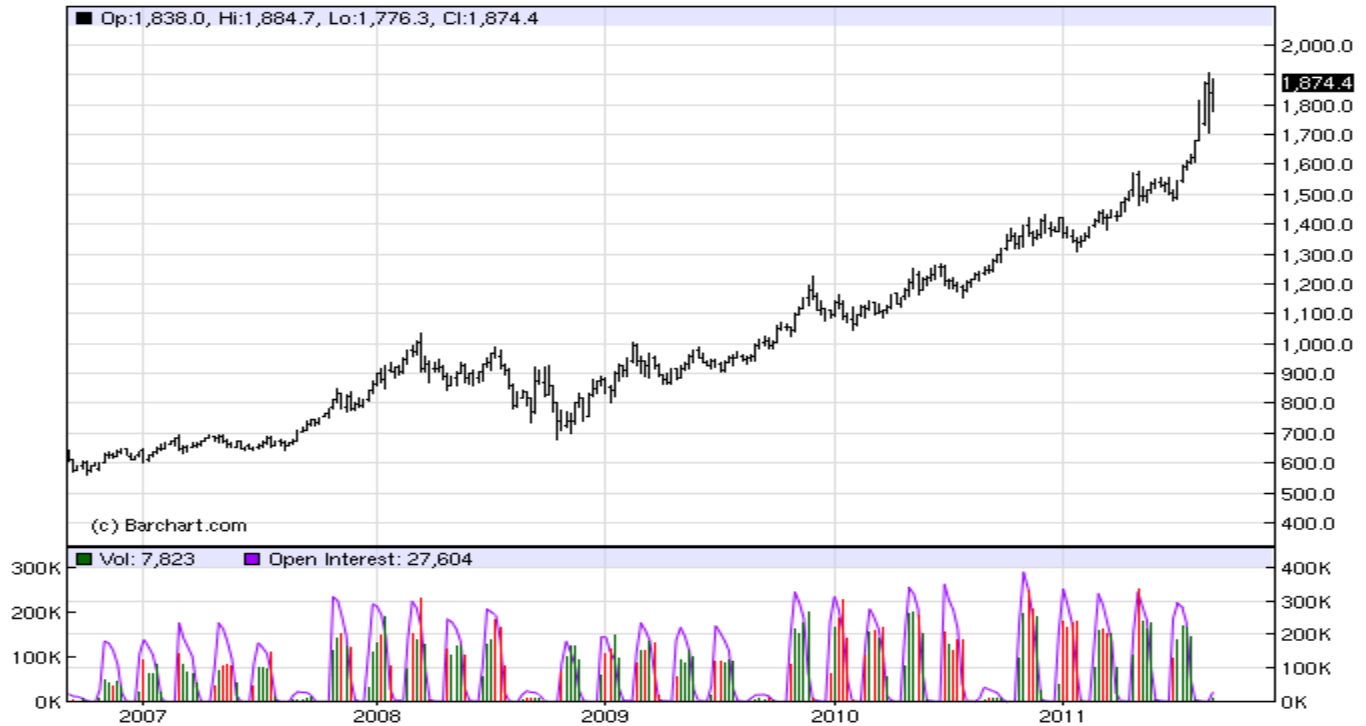
% of World Equity Market Cap					
Country	5 Years Ago	Start of 2011	Current	5-Year Change	2011 Change
US	36.05	29.68	29.14	-6.91	-0.54
China	1.36	7.23	7.87	6.52	0.64
Japan	10.93	7.69	7.73	-3.20	0.04
UK	7.76	6.42	6.43	-1.33	0.02
Hong Kong	2.98	4.78	4.88	1.90	0.10
Canada	3.25	4.04	4.20	0.96	0.16
France	4.95	3.38	3.33	-1.62	-0.05
Germany	3.35	2.89	2.80	-0.55	-0.09
India	1.43	3.13	2.77	1.35	-0.36
Brazil	1.34	2.78	2.72	1.37	-0.06
Australia	1.80	2.85	2.70	0.90	-0.16
Switzerland	2.41	2.31	2.44	0.03	0.13
South Korea	1.65	2.07	2.14	0.49	0.06
Russia	2.11	1.33	1.88	-0.23	0.55
Taiwan	1.21	1.77	1.62	0.42	-0.14
Spain	1.75	1.22	1.26	-0.49	0.05
Singapore	0.66	1.11	1.10	0.44	-0.01
Italy	2.10	1.15	1.07	-1.03	-0.08
Sweden	1.04	1.15	1.00	-0.04	-0.14

**CHART 8** – Experts have been debating whether gold is in a bubble for at least 10 years, and during that time the price has risen from about \$300/oz to over 1,800/oz. It may well go higher. A recent Gallup Poll August 11-14 asked investors which of the following do you think is the best long-term investment. Here are their answers: Gold 34%, real estate 19%, stocks/mutual funds 17%, savings accounts/CDs 14%, and bonds 10%.

