

Market Note  
August 5, 2011

It looks like the market is finally realizing that the US has a serious debt problem, that much of Europe is an economic basket case, that the unemployment picture isn't getting better, and that Washington's policies of stimulus and easing failed.

As our clients are aware, we have been defensive throughout the "recovery", advocating maintaining healthy allocations to fixed income, utilizing hedged equities where possible, and noting that certain sectors of the real estate market may present better opportunities for total returns than equities.

The silver lining is that corporate fundamentals have been strong as corporate balance sheets have been the beneficiaries of the Fed's easing, helping corporate America demonstrate impressive earnings power. But chinks in the armor are starting to materialize.

Both the bond market and the stock market seem to be pricing in either a second dip to the recession, or at a minimum, a slower growth rate for the foreseeable future. The pace and degree of this correction will likely be influenced in the short term by the speed and extent of unraveling of some of the troubled European economies, and new policy initiatives to jump start job growth. The latter will take a degree of time but there is no way of knowing at this point, given the problematic macro issues, whether the speed and severity of the current correction is creating a market valuation that will attract buyers, or whether a bear market is in progress that will retrace much of the gains from the last few years.

Many observers of the Market can't decide if Washington resembles more the "Wizard of Oz" and governs by smoke and mirrors, or The Island of the Misfit Toys (i.e. bureaucrats) made famous in "Rudolph the Red Nose Reindeer" movie. Unfortunately, both seem to be applicable.

Please feel free to contact us with any thoughts or questions. We will communicate with you again in the near future.

Sincerely,

Richard W. Greene  
*Managing Principal*

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