

HIGH FALLS ADVISORS



OUTLOOK

“Patience is a Virtue”

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October 2011

Since the massive sell-off in the markets in August, the “fear factor” has been accelerating across the globe and the volatility of market movements has been the leading news story on the economic front. Most investors find themselves over-stimulated by the constant barrage of news related to the sovereign debt crisis around the world, high unemployment in the U.S. and the fear that slow growth is predicting another recession in the near future. Dawn seems still a long ways away, but as each of us knows, it always arrives!

Patience is a virtue that much of present society finds counter-intuitive. The recent S&P downgrade of U.S. debt as a result of the debt limit debate seems to have been the stimulus that caused not just the U.S. but the world as a whole to panic and fear for our futures. Suddenly years of excessive spending and expectations that “it will only get better” have met up with the current reality – we all now must pay the price for our sins of the past.

Our world changed on September 11, 2001, and we citizens of the U.S. are much less confident about our future prosperity. The cost of war since 9/11 has been enormous but it alone cannot be cited as the reason for our present economic morass. Excessive spending and speculation over the past 30+ years is also a major cause of today’s credit crisis, but it is war itself that made the weight of our debt load too heavy to carry!

It is difficult for most of us to ignore the headlines of the day and those headlines have been mostly bad, from the debt debate to the European debt crisis to the political divide in our country and finally to the unprecedented series of natural disasters this year that have hit our country – tornadoes, hurricanes, floods and even droughts have all increased the need for more government spending at a time when we can least afford to do so.

Equity markets in particular are forward-thinking and the past two months of volatility and decline have already discounted much of the recessionary fears the doomsayers predict. The Super Committee has a deadline they must meet in November, by

Thanksgiving, to forestall the mandated cuts of the debt ceiling agreement. I think they will succeed!

Future prosperity means not just the reduction of excessive spending but, more importantly, the growth of our economy by getting our people back to work! The Federal Reserve has few, if any, tools left to stimulate growth. Our corporations are flush with cash but dare not spend it in light of the current political divide and the extreme amount of regulation resulting from the over-reaction of Congress to the 2008 near meltdown. We cannot break out of these current market doldrums until investors once again regain confidence in the future. The markets will remain over sold until some catalyst moves them in one direction or another – recession or recovery. We are betting on recovery!

The S&P 500 index Spyder opened this year at 1258 and has ranged from 1369 in May to a low of 1099 on October 3. We still see a very good possibility of a rally in this 4th quarter that will take the index back to or above the 1369 YTD high, about a 10% advance for the year.

I know I have been telling you the rally is coming, and I am just as frustrated as you that it has taken longer than I expected, but all the analysts I follow believe “if not now, soon!”

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