Another interesting piece of information comes from the [Silberjunge. de, Erste Group Research](#) of Switzerland. Gold and gold mining shares in % of global assets: 1921 28%, 1932 20%, 1948 30%, 1991 26%, and 2009 0.80%. The implication of this data is that gold has room to grow.

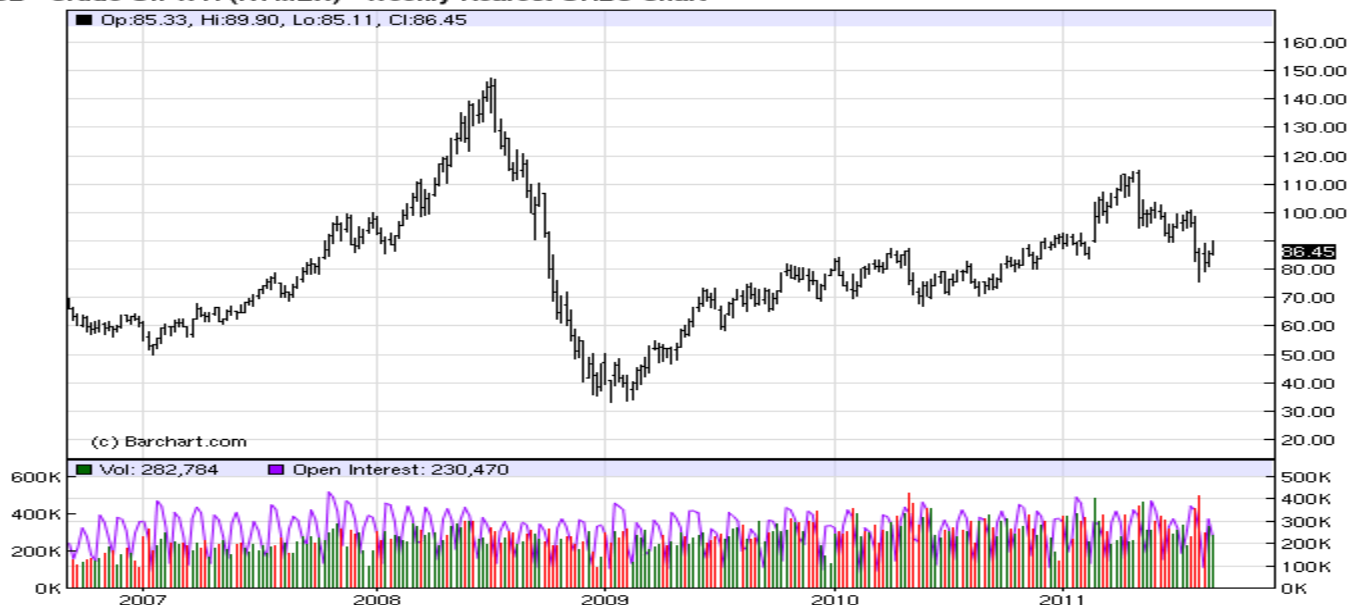
We should also note that gold mining stocks have lagged gold stocks year-to-date. For example, GLD as a proxy for gold is up about 33% while GDX a proxy for large gold mining stocks is up 6-7%. The following chart is courtesy of [BarCharts.com](#).

