

Third Quarter – 2011 Market Commentary

October 4th, 2011

As you know during this quarter the markets declined based on macro-economic fears surrounding primarily, the lack of a resolution in the Euro zone Sovereign Debt problems. The other major concerns relate to the possible slowdown in Chinese economic activity which is being carefully orchestrated by their government to alleviate mounting inflation in that country, and the potential for a recession in the U.S.

For these reasons, the market declined 15% during the third quarter. However, most of our clients have an asset mixture that is a blend of about 60% stocks and 40% bonds, and as a result, experienced a temporary decline of just 7%. Those in other Counsel portfolios also experienced better results than that of the overall market.

Over the longer term, stock valuations are based on corporate earnings growth, not macro-economic issues, and for now markets have overlooked the continuing strong corporate earnings. In addition, stock valuations are today near historic lows relative to reported earnings.

European leadership headed by Germany and France have announced that they will be providing a solution to the banking crisis in Europe with a detailed plan to be released at the G20 summit in early November. Since this recent announcement, markets have rallied by about 6%.

The question of whether the U.S. economy dips back into recession is contributing to the lack of follow-through to the upside in equities. The average post-war recession tends to bring down corporate earnings by 25%, this is another reason for the recent market sell-off. Economic statistics to-date, are **inconclusive** about the direction of the economy, but the view of the investment specialists we work with is that if we do dip back into recession it will likely be very mild by historical standards, so earnings shouldn't decline by the degree noted above. **The most likely scenario is continued slow growth which would mean that earnings growth would slow, but NOT decline.**

Your portfolios are very well structured, well managed, and broadly diversified. With the degree of volatility in the market this past month, making major asset allocation calls to your existing mixture would be speculative and therefore **not recommended** at this time.

I will continue to perform ongoing due diligence to ensure that your money is well managed.

For any **new cash** in most cases, I continue to recommend a corporate bond portfolio that currently yields between 5 and 7%, paid monthly. The capital will fluctuate, but significantly less so than equities. Due to current market conditions, there is an added opportunity for capital gains in such a vehicle, in addition to the steady income stream.

Please call our office to book a telephone or in-person meeting if you would like to discuss your personal issues in detail.

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