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NOVEMBER MARKET COMMENTARY

By Tom Crow

December 5, 2011

		Gain (Loss) by Period			
Index	**Month End**	**Month**	**Most Recent Quarter**	**Year-to-Date**	**Trailing Twelve Months**
Dow Industrials	12,046	0.8%	3.7%	4.0%	9.5%
S&P 500	1,247	(0.5%)	2.3%	(0.9%)	5.6%
Nasdaq	2,620	(2.4%)	1.6%	(1.2%)	4.9%

If you only look at the end of the month, November was fairly benign, compared to October's S&P gains of almost 11%. But, where October turned positive early on and moved higher, November showed a general weakness right out of the gate and was down over 7.5% just three days before the end of the month.

Thanksgiving week was the worst the markets have had since 1932, but they followed up with big gains. Trying to assign human characteristics to this market, like bi-polar or manic-depressive really don't help much other than they may be illustrative in helping investors understand what's happening to them.

A big part of the market's unpredictable behavior is the S&P 500's Volatility Index (VIX), which slipped just a bit for the month, but is still well above comfort levels near 30.

Another component is correlation, or the tendency of stocks to move together as the market moves. We measure correlation on a 100-point scale. Higher correlation is typically worse for individual stocks because they move up and down with the markets rather than in accordance with fundamentals. Good stocks with strong fundamentals get clobbered on bad days and stocks with awful financials move up on good days.

In just a couple of weeks starting late July, correlation rose from just under 60 to 98 and the S&P 500 fell 10%. Correlation only pulled back to around 75 in late October and has since crept back up to around 93. We may see some hint of a year-end rally as the 80+% of active fund managers who have underperformed their benchmarks for the year try to get well, but I still see a range-bound and volatile market well into next year thanks to political and economic instability in the US and Europe.

What this means for someone who trades individual stocks like we do is that, as hard as it is to force yourself to do it, you simply have to be willing to buy when folks are panicked and things look their worst…and be willing to sell and take some profits when everyone else is telling you not to let this rally leave you in the dust.

Friday's employment report looked better the less time you spent staring at it. The economy created 120,000 jobs and the unemployment rate dropped from 9% to 8.6%. As usual, there were a few key pieces of data buried in the report that explain a lot.

First, the revisions…the September and October numbers were revised higher by a combined 72,000 jobs. While we go back and revise the jobs numbers, we don't revise, or even adjust the unemployment rate. That, combined with a reduction in the labor force (folks who gave up and quit looking) of 315,000 produced the seemingly large drop in the unemployment rate.

The private sector created 140,000 jobs and the government cut 20,000. The average, monthly jobs creation for the year is 131,000, still well below the 250,000/month needed for several years to get back to 6% unemployment. Again, if we are indeed in a recovery, it is a very weak one.

The biggest job gains were seen in retail, due to holiday hiring. Most of those jobs will not continue past January. The labor participation rate is just one tenth of a percentage point above a low not seen since 1984 and the economy has 6 million fewer jobs that it did in November of 2007.

Based on the most recent Consumer Confidence Index in the United States, you are feeling as miserable as you did seven months after the collapse of Lehman Brothers in September 2008. Between the lingering effects of the Great Recession, near-record high unemployment, crumbling infrastructure and a political class out of touch with those it governs, there's little question that the U.S. population has been rarely grumpier.

If "misery loves company," it's worth taking a look at how our misery stacks up against other countries. And the best way to measure that is through the eponymous "Misery Index." (There's a reason economics is called the "dismal science.")

First introduced in the 1960s, the Misery Index is the unemployment rate added to the inflation rate. Even though governments continuously tweak the way unemployment and inflation are measured for political gain, it can provide a fairly good measure of economic misery in any country.

Trying to rank countries based on widely varying statistical and computational methodologies is always problematic, but at the risk of comparing apples to oranges here's how the 10 highest and lowest Misery Indices stack up in some of the world's leading economies.

Misery Index - (Inflation + Unemployment)			
10 Worst		**10 Best**	
1. South Africa	28.90	1. Switzerland	3.50
2. Spain	23.99	2. Japan	4.80
3. Greece	19.23	3. Norway	4.90
4. India	18.39	4. Mexico	8.37
5. Argentina	17.20	5. Australia	8.80
6. Turkey	15.65	6. Germany	9.50
7. Brazil	13.64	7. Sweden	10.00
8. Russia	13.40	8. China	10.20
9. United Kingdom	13.30	9. Canada	10.40
10. USA	13.00	10. Italy	11.57
Source: *Money Week,* October 28, 2011			

Some things jump out at me from this list. First, among the four BRIC (Brazil, Russia, India and China) nations, three of them -- Brazil, Russia and India -- are in the Misery Index's Ten Worst. Second, among the five PIIGS (Portugal, Italy, Ireland, Greece and Spain), only Greece and Spain are in the Top Five of the worst.

On the good side, Scandinavia, Switzerland and Japan are in a league of their own. Both inflation and unemployment are as low as in the Roaring Nineties. Commodity-based economies like Canada and Australia are also on a roll.

Then, there's China. The numbers again confirm that it is near the top of the rankings, but I look at these numbers with the same skepticism I do just about any data that comes out of China. When employment, inflation and the media are completely state-controlled, they can report anything they want…it just doesn't mean a whole lot.

The Misery Index was at similar levels in the United States in 1983, 28 years ago, which was not a good year to be the sitting president. If we were calculating inflation and unemployment the way we did back then, the current index would be worse, which could be more bad news for politicians in general.

Is there any good news? I think so. Well, the most-recent time we felt this bad was in March of 2009 -- right when the S&P 500 bottomed at 666. Further, every time in history the index was this low, U.S. markets climbed an average of 22% over the next 12 months. That could make for some very interesting politics as we race toward the 2012 presidential election.

Yes…there's a little politics to discuss. Two of the three cartoons that follow describe very well the epic failure that was the congressional super-committee. I know I usually side with the fiscal conservatives but in this case, I'm going to be an equal-opportunity critic. It looks and sounds to me like we have reached the point that both sides are deadlocked and refusing to budge because that's what they think they're supposed to do.

Nobody on either side remembers how to compromise. Not a one of them is able to explain their arguments for or against their position or policy; they just criticize their opponents and call them names. From where I sit, this is very simple. We have spent too much and can no longer continue to spend more than we make. We have spent so much that we are going to have to spend less than we make for a very long time and use the excess to pay down the debt we've incurred. We will have to see increased tax revenues at some point, but raising taxes is counterproductive in a weak economy. Tax revenues will rise automatically when the economy is running on all cylinders again. Until then, in my opinion, any talk of spending plans that don't result in budget surpluses and real debt reduction are just more steps in the wrong direction.

I don't think it's quite as prevalent at state and local levels, but in Washington, they seem to have thrown any shred of common sense that was left out the window. The world economy is circling the drain thanks to the continued, irresponsible and unsustainable use of debt and our elected "representatives" play politics and posture for the next election.

At least this last cartoon has Santa Claus in it. I couldn't agree more with the kid on Santa's lap. I still believe in Santa Claus and the spirit of Christmas, but congress has let us down too many times to be given more chances.

I think maybe we need to start by no longer referring to them as representatives. They've simply become government employees and they're not doing their jobs. Unfortunately, they get to write their own job descriptions and set their own salaries and benefits packages. The American voters had better take back their rightful authority as the government's "board of directors" soon.

On behalf of Vicki and myself, have a warm and wonderful Christmas and New Year's. We can't thank you enough for your support and continued loyalty. It is our prayer that the light, life and true gifts of family and generosity would bless you as you have blessed us.