### GC - Gold (COMEX) - Weekly Nearest OHLC Chart

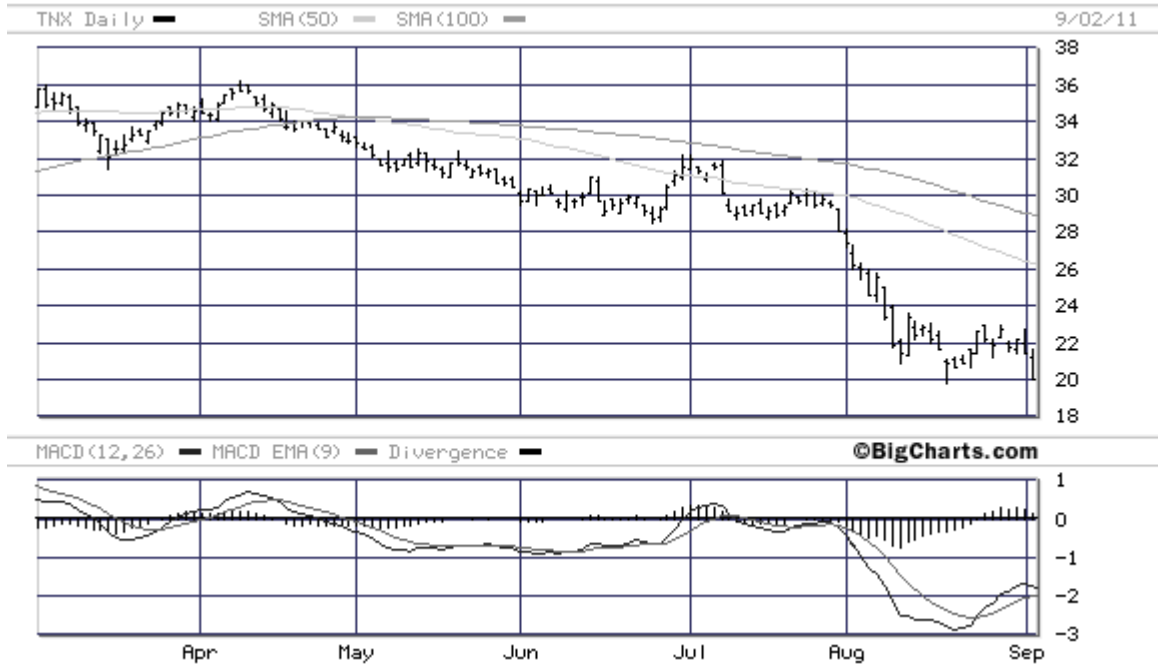


**CHART 9** – In the US we are more familiar with the price of West Texas Intermediate (WTI) but a better indicator of demand is Brent, a European grade currently priced at \$112.33 versus \$86.45 per barrel for WTI. We have covered this in previous reviews so we will not repeat that material. We are bullish on oil although we recognize that if we go into another recession or the global economy falls apart, oil prices would be impacted severely. But for the long-term investor that would be an opportunity to add good quality energy stocks at bargain prices if one approaches it in a disciplined manner.

