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AUGUST MARKET COMMENTARY

By Tom Crow

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Index	Month End	Gain (Loss) by Period			
		Month	Most Recent Quarter	Year-to-Date	Trailing Twelve Months
Dow Industrials	10,015	(4.3%)	(1.2%)	(4.0%)	5.5%
S&P 500	1,049	(4.7%)	(3.7%)	(5.9%)	2.8%
Nasdaq	2,114	(6.2%)	(6.3%)	(6.8%)	5.2%

The first few days of August looked promising for the markets, but things changed quickly. An almost 3% decline on August 11th set the negative tone that persisted until September 1st. The month, quarter and year-to-date all finished in the hole. The first few days of September show similar promise as investors react favorably to new employment numbers, but September is historically the worst month for the indices. We'll be watching closely for a repeat performance.

Stepping back to the longer-term (20- and 40-month) moving averages, we find the indices in a similar position from which twice before long, bull-market runs launched. The short-term fluctuations, volatility and volume are indicating a lack of buyer support at key levels that have some technical analysts calling for a test of the early July lows.

Are stocks cheap right now? Some are because their prices have remained flat while their earnings have started to recover; pushing their P/E ratios down to levels that have value investors licking their chops. Could they get cheaper? Yes. Will they? Maybe. The near-term forecast, and several other short-term, technical indicators are negative.

Technical traders can (and do) misinterpret signs just like those who rely purely on fundamentals. Adam Grimes, director of tactical investments at Waverly Advisors LLC, a research firm said in a recent article, "[Market gurus] can always find a set of rules that invariably fit history, but have no value going forward."

I don't believe pure technicals or fundamentals are the be-all-end-all answer to trading stocks. They both play a part in our decision-making process. We constantly monitor market conditions and investor behavior to determine how much weight to give each.

In extreme market conditions, neither fundamentals or technicals matter much. In a raging bull market, correlation is high and just about any stock will go up with the market. In a really nasty bear market, most stocks will follow the market lower. In extremely high-volatility situations, up or down, the technical traders get whipsawed out of positions because they set their trailing stops too close to the purchase price to allow for wild fluctuations.

Despite a slight decline in the average monthly volatility, this market is still extremely erratic, and volatility and investor uncertainty are persistently high. Any economic news or a comment released by the Fed or White House is likely to send it quickly spinning one way or the other.

Last week's disappointing housing data sent investors running for the sidelines. July existing-home sales dropped over 27% to an annual rate of only 3.8 million, which was the lowest annualized rate in 15 years. The National Association of Realtors blamed the phase out of the federal tax credit. Economists expected the sales rate to fall to only 4.7 million. This was a huge miss on the analysts' part and the markets responded with a big selloff.

Fears of continued global economic weakness drove the European markets down as well. There were scattered pockets of strength in individual US stocks, but with volatility spiking almost 5% most were very difficult to anticipate. Gold moved higher but is still below its 52-week high. Oil continued to fall from its recent high near 80, back down to around 72.

Wednesday's ADP private-sector employment report indicated a loss of 10,000 jobs in August, breaking a six-month run of increases. July's reported gains of 42,000 was revised lower to 37,000. Very little positive commentary accompanied the report, but markets took off with a sense of almost reckless optimism.

August employment numbers released this morning showed better-than-expected gains in private-sector jobs, but still not enough to counter 114,000 temporary census worker layoffs. There are still 82,000 on the census payroll. The net result was 54,000 jobs lost and the unemployment rate crept back up a tenth of a point to 9.6%. Analysts expected losses of 105,000 and June and July numbers were revised higher by 123,000 meaning only 229,000 jobs were lost during those two months. Hooray?!?

I still consider this "less-bad" news rather than "good." The glimmer of hope in today's numbers that sent the Dow up triple digits at the open was based on the idea that while unemployment is a lagging indicator, one subset of it, temporary jobs, is often a leading indicator within it as employers often bring on temporary workers before making them full time employees. 17,000 temp jobs were added in August.

The Institute for Supply Management numbers followed the employment numbers and were weaker than expected, suggesting a slowdown. Their index of national services activity fell to 51.5 from 54.3 in July. A number below 50 indicates contraction and 70 economists surveyed expected a reading of 53.5.

Congress goes back to work next week. I'm not sure what to expect, but a lot of incumbents are in fear of losing their jobs so we could be in for a wild couple of months leading up to the elections. I wouldn't mind seeing a lot of new faces on Capitol Hill and elsewhere, but what I'd rather see is a return to common-sense and discipline.

I understand why those who think we have to spend our way out of this recession are trying to do it, but even they are starting to lose their nerve as the debt continues to spiral out of reach. \$13.4 trillion and counting with deficit spending approaching \$1.4 trillion...could someone just say, "No more earmark spending until we have a budget surplus and the national debt is \$0?"

One last note of caution this month...there is a flood of radio and TV ads about buying gold with IRA funds. Please be careful. The IRS allows investment in certain coins and bullion in IRAs, but you will probably have to pay additional storage fees, and if you buy the wrong thing you could face penalties. Also, only cash goes in and out of an IRA. There are ways to invest in gold, in and out of an IRA without having to take physical possession of it. If you have questions about this, please ask us.

Until next month...be well.