505.243.2281 — WWW.CROWFA.COM — 866.662.7738

# SEPTEMBER MARKET COMMENTARY

By Tom Crow

October 10, 2011

| | | Gain (Loss) by Period | | | |
|---|---|---|---|---|---|
| **Index** | **Month End** | **Month** | **Most Recent Quarter** | **Year-to-Date** | **Trailing Twelve Months** |
| Dow Industrials | 11, 152 | (6.0%) | (12.1%) | (5.7%) | 1.2% |
| S&P 500 | 1,131 | (7.2%) | (14.3%) | (10.0%) | (0.9%) |
| Nasdaq | 2,415 | (6.4%) | (12.9%) | (9.0%) | 2.0% |

September lived up to its reputation as the worst month for stocks. It was the worst month of the year for stocks and it certainly was one of the ugliest. Volatility, otherwise known as the “fear” index, jumped back up into the 40’s after nearly doubling the month before. September’s declines took the year-to-date returns for the indices right back to the flat line and, at the end of the month, the S&P 500 was just shy of 23% below where it was at the beginning of 2000.

To say this is a tough market in which to make money is an understatement. Every time we make a little headway it can be wiped out in a matter of minutes by some bad news. Traders are driving the market action and we have to drastically shorten our hold-time expectations as a result.

Friday’s employment report was slightly positive, until you do a little digging. 103,000 jobs created sounds good and is approaching the 150,000 level we need to be at just to keep the unemployment rate steady, which it was at 9.1%. The finer details still reveal a less-than-robust job market as the private sector created 137,000 jobs and government employment shrank by 34,000.

But, 45,000 of the “created” jobs were the striking Verizon workers returning to work. A couple of bright spots were the upward revisions to the two prior month’s figures resulting in 93,000 more jobs added than previously reported but an alternate measure of unemployment, which includes discouraged workers and those forced to work part-time rose to 16.5% from 16.2% last month.

Here’s the bottom line on employment. If the economy created an average of 230,000 jobs/month for the next three years, that would be enough to lower the unemployment rate to 7%. Just like the national debt, this is a huge mountain to climb and it is barely influenced by one month’s data, good or bad.

I guess one can fall back on the glass is half-full sentiment and say “at least we’re not losing jobs” as many in the blogs do. I’m not in the glass-half-full or half-empty camp. I’m still wired like an engineer. The glass is twice as big as it needs to be, and the amount we’re pouring into it (growth) is not even keeping up with what we’re losing to evaporation (inflation.)

At these anemic growth rates we continue to fall behind, just not as quickly as if we were losing net jobs month after month. We need to be in a situation where the glass is overflowing. Then people, businesses and governments all have enough to cover their budgets, and extra with which they can be generous to those still in need.

A similar illustration can be applied to our debt and deficit spending. Even the most aggressive cuts proposed don’t alleviate deficit spending even ten years out. That means the debt continues to grow. The president’s assertion that his jobs bill is “paid for” is just simply not true as long as the deficit spending continues. When something is paid for using borrowed money it isn’t paid for at all.

The markets responded to Friday’s jobs report with some initial enthusiasm, but that quickly gave way to selling pressure as traders decided they still don’t have the stomachs to stay in the markets over the weekend. However, also over the weekend came some stories that, one-by-one, European countries and banks are falling in line with the rescue packages for Greece and other ailing nations. The markets seem to be happy about that, but the concurrent rise in gold says they are pretty sure the solution involves printing a lot more money.

The Fed's "twist" or maturity extension program is an attempt to keep long term rates low. The Fed is simply going to sell short-term bonds and replace them with long-term bonds in the hopes that increased demand in the long-term bond market will drive prices higher and yields lower.

Who does this primarily affect? Existing long-term government bondholders will see their bonds become worth less. Their effective yield will be higher, but that's little solace. Their income remains the same. Home mortgages and student loans really can't go much lower so they may just stay low a little longer. Most homeowners are unable to refinance anyway due to the increased restrictions being imposed by the lending institutions. At 9+% unemployment, graduates aren't finding jobs and can't repay their student loans anyway.

Another unintended consequence of Bernanke's "twist" may be that the decline in demand for short-term securities drives prices lower and yields higher. The resulting inverted yield curve, with short-term rates higher than long-term rates could have the adverse affect of driving other short-term rates higher affecting credit cards, consumer loans and other short-term debt vehicles where the duration of the loan is less than about 5 years.

Since U.S. consumers can't pull equity out of their homes to go buy stuff, many will be relying on exactly these types of short-term debt instruments to get what they want or need. Higher rates will make some of them think twice before borrowing. That will not stimulate consumer spending.

Auto loans and other large, medium-term-financed purchases may be on the bubble. The Fed is selling, or not repurchasing bonds having maturities of less than 6 years. The last time it was tried, sometime back in the 1960s, it had no effect on long-term rates. At present, long-term rates are so low already it has almost no chance of having any effect at all. Once again, government action may end up hurting the very people they are trying to protect and who are least –able to afford it, the most.

Home-mortgage rates on 30-year loans have dropped below 4% for the first time ever. If you have a mortgage and haven't looked into a refinance lately, and your credit is good you might consider it. As folks have "deleveraged" with the rest of the world and reduced debt, even a little over time their credit rating may have improved.

The world lost one of the greatest innovative minds of the times in Steve Job's passing. I'll not pretend I was a friend, or even knew him, and I won't eulogize him here but I will point out the irony I've observed in the Occupy Wall Street protesters clamoring for "care over corporations" and "people over profits."

Through his company, Steve Jobs enriched millions of lives. Before his shadow over Apple fades, the technologies he helped advance will touch the lives of many hundreds of millions more. But, let's be honest. He didn't invent Apples, MACs, iPods, iPhones, iPads or any of it because he "cared" about the people that would use them or how much better he could make the world. His partner, Steve Wozniack summed it up best when he said, "I was a great designer. Steve [Jobs] turned that into money."

I think every participant in the wall street occupation would do well to Google Steve Job's 2005 address to the graduating class at Stanford in which he encouraged the graduates to be individuals and not to follow the crowd or let dogma and the opinions of others direct their course. I think it's a sad commentary that these Americans are proud to hold up signs admitting they're part of the 99% who believe they're owed something from the productive 1%?

This country did not become the richest and most-powerful on the planet by holding its collective hands out expecting others to fill them. It did not become a super power by looking or acting like every other country. It was organically grown by rugged individuals and risk takers. In my humble opinion, it seems the more the US does to make us look like the rest of the world, the weaker we become.

As a parting shot I'll offer the following. "My next door neighbor's two dogs have created more shovel ready jobs than this president." *Former New Mexico Governor Gary Johnson, answering his fourth, and probably last-ever question at a Republican Presidential Candidate debate in Florida on September 22, 2011 with a stolen joke.*

Stolen or not, that's funny! See you next month.