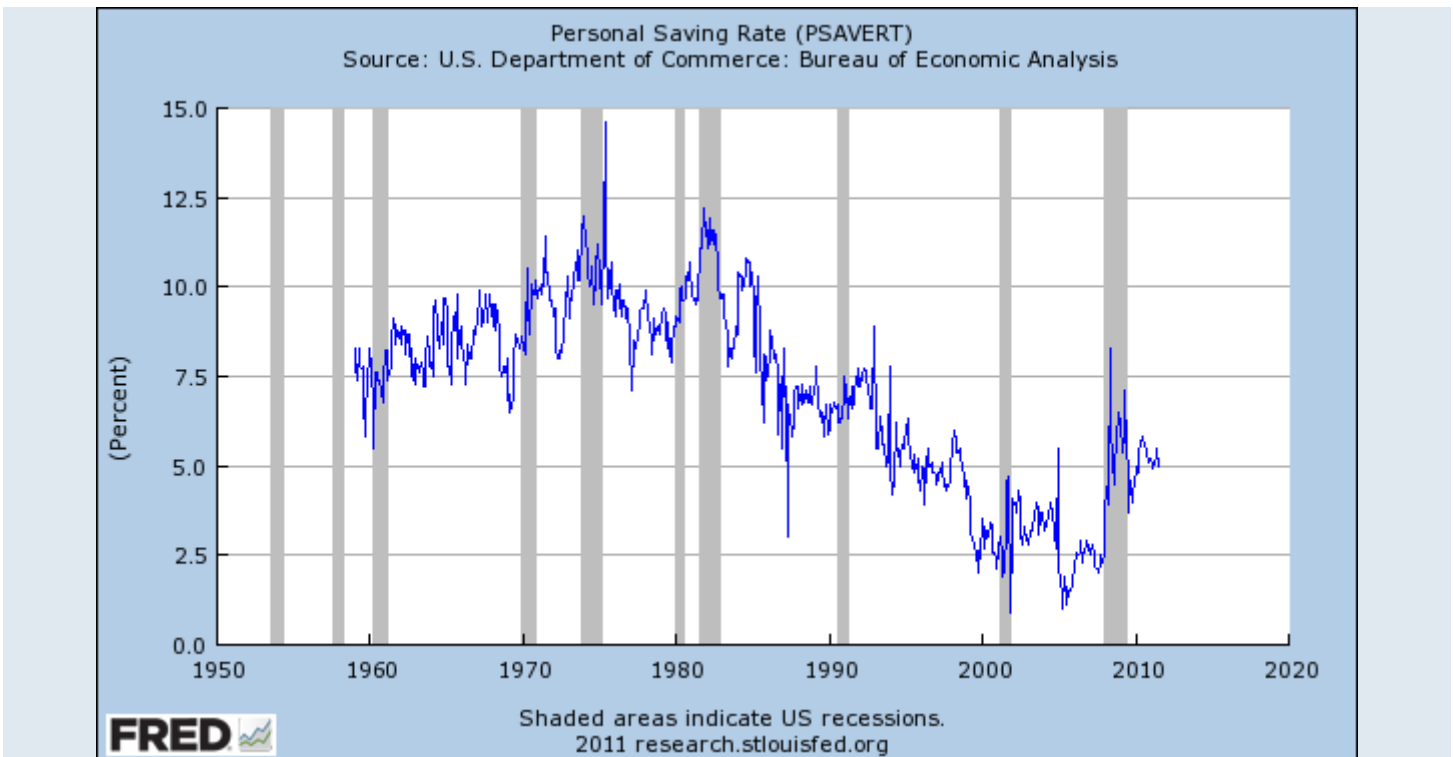
### CL - Crude Oil WTI (NYMEX) - Weekly Nearest OHLC Chart



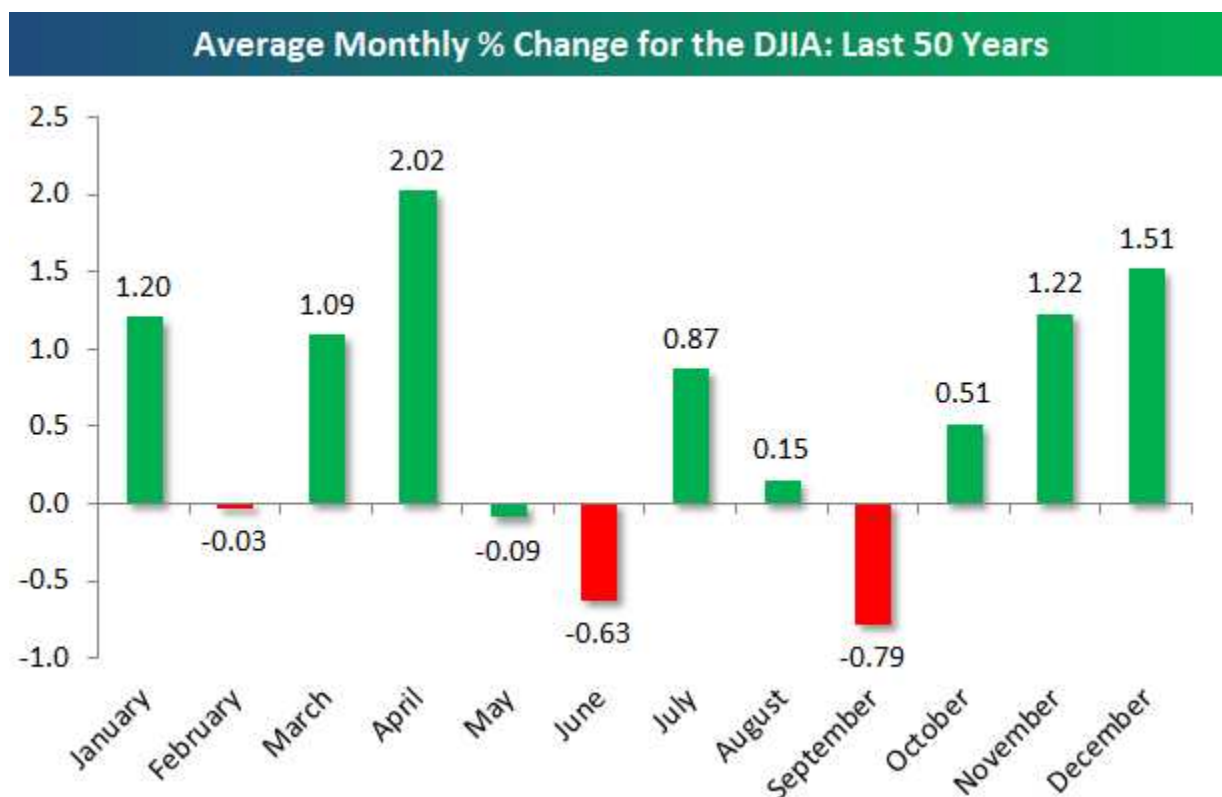
**CHART 10** – This chart, courtesy of [BigCharts.com](http://BigCharts.com), shows interest rates on 10-year Treasury notes. The Fed has driven rates down to 19.96 which equates to 1.996%, equal to where it was at the end of 2008. These low rates enable the Treasury to finance the deficit spending at extremely low rates. Sooner or later, rates will rise, probably significantly, and the Treasury will have to pay much higher rates as the Fed takes action to control inflation.



**CHART 11** – The personal savings rate is rising as consumers deleverage.



**CHART 12** – Just a reminder that September is on average the cruelest month for the stock market.



**CHART 13** – Finally, a list of stocks that have grown earnings substantially over the last 10 years but whose stock price has declined over the same time period. For example, Walgreen has grown its earnings by 272%, but the price is 1.48% below where it was 10 years ago. This is from an article in the September 5, 2011 edition of *Barron's* on page 17, titled *Wake Up and Smell the Profits* by Andrew Bary. Check it out. Google the title.

Name/Ticker	In EPS	8/23/2001	8/23/2011	% Chg	P/E*
<a href="#">Forest Labs/FRX</a>	567.61%	\$38.05	\$33.43	-12.14	8.9
<a href="#">Amgen/AMGN</a>	335.45	62.92	53.62	-14.78	10.3
<a href="#">Best Buy/BBY</a>	249.41	25.56	24.38	-4.6	7
<a href="#">Walgreen/WAG</a>	271.83	35.2	34.68	-1.48	13
<a href="#">NVIDIA/NVDA</a>	249.41	13.82	13.23	-4.26	12.4
<a href="#">Kohl's/KSS</a>	228.69	54.89	47.06	-14.26	10.4
<a href="#">Cisco/CSCO</a>	217.07	16.76	15.44	-7.88	8.8

Texas Instrmts/TXN	202.35	33.96	26.24	-22.73	11
Medtronic/MDT	201.83	45.5	33.1	-27.25	9.9
Capital One/COFI	198.04	60.21	42.8	-28.92	5.9
Microsoft/MSFT	193.33	26.6	24.72	-7.07	8.7
Dow Cheml/DOW	188.17	34.75	26.37	-24.12	9.2
Xilinx/XLNK	168.89	37.8	30.06	-20.48	13.9
KLA-Tencor/KLAC	151.3	48.58	35.49	-26.95	8.4
JPMorgan Chase/JPM	149.52	40.72	34.78	-14.59	7.2
Computer Sci/CSC	145.5	38.42	29.02	-24.47	6.2
Dell/DELL	144.3	21.83	14.68	-32.75	7.3
H&R Block/HRB	142.52	18.88	14.39	-23.76	8.3
Gap/GPS	137.66	20.6	16.46	-20.1	11
Omnicom/OMC	135.52	40.65	38.55	-5.15	11.8
Total System/TSS	125.17	26.32	17.41	-33.86	15.6
Sysco/SYY	116.76	28.45	27.2	-4.39	13.2
Whirlpool/WHR	113.93	68.53	57.15	-16.61	5
Paychex/PAYX	111.94	38.21	25.95	-32.09	17.4
Intel/INTC	107.48	27.67	19.71	-28.77	8.3

\*Based on 8/23 price and expected 2011 earnings.  
Source: Bespoke Investment Group